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STRATEGY – EMERGENCE OF A SUPER-CYCLE PERFORMER

MALAYSIA

"…the world has changed as we are operating in a more competitive environment where the fight for foreign investment is more intense."

Prime Minister Dato' Seri Abdullah Ahmad Badawi
Ninth Malaysia Plan
31 March 2006

June 2006

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Emergence of A Super-Cycle Performer

SJER: Revolutionary Masterplan. The Masterplan for the South Johor Economic Region (SJER) has been completed by Khazanah Nasional and is set to be announced soon. Based on recent media reports, initiatives contained in the Masterplan are potentially revolutionary and could include the following: a) upfront incentives to attract companies with strong global brands, b) free immigration of labour, c) more liberal Foreign Investment Committee (FIC) conditions, and d) reduction of investment red tape with the setup of a one-stop approval agency. Changes to make existing investment laws more competitive internationally will have a profound impact on the economy and the stock market.

Strengthening underlying factors. The prospects of South Johor have just started to improve and are strongly underpinned by various factors: a) its strategic location (proximity to Singapore and its world-class infrastructure), b) dramatic fourfold jump in manufacturing foreign direct investment (FDI) to RM10b in the last two years, and c) infrastructure projects worth RM12.2b (+30%) in the Ninth Malaysia Plan (9MP). Any additional incentives in the upcoming SJER Masterplan will help South Johor gain further traction and improve the economic momentum there. Already, companies are grabbing strategically-located assets and land in South Johor.

Super-cycle performer in the second half of this decade. Every decade, the stock market will witness two or three super-cycle performers. Once global stock markets stabilise, SJER is likely to emerge as the next super-cycle performer on Bursa Malaysia. SJER has characteristics similar to those of previous domestically-driven super-cycle performers. Immediate beneficiaries are large prime land and infrastructure owners in SJER. UEM World (15,343 acres), Tebrau Teguh (1,012 acres) and Mulpha Int'l (800 acres) have RNAV that are the most sensitive to improvements in land prices in South Johor. The largest infrastructure owner in South Johor is MMC Corp, which has a monopoly of the ports in Johor. UEM Builders, Gamuda (and 1,200-acre property JV with UEM World) and IJM Corp are the best positioned to benefit from new privatisation infrastructure projects.

Downside risk is mitigated by several factors: a) low P/RNAV ratio, b) trading at a 90-98% discount to peak levels, c) domestic play, and d) widespread investor despair and pessimism over Johor-related stocks since 1997. These stocks would be re-rated in the wake of the following: a) unveiling of the Masterplan, b) fresh investments from foreign and local investors, c) higher land prices, and d) award of large infrastructure contracts.

Figure 1: Potential Super-Cycle Performers

Top Picks	Recom-mendation	Share Price 13/6/06 (RM)	Target Price - RNAV Based: @ Present Land Value (RM)	Upside (%)	Super-Cycle (RM)	Upside (%)	PE 2005 (x)	PE 2006F (x)	PE 2007F (x)	Yield 2005 (%)	Johor Landbank (acre)	Market Cap (RMm)
Land Owners												
UEM World	Buy	1.29	2.33	81	8.35	547	n.m	10.0	8.3	0.8	15,343	1,790.6
Tebrau Teguh	Buy^	0.285	1.67	486	7.06	2,377	n.m	71.7	48.8	0.0	1,012	190.9
Mulpha Int'l	Buy^	1.07	2.80	162	3.34	212	44.8	107.3	62.0	0.0	800	1,342.8
Infrastructure Owners												
MMC Corp	Buy^	3.06	5.00	63	n.a#	n.a	24.6	18.1	12.9	2.0	n.a	4,658.9
Construction												
UEM Builders	Buy	0.95	1.60	68	3.10*	226	n.m	7.9	6.0	1.1	n.a	915.7
Gamuda	Buy^	3.04	4.90	61	6.50*	114	10.1	14.9	11.9	5.3	1,200	2,289.8
IJM Corp	Buy^	5.45	7.00	28	9.90*	82	17.3	13.6	11.9	2.8	n.a	2,685.3

*^ Initiate coverage; # Based on value-enhancing corporate development; * Based on new contracts wins*
Source: Bloomberg, UOB Kay Hian

Revolutionary Masterplan

The Masterplan for the SJER has been completed by Khazanah and is set to be announced soon. Based on recent media reports, initiatives contained in the Masterplan are potentially revolutionary. These could include the following: a) upfront incentives to attract global brands, b) free immigration of labour, c) more liberal FIC conditions, and d) elimination of red tape with the set-up of a one-stop approval agency. Changes to make existing investment laws more competitive internationally will have a profound impact on the economy and the stock market.

A new growth engine for the economy. A SJER with internationally-competitive incentives and regulations will help kick-start a new investment cycle in Malaysia, especially in Johor. We estimate that for every RM1.0b investment that SJER can attract, Johor's GDP would be boosted by 1.0% to 7.2% in 2007, making it the fastest-growth state in Malaysia. Malaysia's GDP would also be lifted by 0.22%. Every RM1psf rise in land value is a wealth creation of RM2.1b, or 3.3% of Johor's GDP and 0.4% of Malaysia's GDP.

Figure 2: Capital Appreciation & Additional Investment

	Capital Appreciation			
	Land Areas under SJER*	(km^2)		982
	Land Areas under SJER	(b sf)		10.6
	Assuming			
	1) 20% of Land Areas Transacted	(b sf)		2.1
(A)	2) Capital Appreciate by RM1 psf	(RMb)		2.1
			2006F	**2007F**
(B)	Johor Nominal GDP	(RMb)	59.9	63.6
(C)	Malaysia Nominal GDP	(RMb)	524.2	555.7
	(A)/(B)		3.53%	3.32%
	(A)/(C)		0.40%	0.38%

** Assuming SJER covers areas within a 25km radius from Johor-Singapore Causeway*
Source: EPU, UOB Kay Hian

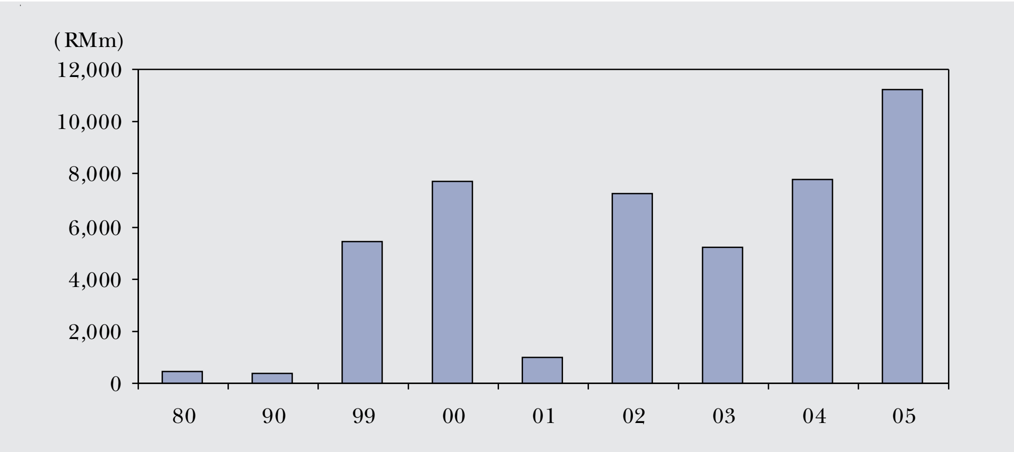
Regaining relevance to international investors. While other countries in the region have come out with firm growth strategies in the past five years, Malaysia focused on domestic issues revolving around fiscal consolidation, housecleaning and distribution of equity among different ethnic groups. The development of SJER with a set of internationally-competitive incentives will put Malaysia back on the radar of international investors.

Figure 3: Most Valuable Real Estate in SJER

Source: Ho Chin Soon Research Sdn Bhd

Restoring weak confidence in private sector. Malaysia's private sector has lost its vitality since the 1997 Asian financial crisis. The private sector has been investing overseas more than domestically in the face of several factors: a) lack of local growth opportunities, b) poor domestic confidence, and c) difficult domestic regulatory requirements vs the more liberal investment rules overseas.

Figure 4: Outflow of Investment



Source: BNM

Figure 5: Potential Largest Domestic Investors

	Malaysia's Top 10 Wealthiest People	Company Groups	Net Worth (US$b)	Forbes Ranking
1)	Robert Kuok	Kerry/Kuok Groups	5.0	114
2)	T. Ananda Krishnan	Usaha Tegas	4.3	147
3)	Lim Goh Tong	Genting	2.8	245
4)	Teh Hong Piow	Public Bank	2.1	365
5)	Quek Leng Chan	Hong Leong	2.0	382
6)	Lee Shin Cheng	IOI Group	1.6	486
7)	Yeoh Tiong Lay & Family	YTL Group	1.1	698
8)	Tiong Hiew King	Rimbunan Hijau	1.0	746
9)	Syed Mokhtar	Albukhary Foundation	0.8	n.a
10)	Lim Kok Thay	Genting	0.4	n.a
			21.1	

Source: Malaysian Business, Forbes

Strong catalyst for revolutionary economic reforms. Initiatives to improve the entire system in one go will take a long time due to the inefficient multi-layered administrative structure. Setting up a one-stop centre for all necessary investment approvals will be a practical strategy for achieving revolutionary results in the development of SJER. This will serve as a strong platform for further economic and administrative reforms in Malaysia.

Current Investment Deterrents

According to the World Bank's Ease of Doing Business Survey (see Appendix), Malaysia was ranked only 21st, behind Singapore (2nd) and Thailand (20th). In the survey, Malaysia did not do well in the categories of dealing with licences, registering property and enforcing contracts. Other than world-class infrastructure and a competitive package of incentives, international investors require an efficient policy framework and a hassle-free operating environment. Malaysia will have to address its three shortcomings:

a) **FIC guidelines.** Foreign companies have to partner a bumiputra that is capable and can afford to take up the required 30% equity stake in companies and assets. Moreover, for companies with strong international brand equities, the requirement to sell away a 30% stake is a huge investment deterrent.

b) **Investment red tape.** For example, property transactions in Kuala Lumpur require 8-12 months to receive FIC and Land Office approvals vs less than seven days in some countries in the region. In Johor, there have been cases where property transfers took 3-5 years. Hoteliers complain that they require 75 different licences to operate hotels in Malaysia. MNCs also face difficulties in getting approval for bringing in their own specialised employees. This caused Infosys Technologies (India's largest IT company) to choose Mauritius over Malaysia when it set up an IT outsourcing centre in 2000.

c) **Real Property Gains Tax (RPGT)**, especially on commercial property, is an investment disincentive and destroys liquidity in the real estate market. In international financial centres such as the US, the UK, Hong Kong and Singapore, this tax does not exist or has been abolished.

Liberalisation in all three areas would give SJER the best chance of success and the most compelling case to attract both foreign and local direct investments. Liberalisation of any permutation of the three areas would need to be aggressive enough so that the SJER package is internationally competitive on a total cost-benefit basis for investors. The bargaining position must favour international investors as they are spoilt for choice.

Figure 6: Investment Deterrents

Foreign Investment Committee	Malaysia		Singapore	Hong Kong
FIC Approval	Required for all property acquisitions Property Value must exceed RM150k Application to FIC FIC Letter of Approval with conditions (if any) Appeal Register new co with ROC FIC Approval		Not required	Not required
Time Required	(2-3 months)		n.a	n.a
Land Office	Approval required for leasehold properties		Approval required for leasehold properties	Approval required for leasehold properties
Time Required	(6-12 months)		(< 3 months)	(< 1 month)
Real Property Gains Tax (%)				
No. of Years from Acquisition Date:	Resident	Foreigners (Non-Resident)		
< 2 years	30	30		
3 years	15	30		
4 years	15	30	n.a	n.a
5 years	5	30		
> 5 years				
- Individual	0	5		
- Company	5	5		
Corporate Income Tax (%)	28		20	17.5

Note: Property disposed to local REITs are exempted from RPGT and stamp duty in Malaysia
Source: EPU, Inland Revenue Board, UOB Kay Hian

Strengthening Underlying Factors

South Johor's prospects have only just begun to improve and are strongly underpinned by the following facts:

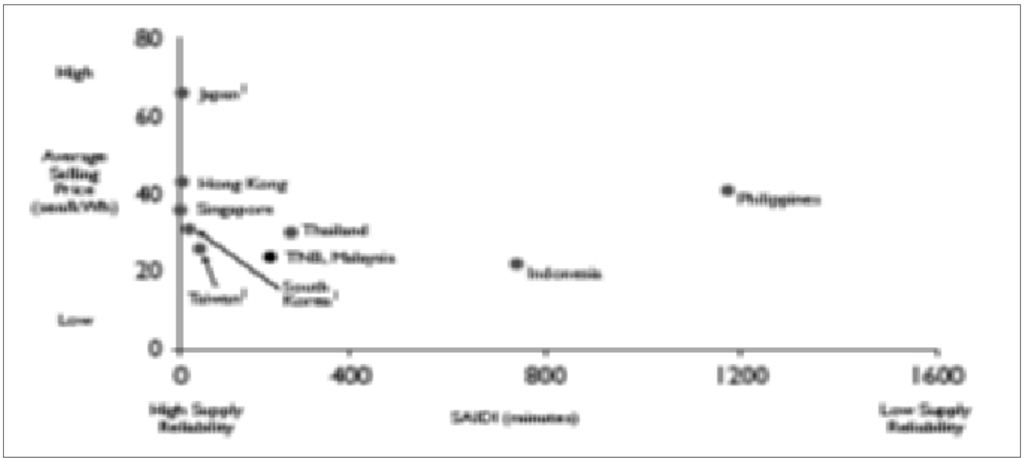
FACT 1: MOST STRATEGIC LOCATION

Leveraging on Singapore's success. Given its proximity to Singapore, Johor has natural strong commercial linkages with and proximity to a sizeable manufacturing base in Singapore.

World-class logistics infrastructure is already in place, including a network of two international airports (Senai and Changi), three international seaports (Pelabuhan Tanjung Pelepas, Pasir Gudang and Pasir Panjang Terminal, Singapore) and the North-South Highway.

Low-cost advantage. Johor boasts low-cost advantages in terms of land, utilities and manpower. Even with the recent 12% tariff hike, uilitity cost is still at least 20% lower than in Thailand and Singapore. Johor also has sizeable tracts of cheap land for large-scale integrated economic development.

Figure 7: Electricity Rate Ranked One of the Lowest in Asia Region



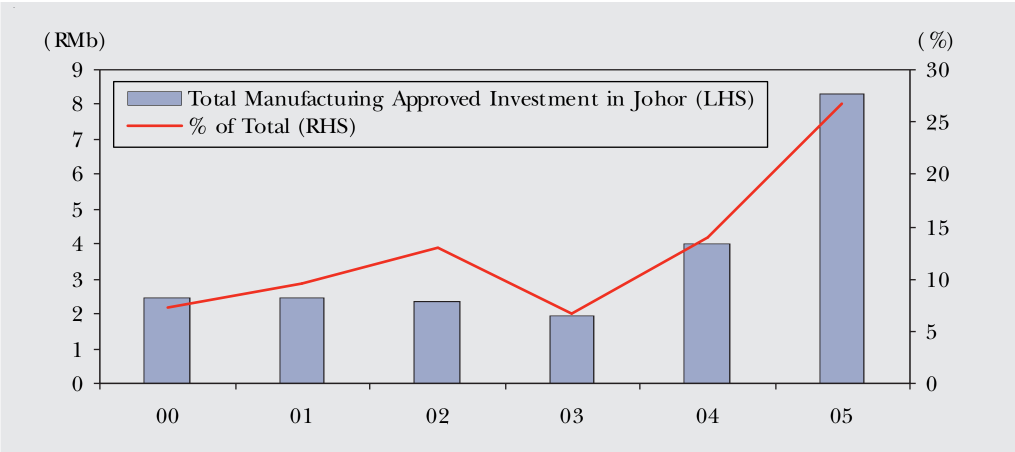
[1]: These countries rely on substantial generation by nuclear power plants
Source: Tenaga Nasional

Captive source of FDI. Johor has its source market of FDI, mainly from Singapore. Johor captures 60-70% of Singapore's investments in Malaysia. These investments mainly support and complement operations in Singapore. Most of the recent huge FDIs flowed into the Port of Tanjung Pelepas (PTP) Free Trade Zone for re-exports through PTP.

FACT 2: FOURFOLD JUMP IN FDI IN JOHOR

Fourfold jump in manufacturing investment in Johor. Malaysian Industrial Development Authority (MIDA) data showed total manufacturing investment approved for Johor has surged from RM2.0b-2.5b in 2000-03 to RM8.3b in 2005 (2004: RM4.0b), just slightly below Selangor's RM8.5b. Johor's share of total investment rose from 5-7.5% in 1999-2003 to 9.6% in 2005. Investments in Johor were mainly in the electrical & electronic (RM5.4b) and chemicals & chemical products (RM0.6b) industries. Singapore's investments in Johor alone came up to RM1.9b, constituting 66% of total Singapore investments approved by MIDA.

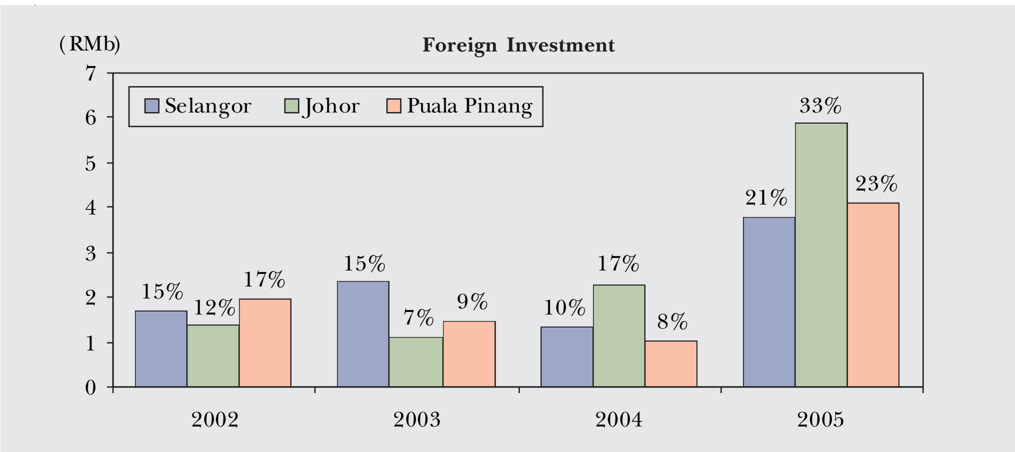
Figure 8: Approved Manufacturing Investment in Johor Topped 300%



Source: MIDA

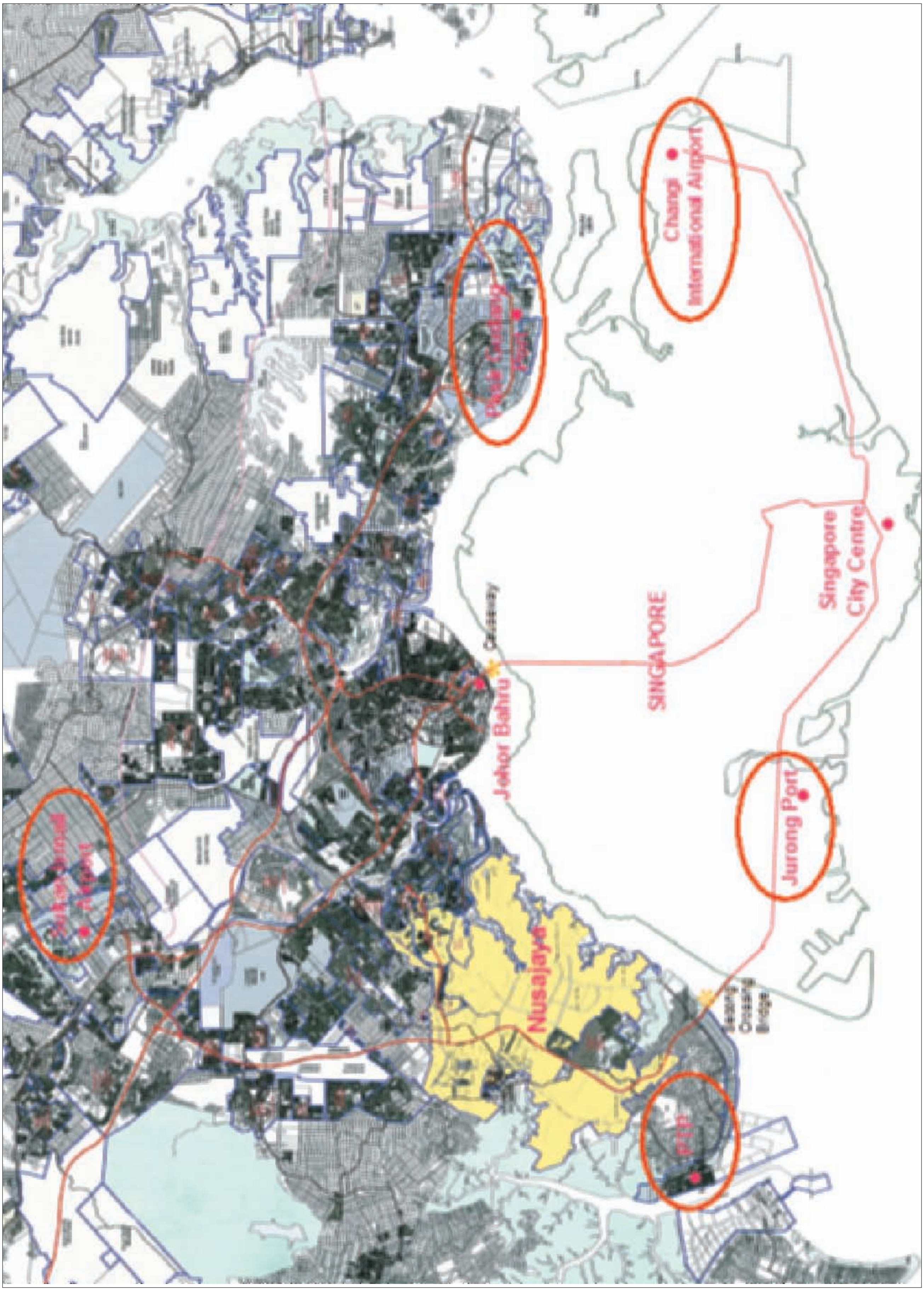
No. 1 in attracting FDI with one third of total. Johor was also ranked No. 1 in terms of foreign capital investment attracted in Malaysia. The amount committed by foreigners in Johor was up by fourfold from RM1.4b in 2002 to RM5.9b in 2005. Its share of total foreign capital investment also rose significantly from 12% in 2002 to 33% in 2005. All these make Johor the No. 1 destination for foreign investment, far ahead of Selangor (21% of total) and Penang (23%).

Figure 9: Johor Now Above the Rest



Source: MIDA

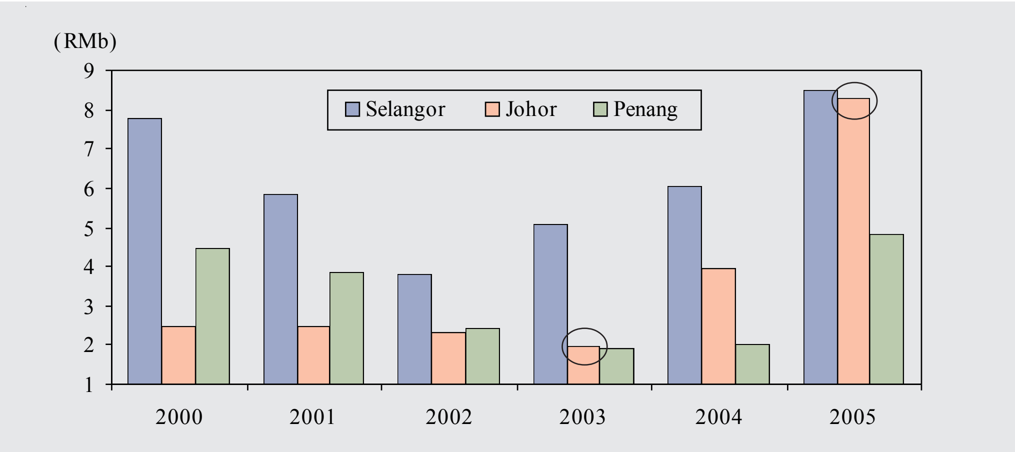
Figure 10: SJER – Strategic Location Backed by World-class Infrastructure



Source: Ho Chin Soon Research Sdn Bhd

Fastest growth in manufacturing investment. Johor enjoyed the fastest growth in manufacturing investment. Johor's manufacturing investment has been growing at a three-year CAGR of 53%, way ahead of that of other developed states (Selangor: 30%, Penang: 26%). Johor has been outperforming Penang since 2003 and is now on a par with Selangor in attracting manufacturing investment due to its low-cost advantage and proximity to Singapore.

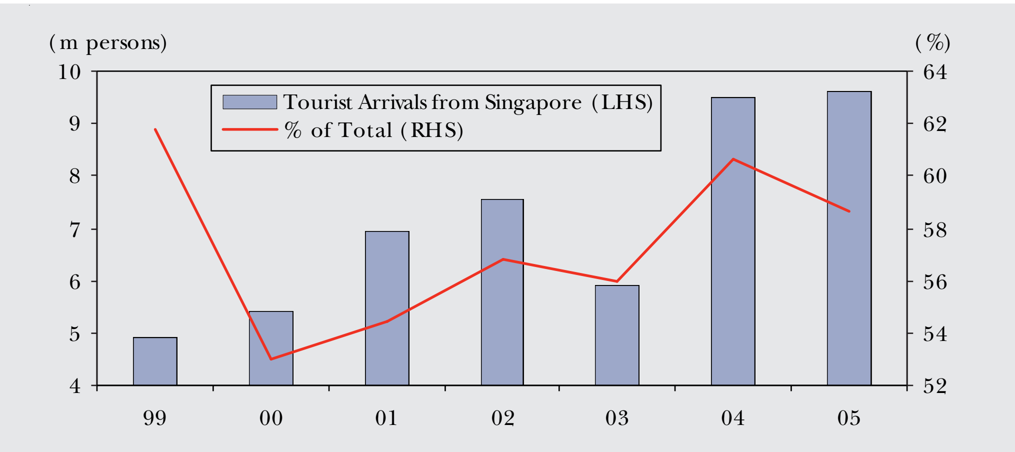
Figure 11: Fastest Growth in Manufacturing Investment



Source: MIDA

Main entry point for tourists. Johor recorded the highest percentage of tourist arrivals in Malaysia through Johor Causeway and Second Link. In 2004, about 11m tourists entered Malaysia mainly through the Johor Causeway (80%) and Second Link (20%), 76% of which were residents of Singapore. The 11m tourists do not include the 20,000 daily travellers from Singapore.

Figure 12: Johor is Singapore's Main Gateway to Malaysia



Source: CEIC

MNCs pouring billions of ringgit into Johor. Billion-dollar FDIs are starting to flow into Johor. Since late last year, we have been seeing a series of major foreign investment plans (worth more than RM500m) in Johor. Notable ones were US-based OSI System Inc's proposed RM5b-10b manufacturing plant expansion and the RM1b Flextronics Campus at PTP. These investments are expected to create more than 20,000 new jobs over the next two years.

Figure 13: Recent FDI Into Johor

Approved	(RMb)	Owner Nationality
2005		
Podoyo Plastic	1.5	Singapore
Flextronics Technology	1.4	Netherlands
J.S.T. Connectors	1.0	Japan
Sanyo PT	0.8	Japan
CIBA Vision	0.5	Switzerland
2006 (YTD)		
OSI System	5.0-10.0	USA

Source: MIDA, Bernama

FACT 3: RM12.2b (+30%) BOOST FROM 9MP

Additional 30% spending under 9MP. The government plans to invest RM12.2b to develop SJER under 9MP (vs RM9.2b in 8MP). The development of Bandar Nusajaya as the new state administrative centre, as well as the development of an education hub, a centre for creative industries and nearby tourist resorts, will further spur the development of Johor. The projects will be coordinated by Khazanah Nasional under the leadership of and with the support of the Federal and Johor state governments. New infrastructure, such as a coastal highway, bullet trains, the Eastern Dispersal Link and the Mass Rapid Transit (MRT) are expected to enhance Johor's infrastructure and improve the connectivity between key cities in Johor and Kuala Lumpur.

Figure 14: Key Catalytic Developments in South Johor

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 before end-06
Southern Industrial & Logistics Cluster (SiLC)	4,000	1,300	Identified clusters: advanced technology (bio & nano), agro-based industries & logistics; Earthworks to start in May 06 with active marketing overseas
Education City	2,100	n.a	Regional education hub, expecting at least 4 foreign universities & student population of more than 20,000. a) Signed heads of agreement to establish an iCarnegie-managed university (JV agreement to be signed within 2 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	1,000	n.a	Links Johor with Kuala Lumpur

Source: 9MP, UEM World, UOB Kay Hian

Every RM1b new investment to add 1.0% to Johor's GDP. Under 9MP, Johor is expected to grow at an average of 6.2% for 2006-10. Potential upside to the 6.2% GDP growth could come from the rising FDI trend. Every RM1b new investment could add 1.0% to Johor's expected GDP growth of 6.2%. Johor could deliver a GDP growth of 7.2%. This is similar to Penang's GDP growth back in the 1990s when there was an influx of electrical and electronic FDIs there.

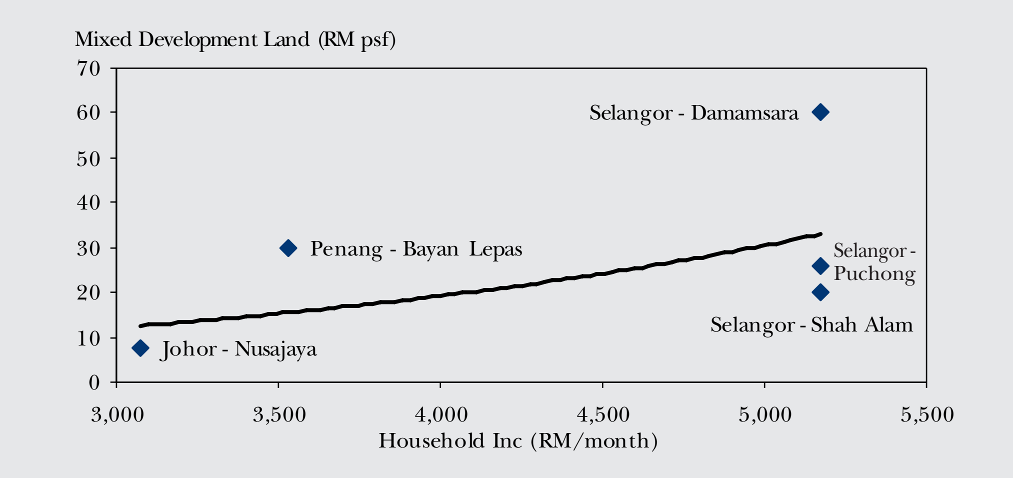
Figure 15: Grabbing of Strategic Assets Has Begun in South Johor

Acquirer	Details	Location	Land Size (acre)	Value (RMm)	Remarks
MMC Corp	Privatisation Johor Port	South East Johor	n.a	427	Large coastal development project
MMC Corp	Privatisation of Malakoff	South West Johor	n.a	9,300	Tanjong Bin power plant
Tan Sri Syed Mokhtar	Senai Estate (held by Lee Rubber Co)	Between Senai Airport & Port of Tanjung Pelepas	4,000	380	Proposed Senai cargo hub
Berjaya Group/ Tan Sri Dato' Vincent Tan	Johor Bahru Waterfront City	East of existing Singapore-Johor Bahru Causeway	118	n.a	Unconfirmed. Johor state government cancelled the uncompleted portion of RM6b project
KSL Holdings	Land from Danaharta	15km north of Johor Bahru City Center	1,517	264	Danaharta cancelling sale Potential new buyer
Gamuda	50: 50 JV with UEM World	Nusajaya	1,200	335	Mainly residential development
IJM Corp	Land from Syed Mokhtar	Surrounded by the Seri Austin, Setia Indah, Oxbridge Heights Developments	250	75	Mixed-housing development, GDV of RM560m over a period of about 7 years
Total				**10,781**	

Source: Various companies

FACT 4: SOUTH JOHOR COMING FROM LOW BASE

Figure 16: Great Potential for Appreciation of Johor Land Prices



Source: EPU

Johor coming from a substantially lower base. Johor's household income and property prices are currently the lowest among developed states. In the past five years, prices in Selangor and Penang rose 16% and 24% respectively. In contrast, property prices in Johor declined 13% in the same period. Current land value in Johor is merely a fraction of Selangor's and Penang's. Although Johor has started to attract high FDIs, the state's household income still significantly lags that of the other two states.

Figure 17: Comparison of Land Prices

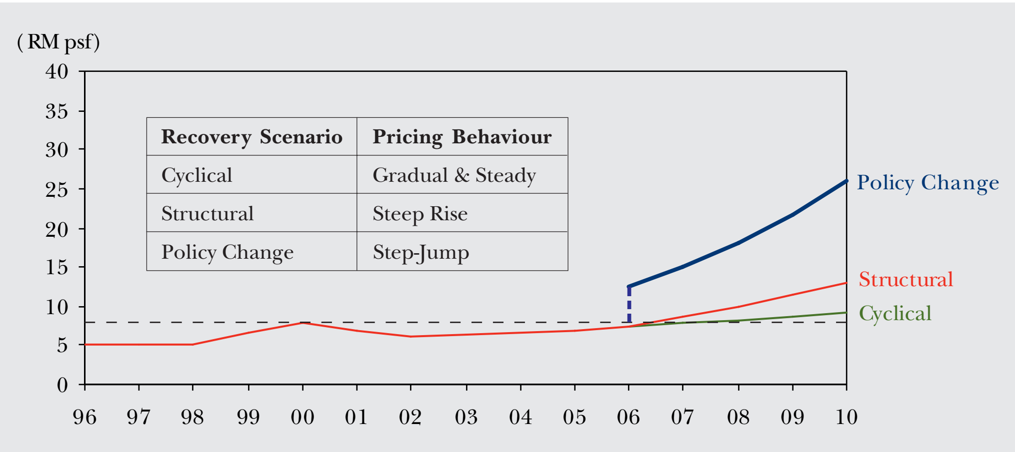
State/Country	(RMpsf)	Remarks
Johor		
- Mixed Development	5-7	Johor Bahru
- Industrial	5	Batu Pahat
Penang		
- Mixed Development	30	Bayan Lepas
- Industrial	20	Bayan Lepas
	15	Seberang Perai
Selangor		
- Mixed Development	60	Damansara/Kepong/Segambut
	26	Puchong/Bukit Jalil
	20	Klang/Shah Alam
- Industrial	10	Klang
Singapore		
- Industrial	58-115	Government tenders (S$25-50)

Source: Various companies

Johor Land Prices Set To Recover Strongly

Land prices to recover on stronger demand. In 2001-05, Johor's property prices underperformed over the past five years, declining 13%, while Selangor and Penang property prices rose 16% and 24% respectively. Land and property prices in Johor are now set to recover on strong improvements in demand. Price recovery is expected to be structural in nature (5-15% p.a.) and stronger than the typical cyclical recovery (3-5% p.a.) due to several factors: a) fourfold jump in FDI, b) RM12.2b government spending to develop SJER, c) spillover effects from the transformation of Singapore into a global city, and d) property prices are coming from a very low base, substantially below that of other developed states. Any positive policy changes to attract investments into SJER would result in an immediate step-jump in land prices.

Figure 18: Land Prices for South Johor



Source: CEIC, UOB Kay Hian

13-17% property oversupply in Johor. Based on information from the National Property Information Center (NAPIC), Johor has a property oversupply of 13-17%. Looking more closely at the situation, the oversupply mainly originates from the development of new townships hugging the North-South Expressway, the Senai-Desaru highway and around Senai Airport. Northwards, 90% of these new residential properties are mid-range to low-end houses priced between RM100,000 and RM250,000. There is also an abundant supply of plantation land in mid-North Johor, which could be converted for mixed developments.

Figure 19: Largest Property Players in Johor

Projects	Developer	Acreage	GDV (RMb)	Units	GDV/Unit (RM)	Location	Estimated Distance from Causeway (km)
Indahpura	Asiatic Land	6,000	n.a	40,000	n.a	Next to Senai Airport	27
Bandar Putra Kulai	IOI Properties	5,500	8.0	54,000	148,148	Next to Senai Airport	27
Bandar Dato' Onn	Johor Land	1,500	3.5	11,000	318,182	Along North-South Highway	16
Taman Cemerlang Utama	Crescendo Corp	1,400	2.5	n.a	n.a	Broader of Johor Bahru-Kota Tinggi District	21
Setia Tropika	SP Setia	740	2.0	8,000	250,000	Along North-South Highway	21
Tmn Bestari Indah	KSL Holdings	710	1.7	11,000	154,545	Along Senai-Desaru Highway	18
Seri Austin	UM Land	500	1.0	6,000	166,667	Close to Senai Airport	20

Source: Respective companies

Move south to mitigate oversupply risk. The supply-demand situation in South Johor is significantly better as there is a limited supply of land and the government will be spending RM12.2b to develop SJER. 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, and c) sea- or river-fronting to maximise the potential commercial value, especially when commercial development of international standards are undertaken. Based on these characteristics, we have identified the Gelang Patah and Tebrau Corridors (including Danga Bay) as the most valuable real estates in South Johor. Key players in these two corridors are mainly government- and state-linked companies and the Johor Royal family.

Figure 20: Lower Supply in the South

Source: UOB Kay Hian

Figure 21: Key Land Owners in SJER

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 SJER	SP Setia KSL Holdings	600 388	Tan Sri Liew Kee Sin (10.4%) Khoo Family (55.5%)
Tier 3 – Suburban (16-25km)	Within SJER	UM Land Johor Land Pelangi Group Crescendo Corp KSL Holdings SP Setia	3,762 3,091 3,000 1,100 996 740	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 SJER	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 SJER	LBS Glomac	718 450	Family of Dato' Lim Hock San (44.8%) Dato' Mohamed Mansor (29.3%)

Source: Companies' annual reports, UOB Kay Hian

Gelang Patah Corridor

The Gelang Patah Corridor is the largest corridor in SJER, covering the Johor State New Administration Center (JSNAC) and PTP. It is also directly linked to Singapore via the Second Link. Land values in the Gelang Patah Corridor would benefit from new investments flowing into the PTP Free Zone and the development of JSNAC. Further improvement to accessibility and infrastructure are expected, such as the proposed Coastal Highway that will link the existing Causeway and the Second Link via Danga Bay and Gelang Patah. This would enhance land values in the Gelang Patah and Danga Bay areas.

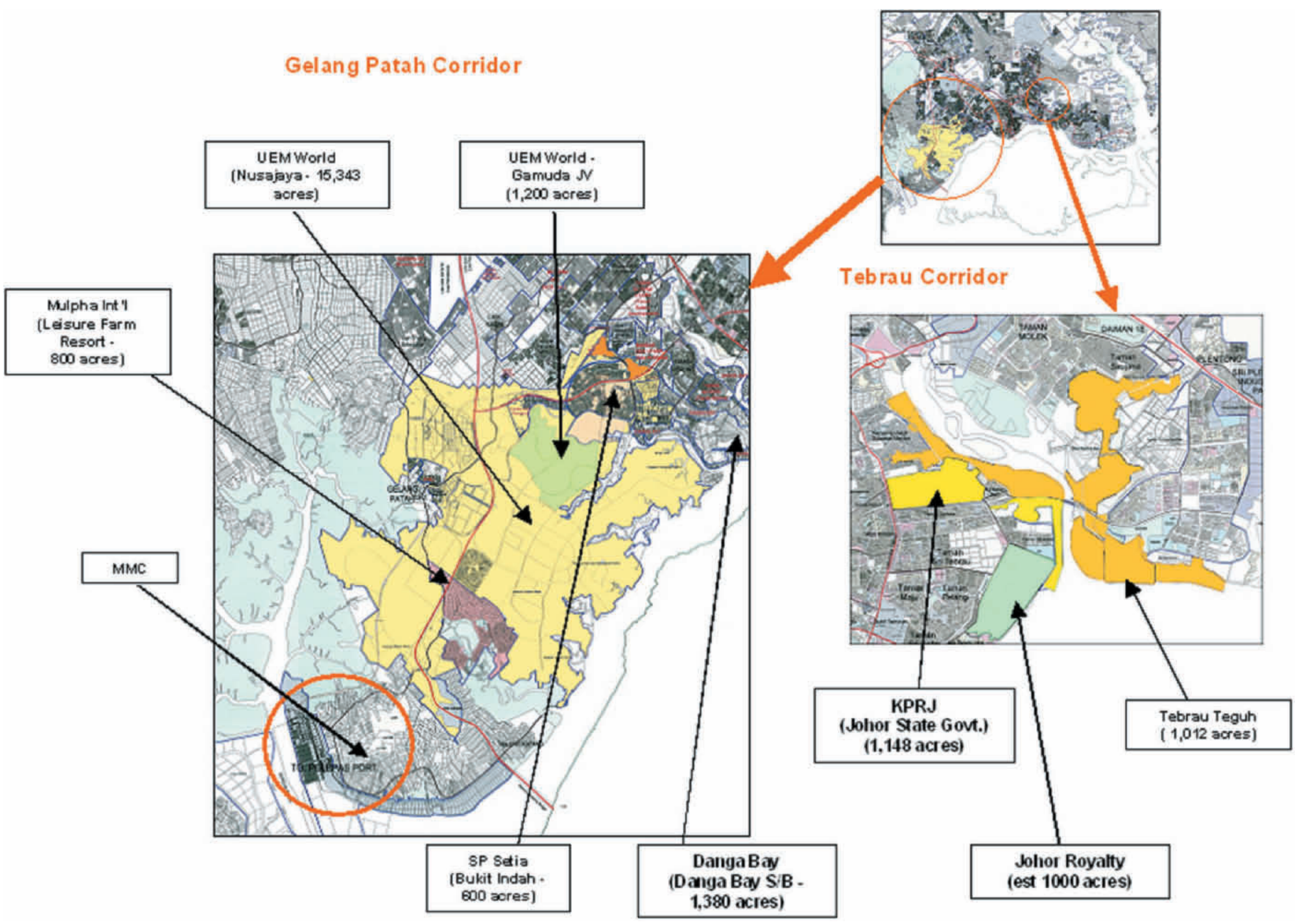
At present, there are about 20 upcoming mixed-development projects in the Gelang Patah Corridor. These projects have an estimated Gross Development Value (GDV)of RM33b (RM1.03m/acre) and involve the development of some 32,000 acres of land. Government-linked company UEM World owns the largest and best piece of land with its 15,343-acre Nusajaya landbank. Nusajaya is super-prime as it is sea-fronting, is close to PTP and the Second Link (15 km from centre) and is the location of the JSNAC. Within Nusajaya, a zone has been proposed for the development of a theme park of international standards that could boost the surrounding land value dramatically. Other major players in the Gelang Patah Corridor are Mulpha Int'l (800 acres), Gamuda (1,200-acre property JV with UEM World) and SP Setia (1,521 acres).

Figure 22: Key Land Owners in Gelang Patah Corridor

Owner	Project	Location	Area (acres)	GDV (RMb)	GDV/Acre (RMm)	Ownership
UEM World	Bandar Nusajaya	Sea Fronting	15,343	20.0	1.3	GLC – Khazanah
Gamuda	Bandar Nusajaya	Central	1,200	n.a	n.a	Listed Company
Khazanah	Bandar Nusajaya	Central	1,000	n.a	n.a	Government Investment Arm
Mulpha Int'l	Leisure Farm	Southern	800	1.4	1.8	Listed Company
SP Setia	Bukit Indah	Northern	600	3.2	2.1	Listed Company

Source: Various companies, UOB Kay Hian

Figure 23: Large Asset Owners in SJER



Source: UEM World, UOB Kay Hian

Tebrau Corridor

The Tebrau Corridor encompasses Johor Baru city and is directly linked to Singapore via the Johor Causeway. Being a strategically-located central area for existing commercial activities in Johor, it has a natural strong pull factor. Land values in the Tebrau Corridor are set to benefit from further improvements to accessibility and urban renewal initiatives. The Johor state government plans to set up an MRT system, a monorail system that is expected to be completed in 2009. It will ferry passengers from Johor Baru city to Tebrau, Nusajaya, Senai and Skudai.

At present, there are about 25 upcoming mixed-development projects in the Tebrau Corridor. Involving the development of some 23,000 acres of land, these projects would have an estimated total GDV of RM49b. While there are many landowners and property developers in the corridor, state-linked Tebrau Teguh, Kumpulan Prasarana Rakyat Johor (KPRJ) and the Johor Royalty undeniably own the best and last piece of large landbank. Measuring some 3,163 acres, this landbank is super-prime for several reasons: a) it is the last big tract of undeveloped landbank in the corridor, b) it is river and sea-fronting, and c) it is within 5km of Johor Baru city centre. Another prime landbank is the sea-fronting Danga Bay (1,380 acres), which is a new commercial development that is lifestyle-oriented. This landbank is privately-owned by Danga Bay Sdn Bhd with project development by Ekovest Berhad.

Figure 24: Key Land Owners in Tebrau Corridor

Owner	Project	Location	Area (acres)	GDV (RMb)	GDV/Acre (RMm)	Ownership
Super-Prime						
KPRJ	n.a	Sea/River Fronting	1,148	n.a	n.a	State Property Investment Arm
Tebrau Teguh	Taman Bayu Puteri	Sea/River Fronting	1,012	7.9	7.8	KPRJ
Johor Royal Family	n.a	Sea/River Fronting	1,000	n.a	n.a	Royalty
Danga Bay S/B	Danga Bay	Sea Fronting	1,380	15.0	10.9	Private
Others						
UM Land	Bandar Seri Alam	Eastern	3,762	5.5	1.5	Listed Company
Pelangi Group	Taman Impian Emas	Northern	3,000	4.0	1.3	GLC – PNB
Crescendo Corp	Desa Cemerlang	Eastern	2,490	0.8	0.3	Listed Company

Source: Various companies, UOB Kay Hian

9MP Likely to Succeed

The government's 9MP is supported by several factors:

Strong financial resources. After two years of fiscal consolidation, the government's balance sheet is significantly stronger now. Budget deficit only accounted for 3.8% of total GDP in 2005 vs 5.6% three years ago. 9MP also saw the introduction of the Private Finance Initiative (PFI) model. This will facilitate the private sector's undertaking of large-scale projects that will become more bankable with guaranteed lease payments from the government. FDIs, especially into Johor, are rising. Various national agencies such as Petronas (oil & gas) and PNB (crude palm oil) have benefitted from higher commodity prices in the last two years.

Management talent. Khazanah has been tasked with the responsibility of drawing up the Masterplan for and coordinating the development in SJER. The government investment arm has been on an aggressive recruitment drive over the last two years, recruiting staff with various international and commercial experiences.

Commitment. The development of South Johor has the full commitment of the PM and the ruling party, Barisan National (BN). After two years of housecleaning, the PM and BN are likely to embark on more aggressive pro-growth strategies to mitigate rising cost of living and to strengthen political support ahead of the fast-approaching UMNO elections in 2007 and General Elections in 2008/09.

Greater focus. The Government has organised and focused the financial and administrative resources of the various national agencies to drive the 9MP. These agencies have total assets of more than 1x GDP under management.

Figure 25: Organising & Focusing Resources of National Investment Agencies

Orgainisation	Assets/NTA (RMb)	Region
PETRONAS	258.3	Eastern
EPF	240.4	-
PNB/Sime Darby	84.8	Northern
Khazanah	59.1	Southern
Total	**642.6**	

Source: Companies' annual report

Key Changes In Johor In Last 10 Years

There has been widespread investor despair and pessimism over Johor-related stocks since 1997. But investors should note some of the key changes that have taken place in Johor in the past 10 years and that have improved investment conditions.

- **Nusajaya/SJER: No longer just a concept plan.** Compared with the original plan a decade ago, the project has been upsized, elevated to the status of a priority national project and receives the personal attention of the PM. This is the only 9MP project that Khazanah, UEM World's parent company, has been instructed to manage directly.

- **Largest recipient of FDI in Malaysia** with RM5.9b in FY05. Large MNCs that have committed investments in South Johor include Flextronics, Ciba Vision and JST Manufacturing.

- **Key infrastructure facilities have been completed**, including PTP, the Second Link Bridge, the North-South Highway and the Tanjung Bin power plant. These key infrastructures are important basic FDI requirements.

- **PTP has emerged as a world-class container port**, having grown rapidly from a zero base to 4.2m TEUs within just five years. Today, PTP is the Southeast Asian hub for two of the world's largest mainline operators, Maersk Sealand (30% shareholder of PTP) and Evergreen.

- **Key Johor-based companies have been restructured and are now ready for growth.** UEM World and MMC Corp are financially stronger and can undertake large-scale development projects.

- **South Johor Masterplan already approved.** This will speed up development by facilitating land conversions and making projects more bankable.

- **Natural beneficiary of Singapore's transformation into a global city.** Johor is a natural beneficiary of Singapore's development into a global city given its proximity to the latter. As Singapore develops further, there will be positive spillover effects from backward linkages and relocation of manufacturing activities. In addition, there will be more tourist arrivals from Singapore, especially when its integrated resorts are completed.

Key Risks

Political risk. The most challenging issue for the present administration in getting the development of SJER off the ground would be to remove some of the key barriers to investments. Some local politicians are not outward-looking and do not appreciate the implications of global trends. Most of the investment regulations for the non-manufacturing and IT sectors in Malaysia are protective and not promotive. These regulations have made Malaysia uncompetitive and have discouraged locals from reinvesting in the country over the years. As a result, Malaysia has fallen off the radar screens of most foreign investors.

Key barriers to investments:

1) For branded and quality companies, the requirement to sell a 30% stake to a bumiputra partner when additional capital is not required is a turn-off,

2) Vague interpretation of FIC regulations creates uncertainty, and

3) Much red tape involved in buying assets and registering businesses, as numerous approvals are required from different authorities.

The ability of SJER to attract investments is crucial. Most MNCs will look elsewhere to invest if there are too many barriers. As such, there is a need to do something about the present investment barriers to give SJER any chance of success.

The risk is whether the package of incentives offered and regulatory changes made would be competitive enough to attract investments into SJER. This is mitigated by the following factors: a) Khazanah is investor friendly and understands investor's requirements, b) land owners in SJER are largely bumiputras (biggest beneficiaries), c) potential introduction of investor-friendly ways to institutionalise the participation of bumiputras, and d) unavoidable trend of the impact of globalisation and WTO requirements.

Execution risk. The execution of the plan could be impeded by various public entities that are riddled with systemic inefficiencies and self-interest. Initial teething problems are expected but execution risks are largely mitigated by the following initiatives:

a) **A priority national project.** Not only have the plans for SJER been expanded, SJER has been elevated to the status of a priority national project in 9MP and is no longer a concept plan from a decade ago.

b) **Full support.** No other projects in 9MP are expected to receive the personal attention of the Prime Minister and the involvement of Khazanah in terms of management and commercial inputs.

c) **Internationally competitive.** The involvement of Khazanah in the development of SJER will lower the risks of uncompetitive policies, inefficient procedures and controls, weak institutional structure and lack of integrated development approach. Incentives offered are expected to be internationally competitive.

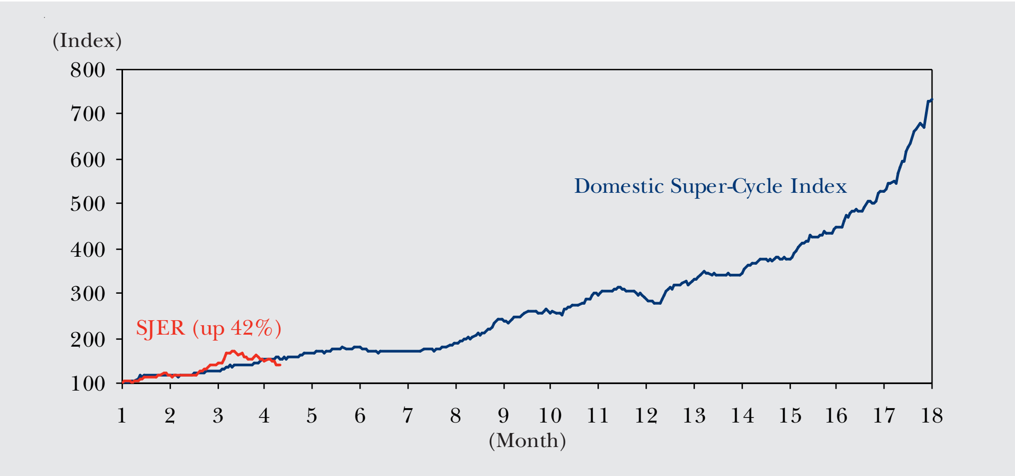
d) **Construction in full swing.** No longer a greenfield project, the construction of Johor's new administrative capital, Nusajaya, is now in full swing.

e) **Approved Masterplan.** The masterplan for Nusajaya has been approved by the Johor State Government. This will facilitate conversion of the land from agriculture status, which will speed up development.

Investment Strategy: Super-Cycle Potential

Super-cycle performer to emerge in the second half of this decade. In every decade, the stock market will witness the appearance of two or three super-cycle performers that offer early investors generous returns over 2-5 years. Once global stock markets stabilise, SJER is likely to emerge as the next super-cycle performer on Bursa Malaysia. SJER has characteristics similar to those of previous domestic-driven super-cycle performers such as Oil & Gas in 2003, Banking in 1998, Construction in 1993 and Timber in 1990. These characteristics are as follows: a) beneficiary of large direct investments, b) availability of mega contracts, c) high entrepreneurial energy, and d) a new investment theme. More so for Malaysia, domestic super-cycle performers are fuelled by government actions through significant policy changes (usually unexpected) or intervention. SJER is a strong super-cycle performer candidate because it is a new investment theme, the government is involved, policy changes are likely to take place and mega infrastructure contracts that have been budgeted in 9MP are likely to be awarded.

Figure 26: Potential Super-Cycle Performer



Note: Index based on Oil & Gas (2003), Banking (1998), Construction (1993) & Timber (1990)
Source: Datastream, UOB Kay Hian

Super-cycle calls are typically considered controversial initially. The market's perception that "Johor is hopeless" and "Malaysia is hopeless in implementation" will naturally make our recommendation controversial. Understandably, Johor has disappointed real estate and equity investors in the past, is plagued by high crime rates, has a low standard of living as compared with those of Singapore, Hong Kong and Kuala Lumpur, suffers from oversupply of residential and commercial real estate, is bogged down by bureaucratic red tape and hampered by inconsistent investment policies. Investors could ignore and avoid Johor. But we believe, the widespread pessimism on Johor has been priced in after all these years and some key Johor stocks are trading at a 90-98% discount to their peak levels achieved in the 1990s. If things start to go right in Johor, multiple-fold returns are in store for early investors. The market has not fully appreciated the positive changes slowly taking place in and around Johor and the measures that could be taken by policy makers to mitigate implementation risks.

Figure 27: Criteria for Domestic Super-Cycle Performance

Year	**2006**	**2003**	**1998**	**1993**
Domestic Super-cycle Performer	SJER	Oil & Gas	Bank	Construction
Criteria 1) Government Policy	SJER through 9MP	New deep-sea discovery	Capital control, Danaharta, Danamodal	Fiscal spending, Vision 2020
2) Beneficiary of Direct Investment	RM12b	RM40b-50b	RM30b (carve-out & re-capitalisation)	RM60b
3) Potential Mega Contracts/Acquisition	Infrastructure development	Offshore installation contract, fabrication	Bank Bumiputra, Sime Bank	Bakun Hydroelectric Dam, KualaLumpur City Centre, Kuala Lumpur Int'l Airport, Putrajaya, Cyberjaya, Multimedia Super Corridor
4) High Entrepreneurial Energy	?	✓	✓	✓
5) A new Investment Theme	✓	✓	✓	✓
Super-cycle Leader	UEM World	Scomi Group	CAHB/BCHB	MRCB
Bottom to Peak	-	12x (RM1.38-16.00)	22x (RM0.58-13.10)	21x (RM0.53-11.20)

Source: UOB Kay Hian

Immediate beneficiaries are large prime land and infrastructure owners in SJER. **UEM World** (15,343 acres), **Tebrau Teguh** (1,012 acres) and **Mulpha Int'l** (800 acres) have RNAV that are the most sensitive to improvements in land prices in South Johor. For super-cycle stocks at an early stage, our preference is for

- **RNAV over PE** as recent earnings performance does not reflect future prospects but more of existing market conditions that are usually poor. Investors should expect stocks to trade at historical PEs that are significantly higher than market PEs.

- **Large prime land owners over developers.** Owners of large prime land have superior redevelopment & re-pricing potential and scarcity premium (ie. sea- or river-fronting land closest to Singapore). The landbank in the southernmost part of the state, especially sea- or river-fronting land, will have considerable upside should commercial development of international standards takes place. This landbank in the southernmost tip also does not have oversupply problems in the middle and to the north of Johor, due to the potential conversion of abundant plantation land into residential land.

Super-cycle target prices established. The share price of **UEM World**, **Tebrau Teguh** and **Mulpha Int'l** are well supported by their existing higher RNAVs which are based on current land prices. Over the next 2-3 years, when land prices appreciate more significantly, especially on policy changes, there will be significant upside to their respective RNAVs. For UEM World, if land prices increase to RM20psf (or equal to Klang-Shah Alam levels), its RNAV could rise to RM8.35. Tebrau Teguh's RNAV could jump to RM7.06 if its landbank is revalued at RM110psf (or equal to that of recent commercial land transactions in JB city centre). For Mulpha Int'l, its RNAV would rise to RM3.34 if the land price for its high-end Leisure Farm appreciates to RM60psf (or equal to Damansara, Selangor).

Figure 28: Super-Cycle Price Targets – Multiple Folds

RNAV Sensitivity Analysis		**UEM World**	**Tebrau Teguh**	**Mulpha Int'l**
Share Price @ 13/6/06 (RM)		1.29	0.285	1.07
Market Cap (RMm)		1,790.6	190.9	1,342.8
Landbank (acres)		15,343	1,012	800
Location of Johor Landbank		Nusajaya	Johor Bahru	Nusajaya
Development Type		Mixed	Waterfront	High-end
Price Target – RNAV (RM)		**2.33**	**1.67**	**2.80**
– Super-cycle (RM)		**8.35**	**7.06**	**3.34**
P/RNAV (x)		0.6	0.2	0.4
Market Value of Johor Landbank (RMpsf)		7.50	28.00	35.00
Book Value of Johor Landbank (RMpsf)		4.00	13.40	4.50
RNAV Based on Mixed Development Land in:	**(RMpsf)**			
Klang-Shah Alam, Selangor	20	8.35	n.a	n.a
Bayan Lepas, Penang	30	13.17	1.80	2.68
Damansara, Selangor	60	27.61	3.77	3.34
Johor Bahru City Centre (Commercial)	110	51.69	7.06	4.42
Singapore	300	143.17	19.56	8.55

Source: Various companies, UOB Kay Hian

The largest infrastructure owner in South Johor is **MMC Corp**, which has a monopoly of the ports in Johor. With rising manufacturing FDIs and levels of economic activities, higher exports and imports via shipping would increase port throughput volumes.

UEM Builders, **Gamuda** (and 1,200-acre property JV with UEM World) and **IJM Corp** are the best positioned to benefit from new privatisation infrastructure projects. With the privatisation model evolving into the PFI model under the 9MP, where companies are tasked with building, leaseback and maintenance, these companies have an edge with their strong balance sheets and operating track records. The development of SJER requires the construction of many infrastructures – roads, highways, houses, hotels, university campuses, office buildings and hospitals.

Secondary beneficiaries. Property developers that have exposure to Johor would eventually benefit from the overall improvement in the Johor property market in the next few years. SP Setia remains the best-managed property developer that has significant landbank in Johor. These secondary beneficiaries would lag the super-cycle performers in share price performance.

Downside risks of SJER stocks are mitigated by several factors: a) low P/RNAV ratio, b) they are trading at a 90-98% discount to peak levels, c) domestic play, and d) widespread investor despair and pessimism over Johor-related stocks since 1997. These stocks would be re-rated when the Masterplan is unveiled, fresh investments from foreign and local investors enter the market, land prices go up and large infrastructure contracts are awarded.

Figure 29: SJER Plays (Land Owners)

Land Owner (>1,000 acres)	Share Price 13/6/06 (RMm)	Size (acre)	Location	Market Cap (RMb)	RNAV (RM)	Discount to RNAV (%)	Dividend Yield (%)	PE 2005 (x)	PE 2006F (x)	Other Related Listed Co.
Main Players										
UEM World	1.29	15,343	Nusajaya	1.8	2.33	44.6	0.8	n.m	10.0	UEM Builders
Danga Bay S/B	-	1,380	Danga Bay	-	-	-	-	-	-	Ekovest^
Johor State	-	1,148	Nusajaya	-	-	-	-	-	-	Tebrau Teguh*
Tebrau Teguh	0.285	1,012	Johor Bahru City	0.2	1.67	82.9	0.0	n.m	71.7	-
Khazanah	-	1,000	Nusajaya	-	-	-	-	-	-	UEM World
Other Players										
Gamuda	3.04	1,200	Nusajaya	2.3	4.90	38.0	5.3	10.1	14.9	-
Mulpha Int'l	1.07	800	Leisure Farm (next to Nusajaya)	1.3	2.80	61.7	0.0	44.8	107.3	-
SP Setia	3.62	600	Bukit Indah (next to Nusajaya)	2.4	5.19	30.3	5.3	11.6	10.8	-

** Major shareholder, Kumpulan Prasarana Rakyat Johor, privatised Danga Bay to Daya Bay Sdn Bhd*
^ Project managment company
Source: Various companies, UOB Kay Hian

Figure 30: SJER Plays (Infrastructure)

Owner	Price 13/6/06 (RM)	Infrastructure	Market Cap (RMb)	RNAV (RM)	Discount to RNAV (%)	Dividend Yield (%)	PE 2005 (x)	PE 2006F (x)
MMC Corp	3.06	Port of Tanjung Pelepas, Johor Port (Pasir Gudang), Tanjong Bin Power Plant	4.7	5.00	38.8	2.0	24.6	18.1

Source: Various companies, UOB Kay Hian

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Company Reports

UEM World

Current : RM1.29
Target (12-mth) : RM2.33

BACKGROUND

UEM World (UEMW) is an infrastructure conglomerate with a strategically-located 15,343-acre landbank in Johor. With earnings turning around sharply in FY06 and a stronger balance sheet, UEMW is set to capture the best opportunities in the Ninth Malaysia Plan (9MP). UEMW's major shareholder is Khazanah Nasional, which holds a 50.8% stake.

OUTLOOK/RECOMMENDATION

- **Largest landowner in SJER.** The government plans to invest RM12.2b to develop the South Johor Economic Region (SJER) under the 9MP. Compared to the original plan a decade ago, the project is now larger, elevated to the status of a priority National Project and receives the personal attention of the Prime Minister. This is the only 9MP project that Khazanah has been instructed to manage directly.

- **Higher land prices on improvements.** For the SJER development, we expect logistics infrastructure to be enhanced and internationally-competitive incentives to be introduced. This should improve land prices in the SJER.

- **Front-runner for RM15b of 9MP projects.** UEMW has the track record of being the contractor of the largest infrastructure projects in the past few Malaysia Plans. This trend is expected to continue.

- **Great option value on land.** UEMW's share price is strongly backed by a RNAV of RM2.33/share (0.6x RNAV) and 8.3x FY07 PE. For every RM1psf (or 13%) rise in land prices, UEMW's RNAV will jump by 40 sen/share (or 17.2%). We are not attaching a discount to RNAV as we anticipate price upgrades on winning new large infrastructure projects, more aggressive property sales and the capital appreciation of its landbank in Johor.

- **Super-cycle target price is at RM8.35**, based on land price of RM20psf.

BUY

Sector	Construction
Bloomberg	UEM MK
Website	www.uemworld.com
Exchange Rate	3.690/US$
52-Wk Range (RM)	2.10/0.31
52-Wk Avg Daily Vol. ('000)	5,204
No. of Shares (m)	1,381.1
Market Cap(RMm)	1,790.6
(US$m)	485.3
Major Shareholders (%)	
Khazanah	50.8
NTA per Share (RM)	0.53
ROE (%)	n.m
Net Debt per Share (RM)	3.02
Alternative Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2005	18.1
2006F	14.4
Malaysia Research Team	
	☎ (603) 2143 1180

Year to 31 Dec	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2004	2,863.0	301.7	63.5	4.6	(87.1)	28.0	17.0	1.0
2005	3,257.3	329.6	(103.1)	(7.4)	n.a	n.a	16.3	1.0
2006F	3,977.0	594.7	179.7	12.9	n.a	10.0	8.8	1.5
2007F	4,723.0	685.0	216.7	15.6	20.6	8.3	7.2	2.0
2008F	4,721.2	663.6	194.7	14.0	(10.1)	9.2	6.8	2.5

Balance Sheet

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Fixed Asset	1,069.3	1,259.8	1,226.5	1,191.1	1,150.6
Investment & Real Properties	2,272.1	2,275.3	2,275.3	2,275.3	2,275.3
Development Properties	15.3	15.6	15.6	15.6	15.6
Concession Asset	788.6	784.4	817.9	817.9	817.9
Associates/Joint Ventures	533.0	322.8	322.8	322.8	322.8
Intangibles	21.7	257.9	257.9	257.9	257.9
Investments	78.4	66.3	66.3	66.3	66.3
Others	79.4	103.4	103.4	103.4	103.4
Current Assets	**2,809.5**	**3,455.0**	**3,351.1**	**3,646.5**	**3,703.2**
Stocks	223.7	338.9	382.1	453.8	453.6
Trade Debtors	1,088.6	1,555.8	1,614.3	1,889.2	1,888.5
Bank Deposits & Cash	909.1	983.9	778.2	727.1	784.7
Development Properties	499.4	497.9	497.9	497.9	497.9
Loans to Subsidiaries/Associates/Holdings	1.8	37.9	37.9	37.9	37.9
Others	86.9	40.7	40.7	40.7	40.7
Total Assets	**7,667.5**	**8,540.5**	**8,436.7**	**8,696.8**	**8,713.0**
Current Liabilities	**2,385.9**	**2,503.4**	**2,334.3**	**2,203.9**	**1,856.4**
Trade Creditors	896.0	1,002.3	1,158.9	1,376.3	1,375.7
Borrowings	1,190.6	1,034.8	707.0	359.3	12.3
Provisions	113.8	340.7	340.7	340.7	340.7
Loans to Subsidiaries/Associates/Holdings	166.2	97.7	97.7	97.7	97.7
Others	19.3	28.0	30.0	30.0	30.0
Long Term Loans	1,166.3	1,605.9	1,605.9	1,605.9	1,605.9
Bonds	1,879.1	1,916.8	1,916.8	1,916.8	1,916.8
Other Long Term Liabilities	235.3	265.7	61.0	124.1	182.9
Total Debt	**4,236.1**	**4,557.5**	**4,229.7**	**3,882.0**	**3,535.0**
Net Cash/(Debt)	**(3,327.0)**	**(3,573.6)**	**(3,451.5)**	**(3,154.9)**	**(2,750.3)**
Shareholders' Funds	**1,121.2**	**990.7**	**1,155.4**	**1,352.1**	**1,521.8**
Share Capital	1,388.1	1,388.1	1,388.1	1,388.1	1,388.1
Reserves	(266.9)	(397.4)	(232.7)	(36.0)	133.7
Share Premium & Capital Reserves	395.5	381.9	381.9	381.9	381.9
Retained Profits & General Reserves	(662.4)	(779.3)	(614.6)	(417.9)	(248.2)
Minority Interests	879.6	1,257.9	1,363.4	1,494.1	1,629.2
Total Liabilities	**7,667.5**	**8,540.5**	**8,436.7**	**8,696.8**	**8,713.0**

Profit & Loss

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Total Turnover	2,863.0	3,257.3	3,977.0	4,723.0	4,721.2
Engineering & Construction (UEM Builders & Opus)	2,138.4	1,983.4	1,916.3	2,372.1	2,495.5
Healthcare (Pharmaniaga)	0.0	400.1	1,024.5	1,096.2	1,151.0
Environmental Services	104.9	104.4	104.4	104.4	104.4
Property	53.7	208.4	350.0	550.0	350.0
Manufacturing (CIMA)	566.0	561.1	581.8	600.3	620.3
Less: COGS	(2,561.3)	(2,927.7)	(3,382.3)	(4,038.0)	(4,057.6)
EBITDA	301.7	329.6	594.7	685.0	663.6
Less: Depreciation	(111.3)	(118.9)	(133.4)	(135.4)	(140.6)
EBIT (Operating Profit)	190.5	210.7	461.4	549.7	523.1
Net Interest & Investment Income	(85.7)	(92.0)	(115.3)	(117.2)	(115.0)
Exceptional Items	0.0	(284.6)	0.0	0.0	0.0
Associates	55.6	(1.0)	50.0	50.0	50.0
Pre-tax Profit	**160.4**	**(167.0)**	**396.0**	**482.5**	**458.1**
Engineering & Construction (UEM Builders & Opus)	176.5	(181.4)	197.1	254.8	285.3
Healthcare (Pharmaniaga)	24.5	20.8	46.2	43.2	49.5
Environmental Services	(10.9)	10.3	10.3	10.3	10.3
Property	(40.0)	47.5	106.9	125.0	55.0
Manufacturing (CIMA)	19.4	(14.8)	53.0	64.1	73.0
Investment	15.5	(22.2)	(2.5)	0.0	0.0
Eliminations	(24.7)	(27.1)	(15.0)	(15.0)	(15.0)
Less: Taxation	(32.9)	(38.4)	(110.9)	(135.1)	(128.3)
Effective Tax Rate (%)	(20.5)	23.0	(28.0)	(28.0)	(28.0)
Profit After Tax	127.5	(205.4)	285.1	347.4	329.8
Minorities	(64.0)	102.3	(105.4)	(130.7)	(135.1)
Net Profit	**63.5**	**(103.1)**	**179.7**	**216.7**	**194.7**

Cash Flow

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Operating	**178.1**	**110.9**	**538.6**	**420.8**	**535.7**
EBIT	190.5	210.7	461.4	549.7	523.1
Depreciation	111.3	118.9	133.4	135.4	140.6
Working Capital	86.7	(580.6)	54.8	(129.2)	0.4
Income Tax Paid	(103.1)	(42.5)	(110.9)	(135.1)	(128.3)
Others	(107.3)	404.4	0.0	0.0	0.0
Investing	**(140.2)**	**(378.3)**	**(96.4)**	**(96.4)**	**(96.4)**
Capex	(62.7)	(114.0)	(100.0)	(100.0)	(100.0)
Concession Assets	(10.6)	(13.0)	0.0	0.0	0.0
Acquisitions/Associates	(87.0)	(238.9)	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	20.4	13.0	0.0	0.0	0.0
Others	3.6	(12.1)	3.6	3.6	3.6
Financing	**51.2**	**120.7**	**(348.6)**	**(375.5)**	**(381.7)**
Share Issue	0.0	469.7	0.0	0.0	0.0
Debt Repayment	(153.5)	(1,704.4)	(327.8)	(347.8)	(347.0)
Proceed from Borrowings	246.4	1,585.7	0.0	0.0	0.0
Dividends Paid	(7.9)	(13.9)	(20.8)	(27.8)	(34.7)
Others	(33.8)	(216.4)	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**89.1**	**(146.7)**	**93.7**	**(51.1)**	**57.6**
Forex Translations	4.9	(0.8)	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**738.0**	**832.0**	**684.5**	**778.2**	**727.1**
Ending Cash & Cash Equivalent	**832.0**	**684.5**	**778.2**	**727.1**	**784.7**
Adjustments	77.0	299.3	299.3	299.3	299.3
Ending Cash After Adjustments	**909.1**	**983.9**	**1,077.5**	**1,026.4**	**1,084.0**

Ratios

Year to 31 Dec (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	695.7	13.8	22.1	18.8	(0.0)
EBITDA	1,265.1	9.2	80.5	15.2	(3.1)
Pre-tax Profit	(54.1)	(204.1)	(337.1)	21.8	(5.0)
Net Profit	(79.8)	(262.5)	(274.3)	20.6	(10.1)
EPS	(87.1)	(260.9)	(274.9)	20.6	(10.1)
Profitability					
EBITDA Margin	10.5	10.1	15.0	14.5	14.1
Pre-tax Margin	5.6	(5.1)	10.0	10.2	9.7
Net Margin	2.2	(3.2)	4.5	4.6	4.1
ROA	0.9	(1.3)	2.1	2.5	2.2
ROE	5.8	(9.8)	16.7	17.3	13.6
Leverage					
Total Debt/Total Asset	55.2	53.4	50.1	44.6	40.6
Total Debt/Equity	377.8	460.0	366.1	287.1	232.3
Net Cash (Debt)/Equity	(296.7)	(360.7)	(298.7)	(233.3)	(180.7)
Interest Cover (x)	1.8	1.6	3.0	3.5	3.4

Price Range

	2003	2004	2005	2006*
Price (RM)				
High	2.26	1.76	1.01	2.10
Low	0.32	0.95	0.31	0.34
PE (x)				
High	10.0	21.7	n.m	16.2
Low	1.4	2.7	n.m	2.6

** Forecast PE*

Land Price – RNAV Sensitivity Table

Land Price (RM psf)	RNAV/Share (RM)	Mixed Development for
7.50	2.33	Johor
10.00	3.54	-
20.00	**8.35**	**Shah Alam, Selangor**
30.00	13.17	Bayan Lepas, Penang
60.00	27.61	Damansara, Selangor
100.00	46.87	Singapore*
300.00	143.17	Singapore^

** Industrial land*
^ Mixed development

Tebrau Teguh

Current : RM0.285
Target (12-mth) : RM1.67

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 Johor-Singapore Causeway and accessible via North-South Highway. Tebrau Teguh is 42%-owned by Johor's state government development arm, Kumpulan Prasarana Rakyat Johor Sdn Bhd (KPRJ).

OUTLOOK/RECOMMENDATION

- **High redevelopment potential and commercial value,** given the strategic location of Tebrau Teguh's landbank just 5km away from the city centre. Recent transaction of commercial land in Johor Bahru city centre was done at RM110psf. In addition, the Johor State Government is asking for RM380m, or RM221psf, 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 RM13.40psf. Its land value is further enhanced by the waterfront feature (stretching 26km) which allows its properties to be priced at a premium. Management is reviewing its Old Masterplan. To take advantage of SJER's development and its valuable landbank, Tebrau Teguh has started to shift its focus from medium-cost residential development to high-end products.

- **Highly leveraged to land price appreciation.** Tebrau Teguh's landbank is entirely in Johor, constituting a substantial 93% of its total revalued assets. A 10% appreciation in land price will enhance Tebrau Teguh's RNAV by 11.1% to RM1.85 (from RM1.67). The Ninth Malaysia Plan 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 trades at only 0.5x P/NTA and a massive 77% discount to our RNAV of RM1.67, vs a 45% discount for the property sector. Its valuation is attractive more so because of its strategic landbank and debt-free balance sheet. There is an additional 1,150-acre landbank parked under KPRJ. This could represent potential upside to Tebrau Teguh if KPRJ decides to inject the land into Tebrau Teguh for development.

- **Initiate coverage with BUY; target price at RM1.67.** This is based on land price of RM28psf for its 1,012 acres landbank. Super-cycle target price is at RM7.06, based on land price of RM110psf.

BUY

Sector	Property
Bloomberg	TEB MK
Website	NIL
Exchange Rate	3.690/US$
52-Wk Range (RM)	0.46/0.10
52-Wk Avg Daily Vol. ('000)	3,676
No. of Shares (m)	669.7
Market Cap(RMm)	190.9
(US$m)	51.7
Major Shareholders (%)	
Kumpulan Prasarana & Rakyat Johor	42.4
NTA per Share (RM)	0.71
ROE (%)	n.a
Net Debt per Share (RM)	0.01
Alternative Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2005	18.1
2006F	14.4
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)
2004	60.8	(31.8)	(26.8)	(4.0)	n.m	n.m	n.m	0.0
2005	34.2	(1.9)	0.1	0.0	n.m	n.m	n.m	0.0
2006F	47.4	3.4	2.7	0.4	n.m	71.7	55.5	0.0
2007F	53.3	5.2	3.9	0.6	47.1	48.8	35.9	0.0
2008F	57.4	5.7	4.3	0.6	8.8	44.8	32.1	0.0

Balance Sheet

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Fixed Asset	4.8	4.3	4.4	4.6	4.8
Associates	2.3	2.7	2.7	2.7	2.7
Intangibles	0.0	0.0	0.0	0.0	0.0
Investments	1.6	1.7	1.7	1.7	1.7
Land Under Development	189.0	189.0	189.0	189.0	189.0
Others	0.9	0.1	0.1	0.1	0.1
Current Assets	**489.0**	**480.3**	**491.4**	**492.7**	**492.5**
Stocks	1.1	0.7	1.1	1.3	1.4
Trade Debtors	42.2	27.5	48.2	54.2	58.4
Bank Deposits & Cash	9.4	22.2	17.0	17.2	17.6
Property development Cost	409.7	406.0	401.0	396.0	391.0
Loans to Subsidiaries/Associates/Holdings	0.0	0.0	0.0	0.0	0.0
Others	26.5	24.0	24.0	24.0	24.0
Total Assets	**687.6**	**678.0**	**689.2**	**690.8**	**690.7**
Current Liabilities	**59.0**	**50.7**	**64.5**	**70.7**	**74.9**
Trade Creditors	41.1	29.8	49.0	55.1	59.4
Borrowings	6.2	5.8	0.5	0.5	0.5
Others	11.7	15.1	15.0	15.0	15.0
Long Term Loans	15.0	14.7	14.7	11.6	8.4
Other Long Term Liabilities	140.2	139.8	134.5	129.1	123.7
Total Debt	**21.2**	**20.5**	**15.2**	**12.1**	**8.9**
Net Cash/(Debt)	**(11.7)**	**1.7**	**1.8**	**5.1**	**8.7**
Shareholders' Funds	**472.8**	**472.8**	**475.5**	**479.4**	**483.7**
Share Capital	334.9	334.9	334.9	334.9	334.9
Reserves	137.9	138.0	140.6	144.5	148.8
Share Premium & Capital Reserves	225.8	225.8	225.8	225.8	225.8
Retained Profits & General Reserves	(87.9)	(87.9)	(85.2)	(81.3)	(77.0)
Total Liabilities	**686.9**	**678.0**	**689.2**	**690.8**	**690.7**

Cash Flow

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Operating	**(13.3)**	**13.7**	**0.4**	**3.6**	**4.0**
EBIT	(32.4)	(2.5)	2.8	4.5	5.0
Depreciation	0.6	0.6	0.6	0.6	0.7
Working Capital	14.7	3.9	(2.0)	(0.0)	(0.0)
Income Tax Paid	(1.0)	(0.0)	(1.0)	(1.5)	(1.7)
Others	4.7	11.7	0.0	0.0	0.0
Investing	**(0.8)**	**0.4**	**(0.2)**	**(0.3)**	**(0.3)**
CAPEX	(1.6)	(0.2)	(0.8)	(0.8)	(0.8)
Acquisitions/Associates	0.0	0.0	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	0.5	0.4	0.4	0.3	0.3
Others	0.3	0.2	0.2	0.2	0.2
Financing	**13.1**	**(1.4)**	**(5.3)**	**(3.1)**	**(3.2)**
Share Issue	0.0	0.0	0.0	0.0	0.0
Debt Repayment	(10.0)	(3.7)	(5.3)	(3.1)	(3.2)
Proceed from Borrowings	23.1	3.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Others	(0.0)	(0.7)	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**(1.0)**	**12.7**	**(5.2)**	**0.2**	**0.5**
Forex Translations	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Beginning Cash & Cash Equivalent	**10.4**	**9.4**	**22.2**	**17.0**	**17.2**
Ending Cash & Cash Equivalent	**9.4**	**22.2**	**17.0**	**17.2**	**17.6**
Adjustments	(0.0)	0.0	0.0	0.0	0.0
Ending Cash After Adjustments	**9.4**	**22.2**	**17.0**	**17.2**	**17.6**

Price Range

	2003	2004	2005	2006*
Price (RM)				
High	0.23	0.42	0.21	0.46
Low	0.22	0.19	0.10	0.10
PE (x)				
High	19.2	20.0	n.a	115.8
Low	18.5	8.3	n.a	25.2

** Forecast PE*

Profit & Loss

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Total Turnover	60.8	34.2	47.4	53.3	57.4
Less: COGS	(92.6)	(36.1)	(44.0)	(48.1)	(51.8)
EBITDA	(31.8)	(1.9)	3.4	5.2	5.7
Less: Depreciation	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)
EBIT (Operating Profit)	(32.4)	(2.5)	2.8	4.5	5.0
Net Interest & Investment Income	3.3	2.6	0.9	0.9	0.9
Interest Expense	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Interest Income	0.3	0.4	0.0	0.0	0.0
Investment Income	3.0	2.3	1.0	1.0	1.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Associates	2.7	0.0	0.0	0.0	0.0
Pre-tax Profit	**(26.4)**	**0.1**	**3.7**	**5.4**	**5.9**
Less: Taxation	(0.4)	(0.0)	(1.0)	(1.5)	(1.7)
Effective Tax Rate (%)	1.4	(24.7)	(28.0)	(28.0)	(28.0)
Net Profit	**(26.8)**	**0.1**	**2.7**	**3.9**	**4.3**

Ratios

Year to 31 Dec (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	(45.6)	(43.7)	38.4	12.5	7.7
EBITDA	(49.9)	(94.1)	(280.9)	51.9	9.7
Pre-tax Profit	n.m	n.m	n.m	47.1	8.8
Net Profit	n.m	n.m	n.m	47.1	8.8
EPS	n.m	n.m	n.m	47.1	8.8
Profitability					
EBITDA Margin	(52.2)	(5.5)	7.2	9.7	9.9
Pre-tax Margin	(43.5)	0.2	7.8	10.2	10.3
Net Margin	(44.1)	0.2	5.6	7.3	7.4
ROA	(3.8)	0.0	0.4	0.6	0.6
ROE	(5.5)	0.0	0.6	0.8	0.9
Leverage					
Total Debt/Total Asset	3.1	3.0	2.2	1.8	1.3
Total Debt/Equity	4.5	4.3	3.2	2.5	1.8
Net Cash (Debt)/Equity	(2.5)	0.4	0.4	1.1	1.8
Interest Cover (x)	(688.5)	(21.9)	28.0	45.4	50.1

RNAV

	Acres	NBV (RMm)	Market Value (RMm)	Market Value (RMpsf)	Surplus/ (Deficit) (RMm)
Plentong-Tebrau	1,011.6	590.9	1,233.8	28.00	642.8
Shareholders' Funds @ 31/12/05					472.5
RNAV					**1,115.3**
No. of Shares (m)					669.7
RNAV/Share (RM)					**1.67**

Mulpha International

Current : RM1.07
Target (12-mth) : RM2.80

BACKGROUND

Mulpha International (MIT) owns Leisure Farm, a 1,765-acre enclave in Nusajaya, which is nearest to the Johor-Singapore Second Crossing. 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 (GDV) of RM1.6b.

OUTLOOK/RECOMMENDATION

- **Strong repricing potential.** As the owner of a large tract of land in South Johor, MIT is set to benefit from rising FDIs into Johor and the RM12.2b investment in South Johor Economic Region under the Ninth Malaysia Plan. 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 RM4.50psf in MIT's book, although land prices have trended up significantly (bungalow lots are now going for RM50psf). Assuming land prices reach Damansara's (Selangor) RM60psf, MIT RNAV will leap by 19.3% to RM3.34 from RM2.80 (based on land price of RM35psf for the remaining Leisure Farm landbank).

- **Competitive globally.** MIT has leveraged on its expertise abroad to become Malaysia's largest real estate investor and developer in Australia. The company owns world-class assets that include Sanctuary Cove in Queensland, InterContinental Hotel in Sydney, Hilton Melbourne Airport, Norwest Business Park in Sydney, and the world-renowned and award-winning Hayman Island on the Great Barrier Reef. Leisure Farm has been modelled after the successful Sanctuary Cove and has won Fiabci's Malaysia Property Awards for the Masterplan Category in 2005.

- **Downside risk mitigated by distressed valuation and aggressive capital management.** MIT trades at a huge 62% discount to our RNAV of RM2.80 and also below its NTA (P/NTA 0.7x), which has led the company to aggressively buy back its shares for cancellation. MIT has bought back 203.6m shares to date, and cancelled 139.4m Treasury shares in May 05, or 11.1% of its issued share capital.

- **Initiate coverage with BUY; target price at RM2.80.** This is based on land price of RM35psf for its remaining 800 acres landbank in Leisure Farm. Super-cycle target price is at RM3.34, based on land price of RM60psf.

BUY

Sector	Property
Bloomberg	MIT MK
Website	www.mulpha.com.my
Exchange Rate	3.690/US$
52-Wk Range (RM)	1.27/0.52
52-Wk Avg Daily Vol. ('000)	1,252
No. of Shares (m)	1,255.0
Market Cap(RMm)	1,342.8
(US$m)	363.9
Major Shareholders (%)	
Nautical Investment Ltd	21.7
NTA per Share (RM)	1.57
ROE (%)	18.1
Net Debt per Share (RM)	0.49
Alternative Instruments	
Warrant 2010	Ex-Price: RM1.50
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2005	18.1
2006F	14.4
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)
2004	1,324.4	164.6	44.4*	2.8	(42.5)	38.6	17.9	0.0
2005	1,233.0	159.7	38.2*	2.4	(13.8)	44.8	13.3	0.0
2006F	824.4	122.5	16.0	1.0	(58.2)	107.3	16.4	0.0
2007F	879.9	135.6	27.6	1.7	72.9	62.0	14.2	0.0
2008F	939.3	147.4	38.3	2.4	38.5	44.8	12.5	0.0

** Excluding exception items*

Balance Sheet

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Fixed Asset	1,493.9	1,382.4	1,354.0	1,327.0	1,301.3
Associates	53.6	252.1	252.1	252.1	252.1
Intangibles	48.4	11.3	15.2	15.2	15.2
Investments	98.4	208.7	278.5	278.5	278.5
Land Under Development	1,051.1	612.9	602.9	602.9	602.9
Others	2.5	10.5	10.5	10.5	10.5
Current Assets	**1,363.9**	**808.4**	**715.2**	**690.4**	**674.4**
Stocks	108.6	75.9	70.9	75.6	80.7
Trade Debtors	311.8	218.0	177.1	189.0	201.8
Bank Deposits & Cash	156.6	249.0	256.3	234.8	220.9
Property Development Cost	364.0	231.0	211.0	191.0	171.0
Loans to Subsidiaries/Associates/Holdings	0.0	0.0	0.0	0.0	0.0
Others	422.9	34.6	0.0	0.0	0.0
Total Assets	**4,111.9**	**3,286.3**	**3,228.4**	**3,176.6**	**3,134.9**
Current Liabilities	**786.3**	**304.1**	**302.1**	**313.9**	**326.7**
Trade Creditors	349.0	178.5	176.3	188.2	200.9
Borrowings	410.6	106.7	106.7	106.7	106.7
Others	26.7	18.9	19.0	19.0	19.0
Long Term Loans	1,214.6	778.6	672.8	577.8	482.8
Other Long Term Liabilities	223.0	73.8	139.7	170.5	195.5
Total Debt	**1,625.1**	**885.4**	**779.6**	**684.6**	**589.6**
Net Cash/(Debt)	**(1,468.6)**	**(636.4)**	**(523.3)**	**(449.8)**	**(368.7)**
Shareholders' Funds	**1,743.5**	**1,992.4**	**1,969.8**	**1,958.8**	**1,958.4**
Share Capital	697.2	627.5	627.5	627.5	627.5
Reserves	1,046.3	1,364.9	1,342.3	1,331.3	1,330.9
Share Premium & Capital Reserves	992.7	939.3	939.3	939.3	939.3
Retained Profits & General Reserves	53.7	425.6	403.0	392.0	391.6
Minority interest	144.5	137.4	144.0	155.5	171.4
Total Equity & Liabilities	**4,111.9**	**3,286.3**	**3,228.4**	**3,176.6**	**3,134.9**

Cash Flow

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Operating	**(20.9)**	**117.0**	**160.6**	**121.0**	**128.7**
EBIT	96.9	95.5	54.1	68.6	81.7
Depreciation	67.7	64.2	68.4	67.0	65.7
Working Capital	(102.7)	114.9	43.8	(4.8)	(5.2)
Income Tax Paid	(53.9)	7.6	(5.7)	(9.8)	(13.5)
Others	(28.8)	(165.3)	0.0	0.0	0.0
Investing	**(542.7)**	**659.9**	**(40.0)**	**(40.0)**	**(40.0)**
CAPEX	(64.7)	(42.2)	(40.0)	(40.0)	(40.0)
Acquisitions/Associates	(620.1)	254.2	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	137.0	534.1	0.0	0.0	0.0
Others	5.1	(86.1)	0.0	0.0	0.0
Financing	**562.8**	**(678.9)**	**(113.3)**	**(102.5)**	**(102.5)**
Share Issue	0.0	(19.9)	0.0	0.0	0.0
Debt Repayment	(7.3)	(643.6)	(105.8)	(95.0)	(95.0)
Proceed from Borrowings	549.8	0.0	0.0	0.0	0.0
Dividends Paid	(7.2)	(7.5)	(7.5)	(7.5)	(7.5)
Others	27.5	(7.8)	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**(0.8)**	**98.0**	**7.3**	**(21.5)**	**(13.9)**
Forex Translations	2.4	0.0	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**135.9**	**137.6**	**249.0**	**256.3**	**234.8**
Ending Cash & Cash Equivalent	**137.6**	**235.5**	**256.3**	**234.8**	**220.9**
Adjustments	**(19.0)**	**(13.4)**	**0.0**	**0.0**	**0.0**
Ending Cash After Adjustments	**156.6**	**249.0**	**256.3**	**234.8**	**220.9**

Price Range

	2003	2004	2005	2006*
Price (RM)				
High	0.57	0.87	0.68	1.27
Low	0.33	0.46	0.48	0.59
PE (x)				
High	8.1	14.9	11.3	127.4
Low	7.8	7.8	2.2	59.2

** Forecast PE*

Profit & Loss

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Total Turnover	1,324.4	1,233.0	824.4	879.9	939.3
Property	401.9	505.8	285.2	313.8	345.1
Hospitality	557.9	441.7	312.3	327.9	344.3
Manufacturing	253.1	189.4	162.7	170.8	179.3
General Trading	106.4	89.3	58.8	61.7	64.8
Others	5.0	6.8	5.5	5.7	5.8
Less: COGS	(1,159.8)	(1,073.3)	(702.0)	(744.3)	(791.9)
EBITDA	164.6	159.7	122.5	135.6	147.4
Less: Depreciation	(67.7)	(64.2)	(68.4)	(67.0)	(65.7)
EBIT (Operating Profit)	96.9	95.5	54.1	68.6	81.7
Interest Expense	(74.6)	(83.7)	(58.3)	(52.7)	(47.1)
Investment Income	24.3	23.3	11.7	11.9	12.1
Exceptional Items	31.0	298.7	0.0	0.0	0.0
Associates	11.1	11.9	13.8	13.8	13.8
Pre-tax Profit	**95.1**	**356.9**	**28.3**	**48.9**	**67.7**
Less: Taxation	(12.9)	(13.2)	(5.7)	(9.8)	(13.5)
Effective Tax Rate (%)	(13.5)	(3.7)	(20.0)	(20.0)	(20.0)
Minorities	(6.8)	(6.6)	(6.6)	(11.5)	(15.9)
Net Profit	**75.4**	**337.0**	**16.0**	**27.6**	**38.3**

Ratios

Year to 31 Dec (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	37.1	(6.9)	(33.1)	6.7	6.8
EBITDA	0.5	(2.9)	(23.3)	10.7	8.7
Pre-tax Profit	(10.2)	275.3	(92.1)	72.9	38.5
Net Profit	(2.3)	346.9	(95.3)	72.9	38.5
EPS	(42.5)	(13.8)	(58.2)	72.9	38.5
Profitability					
EBITDA Margin	12.4	13.0	14.9	15.4	15.7
Pre-tax Margin	7.2	28.9	3.4	5.6	7.2
Net Margin	5.7	27.3	1.9	3.1	4.1
ROA	2.3	9.1	0.5	0.9	1.2
ROE	4.5	18.0	0.8	1.4	2.0
Leverage					
Total Debt/Total Asset	39.5	26.9	24.1	21.6	18.8
Total Debt/Equity	93.2	44.4	39.6	34.9	30.1
Net Cash (Debt)/Equity	(84.2)	(31.9)	(26.6)	(23.0)	(18.8)
Interest Cover (x)	1.3	1.1	0.9	1.3	1.7

RNAV

	(RMm)
Surplus/(Deficit):	
Listed Companies	144.8
Malaysian Properties	1,085.8
Australian Properties	742.4
	1,973.0
Net Asset @ 31/3/06	1,989.4
RNAV	**3,718.5**
Warrant Conversion Proceeds @ RM1.50/share	522.9
Fully Diluted RNAV	**4,485.3**
Fully Diluted No. of Shares (m)	1,603.6
RNAV/Share (RM)	**2.80**

MMC Corporation

Current : RM3.06
Target (12-mth) : RM5.00

BACKGROUND

MMC Corporation is a high-growth infrastructure & energy conglomerate, 51.8%-owned by Tan Sri Dato' Syed Mokhtar. It controls two key seaports in South Johor, Port of Tanjung Pelepas (PTP) (container) and Johor Port (bulk). MMC also provides infrastructure engineering and construction services. Its track record includes the RM2b Stormwater Management & Road Tunnel (SMART) project, a flood mitigation project for Kuala Lumpur. In energy, MMC is involved in power generation (owns 22.3% of Malakoff) and natural gas distribution (owns 48.1% of Gas Malaysia).

OUTLOOK/RECOMMENDATION

- **Port throughput volumes to rise substantially.** PTP is one of the world's fastest-growing ports. Throughput volumes rose strongly from zero to 4.2m TEUs in just five years (2000-05) as Maersk Sealand and Evergreen (world's largest and third-largest shipping lines respectively) have chosen PTP as their Southeast Asian hubs. Further growth will come from Flextronics, JST Manufacturing and CIBA Vision, which are building their manufacturing facilities nearby. In addition, the development of SJER will attract substantially more local and foreign investments and boost economic activities. To meet surging demand, PTP is raising capacity by 33% to 8m TEUs by 3Q06 from 6m TEUs in 2005 and 4.5m TEUs in 2004.

- **Power business to grow rapidly in the next three years.** Malakoff's new Tanjung Bin coal-fired power plant in Johor will start operations in Sep 06. By end-07, Tanjung Bin will increase Malakoff's effective generation capacity by 65% to 5,020MW. Meanwhile, Gas Malaysia will benefit from its aggressive pipeline expansion plans and from customers switching to gas due to high oil prices.

- **3-year earnings CAGR at 32.6%.** MMC's rapid earnings growth will be driven by the following: a) a 52.4% increase in PTP's throughput volumes, b) acquisition of Johor Port at 7.4x PE (excluding net cash), and c) Malakoff's 3-year earnings CAGR of 21.0%. If MMC's plans to privatise Malakoff are successful, its 3-year CAGR could rise to 41.4%.

- **Initiate coverage with BUY; target price at RM5.00.** MMC currently trades at only 0.6x price/RNAV and 12.9x FY07 PE.

BUY

Sector	Infrastructure
Bloomberg	MMC MK
Website	www.mmc.com.my
Exchange Rate	3.690/US$
52-Wk Range (RM)	3.96/1.89
52-Wk Avg Daily Vol. ('000)	959
No. of Shares (m)	1,522.5
Market Cap(RMm)	4,658.9
(US$m)	1,262.6
Major Shareholders (%)	
Syed Mokhtar Shah bin Syed Nor	51.8
NTA per Share (RM)	1.32
ROE (%)	10.7
Net Debt per Share (RM)	1.81
Alternative Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2005	18.1
2006F	14.4
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)
2004	1,378.5	412.2	182.8*	12.0	76.4	25.0	18.8	6.0
2005	1,929.1	488.5	185.7*	12.2	1.6	24.6	15.0	6.0
2006F	2,326.0	632.9	251.7	16.5	35.5	18.1	12.3	7.0
2007F	2,828.4	825.7	354.9	23.3	41.0	12.9	9.2	8.0
2008F	3,055.3	875.5	433.4	28.5	22.1	10.5	8.4	9.0

Consensus net profit – FY06: RM246.6m
– FY07: RM328.5m

** Excludes exceptional gains*

Balance Sheet

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Fixed Asset	3,258.4	3,563.0	5,111.8	5,346.6	5,541.3
Associates	1,426.6	1,494.1	1,494.1	1,494.1	1,494.1
Intangibles	1,765.5	1,737.7	1,386.8	1,386.8	1,386.8
Investments	0.0	0.0	0.3	0.0	0.0
Deferred Expenditure	12.6	9.1	9.1	9.1	9.1
Others	14.1	105.9	150.0	150.0	150.0
Current Assets	**1,008.1**	**998.3**	**1,738.3**	**1,777.8**	**1,854.6**
Stocks	32.0	31.1	38.8	47.1	50.9
Trade Debtors	399.9	393.7	581.5	628.5	679.0
Bank Deposits & Cash	362.4	447.5	477.0	436.1	458.8
Investments	188.9	85.2	85.2	85.2	85.2
Loans to Subsidiaries/Assoiates	0.0	40.8	15.8	40.8	40.8
Others	24.9	0.0	540.0	540.0	540.0
Total Assets	**7,485.3**	**7,908.0**	**9,890.3**	**10,164.4**	**10,435.9**
Current Liabilities	**750.2**	**981.9**	**1,237.3**	**1,279.9**	**1,336.6**
Trade Creditors	349.1	411.8	664.6	707.1	763.8
Borrowings	391.1	547.4	547.4	547.4	547.4
Others	10.1	22.6	25.4	25.4	25.4
Long-Term Loans	2,873.2	2,511.4	3,011.4	2,761.4	2,511.4
Redeemable Convertible Subordinated Loans	263.4	158.4	158.4	158.4	158.4
Redeemable Preference Shares	0.0	67.0	67.0	67.0	67.0
Other Long-Term Liabilities	93.8	154.4	298.0	405.5	418.6
Total Debt	**3,527.7**	**3,217.1**	**3,717.1**	**3,467.1**	**3,217.1**
Net Cash/(Debt)	**(3,165.3)**	**(2,769.6)**	**(3,240.1)**	**(3,031.0)**	**(2,758.4)**
Shareholders' Funds	**3,335.7**	**3,751.8**	**4,247.8**	**4,480.8**	**4,777.2**
Share Capital	112.7	152.3	152.3	152.3	152.3
Reserves	3,223.1	3,599.5	4,095.5	4,328.6	4,624.9
Share Premium & Capital Reserves	1,606.7	2,224.0	2,224.0	2,224.0	2,224.0
Retained Profits & General Reserves	1,616.4	1,375.5	1,871.5	2,104.5	2,400.9
Minority Interests	168.9	283.3	870.5	1,011.4	1,166.8
Total Liabilities	**7,485.3**	**7,908.0**	**9,890.3**	**10,164.4**	**10,435.9**

Cash Flow

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Operating	**447.5**	**580.1**	**746.8**	**859.5**	**918.5**
EBIT	232.8	299.9	437.7	590.3	630.5
Depreciation	141.1	152.3	195.2	235.3	245.0
Working Capital	9.4	70.5	57.3	(12.9)	2.5
Income Tax Paid	(5.3)	(23.1)	(23.4)	(33.3)	(39.5)
Others	69.6	80.5	80.0	80.0	80.0
Investing	**29.8**	**(161.9)**	**(914.1)**	**(330.0)**	**(330.0)**
CAPEX	(270.9)	(464.9)	(430.0)	(430.0)	(430.0)
Acquisitions/Associates	(7.0)	(105.0)	(584.1)	0.0	0.0
Proceeds from Sale of Fixed Assets	203.8	325.8	0.0	0.0	0.0
Others	104.0	82.2	100.0	100.0	100.0
Financing	**(362.2)**	**(332.4)**	**198.3**	**(570.4)**	**(565.9)**
Share Issue	0.0	0.0	0.0	0.0	0.0
Debt Repayment	(358.0)	(529.5)	(200.0)	(300.0)	(300.0)
Proceed from Borrowings	225.1	322.7	700.0	50.0	50.0
Dividends Paid	(46.9)	(48.7)	(76.7)	(87.7)	(98.7)
Others	(182.4)	(77.0)	(225.0)	(232.7)	(217.2)
Net Cash Inflow/(Outflow)	**115.1**	**85.8**	**31.0**	**(40.9)**	**22.6**
Forex Translations	(6.2)	1.9	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**249.5**	**358.3**	**446.0**	**477.0**	**436.1**
Ending Cash & Cash Equivalent	**358.3**	**446.0**	**477.0**	**436.1**	**458.8**
Adjustments	4.1	1.5	2.5	2.5	2.5
Ending Cash After Adjustments	**362.4**	**447.5**	**479.5**	**438.6**	**461.3**

Price Range

	2003	2004	2005	2006*
Price (RM)				
High	3.16	2.42	2.38	3.96
Low	1.86	1.80	1.89	1.97
PE (x)				
High	24.5	20.2	19.5	24.0
Low	9.6	15.0	15.5	11.9

** Forecast PE*

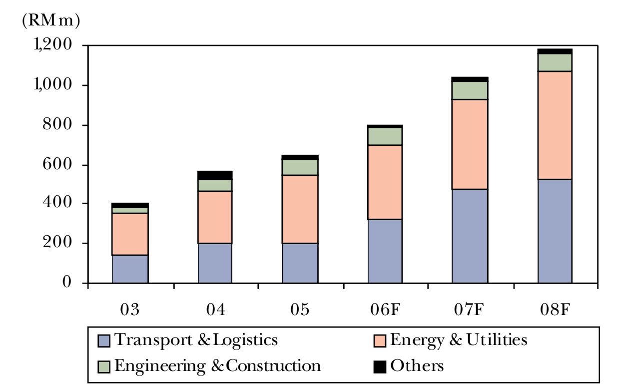
Profit & Loss

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Total Turnover	1,378.5	1,929.1	2,326.0	2,828.4	3,055.3
Transport & Logistics	490.1	544.2	827.6	1,152.2	1,242.7
Energy & Utilities	661.0	1,047.6	1,307.1	1,485.0	1,621.4
Engineering & Construction	175.6	296.0	150.0	150.0	150.0
Others	51.8	41.2	41.2	41.2	41.2
Less: COGS	(966.3)	(1,440.6)	(1,693.0)	(2,002.8)	(2,179.8)
EBITDA	412.2	488.5	632.9	825.7	875.5
Less: Depreciation & Amortisation	(179.4)	(188.6)	(195.2)	(235.3)	(245.0)
EBIT (Operating Profit)	232.8	299.9	437.7	590.3	630.5
Transport & Logistics	199.6	204.7	327.6	478.2	527.3
Energy & Utilities	99.0	162.9	193.1	219.4	239.6
Engineering & Construction	16.4	38.1	38.1	38.1	38.1
Others	(82.1)	(105.8)	(121.1)	(145.3)	(174.4)
Net Interest & Investment Income	(134.7)	(122.1)	(192.1)	(200.0)	(184.8)
Interest Expense	(176.9)	(165.5)	(215.0)	(222.7)	(207.2)
Interest Income	8.1	11.3	12.8	12.7	12.4
Investment Income	34.2	32.1	10.0	10.0	10.0
Exceptional Items	108.0	195.2	0.0	0.0	0.0
Associates	252.8	241.8	238.0	298.3	372.0
Pre-tax Profit	**458.9**	**614.8**	**483.7**	**688.6**	**817.7**
Less: Taxation	(97.6)	(133.6)	(135.4)	(192.8)	(229.0)
Effective Tax Rate (%)	(21.3)	(21.7)	(28.0)	(28.0)	(28.0)
Profit After Tax	361.3	481.2	348.2	495.8	588.8
Minorities	(70.5)	(100.3)	(96.5)	(140.9)	(155.4)
Net Profit	**290.8**	**380.9**	**251.7**	**354.9**	**433.4**

Ratios

Year to 31 Dec (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	18.1	39.9	20.6	21.6	8.0
EBITDA	21.2	18.5	29.6	30.4	6.0
Pre-tax Profit	108.2	34.0	(21.3)	42.4	18.8
Net Profit	150.4	31.0	(33.9)	41.0	22.1
EPS	150.4	31.0	(33.9)	41.0	22.1
Profitability					
EBITDA Margin	29.9	25.3	27.2	29.2	28.7
Pre-tax Margin	33.3	31.9	20.8	24.3	26.8
Net Margin	21.1	19.7	10.8	12.5	14.2
ROA	3.9	4.9	2.8	3.5	4.2
ROE	9.0	10.7	6.3	8.1	9.4
Leverage					
Total Debt/Total Asset	47.1	40.7	37.6	34.1	30.8
Total Debt/Equity	105.8	85.8	87.5	77.4	67.3
Net Cash (Debt)/Equity	(94.9)	(73.8)	(76.3)	(67.6)	(57.7)
Interest Cover (x)	1.3	1.8	2.0	2.7	3.0

Operating Profit by Segment



UEM Builders

Current : RM0.95
Target (12-mth) : RM1.60

BACKGROUND

UEM Builders (UEMB) is involved in construction and engineering, toll concession and infrastructure maintenance. It is set for a sharp earnings turnaround in FY06 on the back of its strong domestic-driven orderbook.

OUTLOOK/RECOMMENDATION

- **Front-runner for iconic projects.** As the concessionaire of the existing Penang Bridge and with Khazanah as its ultimate shareholder, UEMB is expected to be the front-runner for Ninth Malaysia Plan's (9MP) most iconic project – the RM3.0b Second Penang Bridge. The RM12.2b South Johor Economic Region (SJER) project to be spearheaded by Khazanah could further boost UEMB's RM3.0b orderbook.

- **Strong base earnings.** Penang Bridge toll concession (25 years ending 2018) and infrastructure maintenance (Projek Penyelenggaraan Lebuhraya – PROPEL) contributes RM90m-100m p.a. to UEMB's pre-tax profit. This implies a base value of RM0.70/share if we attach a conservative 10x PE to these resilient earnings (20% discount to IJM Corporation's and Gamuda's PE).

- **Strong orderbook dominated by domestic projects.** UEMB has an orderbook of RM3.0b, comparable to sector leaders IJM Corporation's RM3.5b and Gamuda's RM2.5b. Domestic projects, which command higher margins, constitute about 80% of its orderbook. These include the existing Penang Bridge expansion, North-South Expressway extension and Ipoh-Rawang Electrified Double Track projects.

- **Sharp earnings turnaround.** UEMB is expected to return to the black with RM115.9m and RM153.5m net profit for FY06 and FY07 respectively after FY05's RM259.3m loss. This translates into an attractive 2007 PE of 6.0x. Upside will come from new projects under 9MP and writeback from its large RM280m provisions for overseas projects made in 2005.

- **Super-cycle target price is at RM3.10.** This is derived by pegging a 0.6x market cap/orderbook multiple to a potential orderbook of RM5.0b.

BUY

Sector	Construction
Bloomberg	UEMB MK
Website	www.uembuilders.com
Exchange Rate	3.690/US$
52-Wk Range (RM)	1.54/0.41
52-Wk Avg Daily Vol. ('000)	5,165
No. of Shares (m)	963.9
Market Cap(RMm)	915.7
(US$m)	248.2
Major Shareholders (%)	
UEM World	51.7
NTA per Share (RM)	0.51
ROE (%)	n.m
Net Debt per Share (RM)	0.37
Alternative Instruments	
Nil	
Results Due	
1Q: May	1H: Aug
3Q: Nov	Final: Feb
Market PE - KLCI (x)	
2005	18.1
2006F	14.4

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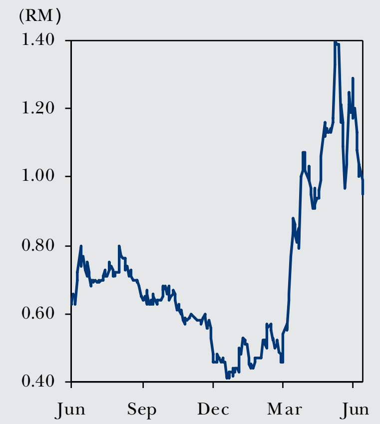


Year to 31 Dec	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2004	1,637.9	182.5	71.7	7.4	(28.6)	14.3	8.1	2.5
2005	1,364.8	169.9	(259.3)	(26.9)	n.a	n.a	10.6	1.0
2006F	1,236.6	233.3	115.9	12.0	n.a	7.9	6.6	3.0
2007F	1,649.0	293.1	153.5	15.9	32.4	6.0	5.3	4.0
2008F	1,736.4	326.6	170.9	17.7	11.3	5.4	4.6	4.4

Consensus net profit – FY06: RM103.0m
– FY07: RM132.7m

Balance Sheet

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Fixed Asset	235.9	238.9	217.6	193.1	163.1
Associates	397.9	358.4	388.4	418.4	448.4
Intangibles	80.3	80.3	80.3	80.3	80.3
Long Term Investments	62.1	61.7	61.7	61.7	61.7
Bridge Assets	788.6	784.4	817.9	968.4	1,118.9
Others	10.7	9.1	9.1	9.1	9.1
Current Assets	**921.8**	**1,275.7**	**1,445.6**	**1,668.1**	**1,814.2**
Stocks	21.3	22.7	22.8	30.4	32.0
Trade Debtors	362.5	666.4	466.1	621.6	654.5
Bank Deposits & Cash	366.4	359.7	729.7	789.2	900.7
Investments	14.1	12.1	12.1	12.1	12.1
Loans to Subsidiaries/Associates/Holdings	149.8	208.9	208.9	208.9	208.9
Others	7.7	6.0	6.0	6.0	6.0
Total Assets	**2,497.3**	**2,808.6**	**3,020.6**	**3,399.2**	**3,695.7**
Current Liabilities	**783.0**	**1,492.7**	**1,497.3**	**1,691.8**	**1,791.4**
Trade Creditors	401.6	436.5	379.7	506.3	533.1
Borrowings	274.7	657.8	657.8	657.8	657.8
Provisions	0.0	284.6	284.6	284.6	284.6
Others	106.8	113.8	175.2	243.1	315.8
Long Term Loans	0.0	0.0	0.0	0.0	0.0
Bonds	660.0	580.0	699.8	767.9	836.0
Other Long Term Liabilities	223.3	204.1	204.1	204.1	204.1
Total Debt	**934.7**	**1,237.8**	**1,357.6**	**1,425.7**	**1,493.8**
Net Cash/(Debt)	**(568.3)**	**(878.1)**	**(627.8)**	**(636.5)**	**(593.1)**
Shareholders' Funds	**825.3**	**525.5**	**612.5**	**727.6**	**855.8**
Share Capital	963.9	963.9	963.9	963.9	963.9
Reserves	(138.6)	(438.3)	(351.4)	(236.3)	(108.1)
Share Premium & Capital Reserves	191.0	191.0	191.0	191.0	191.0
Retained Profits & General Reserves	(329.6)	(629.4)	(542.4)	(427.3)	(299.1)
Minority Interests	5.7	6.2	7.0	7.7	8.5
Total Liabilities	**2,497.3**	**2,808.6**	**3,020.6**	**3,399.2**	**3,695.7**

Cash Flow

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Operating	**25.6**	**(211.9)**	**337.7**	**205.2**	**261.6**
EBIT	140.7	126.9	187.0	243.6	271.6
Depreciation	41.9	43.0	46.3	49.4	55.0
Working Capital	244.0	270.3	143.3	(36.4)	(7.7)
Income Tax Paid	(50.2)	(45.3)	(38.9)	(51.4)	(57.2)
Others	(350.7)	(606.8)	0.0	0.0	0.0
Investing	**(67.4)**	**(9.7)**	**(58.5)**	**(175.5)**	**(175.5)**
CAPEX	(19.0)	(19.3)	(58.5)	(175.5)	(175.5)
Acquisitions/Associates	(10.6)	(13.0)	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	11.5	4.7	0.0	0.0	0.0
Others	(49.3)	17.8	0.0	0.0	0.0
Financing	**53.0**	**8.5**	**90.8**	**29.7**	**25.4**
Share Issue	0.0	0.0	0.0	0.0	0.0
Debt Repayment	(30.1)	(163.1)	(87.0)	(87.0)	(87.0)
Proceed from Borrowings	147.6	258.1	206.8	155.1	155.1
Dividends Paid	(3.0)	(24.1)	(29.0)	(38.4)	(42.7)
Others	(61.4)	(62.4)	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	**11.2**	**(213.1)**	**370.1**	**59.4**	**111.5**
Forex Translations	0.0	0.0	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**301.6**	**312.8**	**359.7**	**729.7**	**789.2**
Ending Cash & Cash Equivalent	**312.8**	**99.7**	**729.7**	**789.2**	**900.7**
Adjustments	(53.5)	(259.9)	0.0	0.0	0.0
Ending Cash After Adjustments	**366.4**	**359.7**	**729.7**	**789.2**	**900.7**

Price Range

	2003	2004	2005	2006*
Price (RM)				
High	3.40	3.16	1.25	1.54
Low	2.75	1.12	0.58	0.64
PE (x)				
High	20.0	18.6	n.m	12.8
Low	12.7	15.8	n.m	5.3

** Forecast PE*

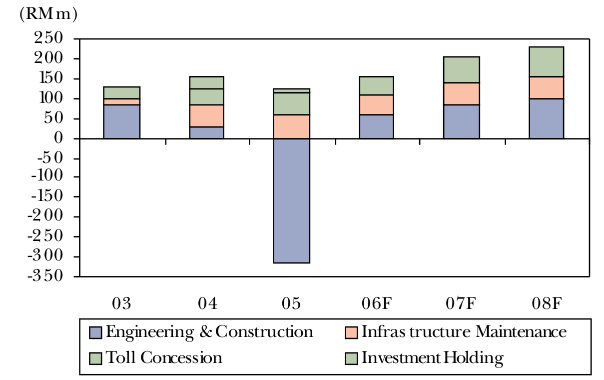
Profit & Loss

Year to 31 Dec (RMm)	2004	2005	2006F	2007F	2008F
Total Turnover	1,637.9	1,364.8	1,236.6	1,649.0	1,736.4
Engineering & Construction	1,229.6	900.8	742.2	1,118.7	1,183.1
Infrastructure Maintenance	274.9	318.7	334.6	351.3	368.9
Toll Concession	133.4	145.3	159.8	179.0	184.4
Less: COGS	(1,455.3)	(1,194.9)	(1,003.3)	(1,356.0)	(1,409.8)
EBITDA	182.5	169.9	233.3	293.1	326.6
Less: Depreciation	(41.9)	(43.0)	(46.3)	(49.4)	(55.0)
EBIT (Operating Profit)	140.7	126.9	187.0	243.6	271.6
Net Interest & Investment Income	(33.4)	(35.6)	(61.4)	(67.9)	(72.7)
Interest Expense	(59.5)	(68.4)	(90.8)	(97.4)	(102.2)
Investment Income	26.2	32.8	29.5	29.5	29.5
Exceptional Items	0.0	(284.6)	0.0	0.0	0.0
Associates	15.0	(20.2)	30.0	30.0	30.0
Pre-tax Profit	**122.2**	**(213.5)**	**155.6**	**205.7**	**228.9**
Engineering & Construction	26.2	(313.5)	57.5	85.0	99.8
Infrastructure Maintenance	58.5	58.3	50.2	52.7	55.3
Toll Concession	37.3	53.7	47.9	68.0	73.8
Investment Holding	31.9	11.6	0.0	0.0	0.0
Eliminations	(31.6)	(17.5)	0.0	0.0	0.0
Less: Taxation	(50.2)	(45.3)	(38.9)	(51.4)	(57.2)
Effective Tax Rate (%)	(41.0)	21.2	(25.0)	(25.0)	(25.0)
Profit After Tax	72.1	(258.7)	116.7	154.3	171.7
Minorities	(0.4)	(0.5)	(0.8)	(0.8)	(0.8)
Net Profit	**71.7**	**(259.3)**	**115.9**	**153.5**	**170.9**

Ratios

Year to 31 Dec (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	401.3	(16.7)	(9.4)	33.3	5.3
EBITDA	172.6	(6.9)	37.4	25.6	11.4
Pre-tax Profit	(3.9)	(274.7)	(172.9)	32.2	11.3
Net Profit	(28.6)	(461.8)	(144.7)	32.4	11.3
EPS	(28.6)	(461.8)	(144.7)	32.4	11.3
Profitability					
EBITDA Margin	11.1	12.4	18.9	17.8	18.8
Pre-tax Margin	7.5	(15.6)	12.6	12.5	13.2
Net Margin	4.4	(19.0)	9.4	9.3	9.8
ROA	3.0	(9.8)	4.0	4.8	4.8
ROE	9.0	(38.4)	20.4	22.9	21.6
Leverage					
Total Debt/Total Asset	37.4	44.1	44.9	41.9	40.4
Total Debt/Equity	113.3	235.5	221.7	195.9	174.6
Net Cash (Debt)/Equity	(68.9)	(167.1)	(102.5)	(87.5)	(69.3)
Interest Cover (x)	2.4	1.9	2.1	2.5	2.7

Pre-tax Profit by Segment



Gamuda

Current : RM3.04
Target (12-mth) : RM4.90

BACKGROUND

Gamuda is one of the largest construction companies in Malaysia, with an orderbook of RM2.5b. Leveraging on its track record such as the RM2b Stormwater Management & Road Tunnel (SMART) project, it has successfully ventured overseas to India, Taiwan and Laos. Gamuda is also an established township developer, with the award-winning Kota Kemuning project in Shah Alam. Through its associates, Gamuda is the largest treated water supplier in the country and owns/maintains 230km of highways in Malaysia and India.

OUTLOOK/RECOMMENDATION

- **1,200-acre development in high-growth SJER.** Gamuda has a 50:50 JV with UEM Land to develop 1,200 acres of land in Bandar Nusajaya. The mixed development project with an 18-hole golf course has a total GDV of RM2.5b to be developed over 10-15 years. Initial sales launch is in Feb 06. With the massive RM12.2b development of SJER, Gamuda will benefit from strong demand and higher property prices for its Bandar Nusajaya development.

- **Gamuda is a strong contender for 9MP mega projects** given its strong balance sheet and solid track record at delivering projects on time and executing large scale projects (such as SMART). Gamuda is also the front runner to win water-related contracts such as the RM3.8b Pahang-Selangor Inter-state water transfer project as it is the only Malaysian company with expertise in tunnelling works.

- **Targetting to triple orderbook within three years.** Management is targetting an orderbook of RM6b-8b within three years, from RM2.5b now. Besides local contracts, orderbook expansion could come from overseas contracts. Gamuda has pre-qualified for some RM12b worth of jobs in the Middle East, and has recently emerged as one of lowest bidders for a RM700m bridge project.

- **Earnings set to rebound strongly (+29.7%) to RM219.4m in FY07.** This will come on the back of earnings contribution from its overseas construction contracts in Qatar and Laos and higher property development earnings from new launches at Bandar Nusajaya. Earnings are expected to grow a further 12.2% in FY08 to RM246.2m.

- **Initiate coverage with BUY and target price of RM4.90.** We value Gamuda's engineering & construction business at 14x FY07 PE given the enormous potential for orderbook expansion locally and abroad. The water and expressway concessions are valued at a market average FY07 PE of 12x and 13x respectively. Its super-cycle target price is RM6.50, valuing its construction business at 0.6x (sector average) its potential orderbook of RM4.5b.

BUY

Sector	Construction
Bloomberg	GAM MK
Website	www.gamuda.com.my
Exchange Rate	3.690/US$
52-Wk Range (RM)	4.82/3.02
52-Wk Avg Daily Vol. ('000)	1,134
No. of Shares (m)	753.2
Market Cap(RMm)	2,289.8
(US$m)	620.5
Major Shareholders (%)	
EPF	10.9
NTA per Share (RM)	2.94
ROE (%)	12.8
Net Debt per Share (RM)	0.29
Alternative Instruments	
Warrant 2006	Ex-Price: RM4.21
Warrant 2007	Ex-Price: RM3.75
Results Due	
1Q: Dec	1H: Mar
3Q: Jun	Final: Sep
Market PE - KLCI (x)	
2005	18.1
2006F	14.4

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Year to 31 Jul	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS* (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2004	1,719.0	322.2	281.9	31.8	14.6	9.6	8.2	21.0
2005	1,539.8	292.8	265.8	30.2	(5.1)	10.1	8.0	16.0
2006F	1,085.8	136.9	169.1	20.4	(32.3)	14.9	18.2	16.0
2007F	1,552.9	210.2	219.4	25.5	24.8	11.9	11.4	16.5
2008F	1,691.6	243.9	246.2	28.2	10.6	10.8	9.5	17.0

Consensus net profit – FY06: RM190.1m
– FY07: RM233.7m

** Based on fully diluted 991.1m shares*

Balance Sheet

Year to 31 Jul (RMm)	2004	2005	2006F	2007F	2008F
Fixed Asset	115.4	108.4	138.6	147.4	155.4
Concession Rights	63.0	60.7	58.3	56.0	53.7
Associates	1,168.7	1,266.9	1,396.6	1,534.7	1,680.3
Intangibles	20.1	19.3	16.1	13.0	9.8
Long Term Investments	3.2	3.2	3.2	3.2	3.2
Land under Development	471.1	422.6	430.0	410.0	390.0
Others	18.4	63.7	80.0	70.0	60.0
Current Assets	**1,246.4**	**1,334.9**	**1,290.7**	**1,287.3**	**1,234.7**
Stocks	5.9	33.0	54.3	77.6	84.6
Trade Debtors	659.4	675.8	638.7	675.2	735.5
Bank Deposits & Cash	470.7	497.9	454.1	390.8	271.1
Property Development Costs	69.4	93.6	93.6	93.6	93.6
Loans to Subsidiaries/Associates/Holdings	0.0	0.0	0.0	0.0	0.0
Others	41.1	34.6	50.0	50.0	50.0
Total Assets	**3,106.4**	**3,279.6**	**3,413.7**	**3,521.5**	**3,587.2**
Current Liabilities	**601.3**	**606.7**	**464.7**	**543.1**	**595.1**
Trade Creditors	533.7	428.4	402.2	470.6	512.6
Borrowings	56.2	152.5	52.5	52.5	52.5
Others	11.4	25.7	10.0	20.0	30.0
Long Term Loans	83.5	0.0	200.0	50.0	50.0
Bonds	400.0	400.0	400.0	400.0	200.0
Other Long Term Liabilities	25.4	25.7	20.2	50.3	88.1
Total Debt	**539.7**	**552.5**	**652.5**	**502.5**	**302.5**
Net Cash/(Debt)	**(363.6)**	**(54.6)**	**(198.5)**	**(111.7)**	**(31.5)**
Shareholders' Funds	**1,976.7**	**2,178.9**	**2,275.4**	**2,405.3**	**2,559.3**
Share Capital	736.8	749.6	753.2	753.2	753.2
Reserves	1,239.9	1,429.3	1,522.2	1,652.1	1,806.1
Share Premium & Capital Reserves	311.3	347.5	358.0	358.0	358.0
Retained Profits & General Reserves	928.7	1,081.8	1,164.1	1,294.0	1,448.0
Minority Interests	19.5	68.3	53.3	72.8	94.6
Total Liabilities	**3,106.4**	**3,279.6**	**3,413.7**	**3,521.5**	**3,587.2**

Profit & Loss

Year to 31 Jul (RMm)	2004	2005	2006F	2007F	2008F
Total Turnover	1,719.0	1,539.8	1,085.8	1,552.9	1,691.6
Engineering & Construction Contracts	966.7	1,011.3	609.0	1,052.2	1,165.9
Sales of Development Properties	533.5	322.9	274.4	288.1	302.6
Trading, Manufacturing, Quarrying & Others	199.2	159.1	151.2	158.7	166.7
Water Concession	19.7	46.6	51.2	53.8	56.5
Less: COGS	(1,396.9)	(1,247.0)	(948.9)	(1,342.7)	(1,447.7)
EBITDA	322.2	292.8	136.9	210.2	243.9
Less: Depreciation	(8.0)	(8.8)	(9.7)	(11.3)	(11.9)
EBIT (Operating Profit)	311.0	280.8	124.0	195.7	228.8
Net Interest & Investment Income	18.7	14.8	9.3	7.4	8.5
Interest Expense	(12.4)	(12.7)	(15.1)	(15.6)	(12.1)
Interest Income	18.4	17.0	12.4	11.0	8.6
Investment Income	12.7	10.5	12.0	12.0	12.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Associates + JV	104.4	117.0	129.7	138.1	145.6
Pre-tax Profit	**434.1**	**412.7**	**263.0**	**341.2**	**382.9**
Engineering & Construction Contracts	229.0	213.5	79.8	144.5	172.7
Sales of Development Properties	101.0	81.1	51.9	62.0	68.8
Trading, Manufacturing, Quarrying & Others	26.2	23.4	14.6	15.6	16.7
Water Concession	45.4	65.2	69.9	72.6	75.5
Expressway Concession	32.5	29.5	49.6	51.1	52.7
Others	0.0	0.0	(2.7)	(4.6)	(3.5)
Less: Taxation	(132.6)	(113.6)	(78.9)	(102.4)	(114.9)
Effective Tax Rate (%)	(30.6)	(27.5)	(30.0)	(30.0)	(30.0)
Profit After Tax	301.4	299.0	184.1	238.9	268.0
Minorities	(19.6)	(33.3)	(15.0)	(19.5)	(21.8)
Net Profit	**281.9**	**265.8**	**169.1**	**219.4**	**246.2**

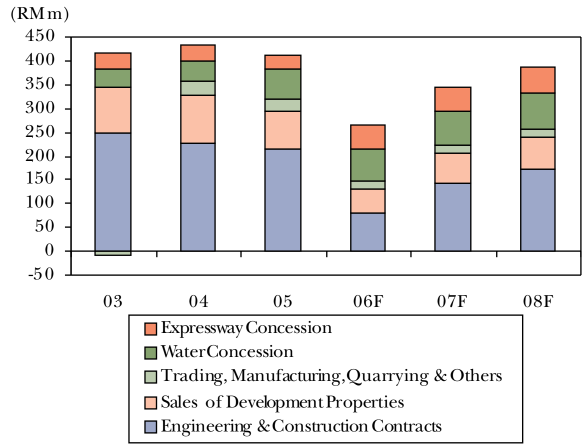
Ratios

Year to 31 Jul (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	19.2	(10.4)	(29.5)	43.0	8.9
EBITDA	11.4	(9.1)	(53.3)	53.5	16.1
Pre-tax Profit	6.9	(4.9)	(36.3)	29.7	12.2
Net Profit	16.6	(5.7)	(36.4)	29.7	12.2
EPS	16.6	(5.7)	(36.4)	29.7	12.2
Profitability					
EBITDA Margin	18.7	19.0	12.6	13.5	14.4
Pre-tax Margin	25.3	26.8	24.2	22.0	22.6
Net Margin	16.4	17.3	15.6	14.1	14.6
ROA	9.6	8.3	136.9	153.4	162.6
ROE	15.8	12.8	7.6	9.4	9.9
Leverage					
Total Debt/Total Asset	17.4	16.8	19.1	14.3	8.4
Total Debt/Equity	27.3	25.4	28.7	20.9	11.8
Net Cash (Debt)/Equity	(18.4)	(2.5)	(8.7)	(4.6)	(1.2)
Interest Cover (x)	25.1	22.1	8.2	12.6	18.9z

Cash Flow

Year to 31 Jul (RMm)	2004	2005	2006F	2007F	2008F
Operating	**(29.0)**	**73.3**	**54.3**	**123.2**	**110.6**
EBIT	311.0	280.8	124.0	195.7	228.8
Depreciation	8.0	8.8	9.7	11.3	11.9
Working Capital	(238.7)	(147.3)	(10.6)	8.6	(25.2)
Income Tax Paid	(118.2)	(90.0)	(78.9)	(102.4)	(114.9)
Others	8.9	20.9	10.0	10.0	10.0
Investing	**(141.6)**	**10.5**	**(93.4)**	**68.0**	**76.8**
CAPEX	(104.9)	(11.3)	(40.0)	(20.0)	(20.0)
Acquisitions/Associates	(94.4)	(82.1)	(133.4)	0.0	0.0
Proceeds from Sale of Fixed Assets	10.9	4.7	0.0	0.0	0.0
Others	46.8	99.3	80.0	88.0	96.8
Financing	**108.5**	**(55.9)**	**(3.2)**	**(254.5)**	**(307.2)**
Share Issue	204.7	49.9	13.6	0.0	0.0
Debt Repayment	(89.6)	(98.0)	(100.0)	(200.0)	(400.0)
Proceed from Borrowings	162.7	110.9	200.0	50.0	200.0
Dividends Paid	(84.1)	(112.7)	(86.8)	(89.5)	(92.2)
Others	(85.2)	(6.0)	(30.0)	(15.0)	(15.0)
Net Cash Inflow/(Outflow)	**(62.2)**	**27.9**	**(42.3)**	**(63.2)**	**(119.8)**
Forex Translations	(0.8)	0.1	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**531.3**	**468.3**	**496.4**	**454.1**	**390.8**
Ending Cash & Cash Equivalent	**468.3**	**496.4**	**454.1**	**390.8**	**271.1**
Adjustments	2.4	1.5	1.5	1.5	1.5
Ending Cash After Adjustments	**470.7**	**497.9**	**455.6**	**392.3**	**272.6**

Operating Profit by Segment



Price Range

	2003	2004	2005	2006*
Price (RM)				
High	8.05	6.60	5.65	4.26
Low	4.98	4.72	3.12	3.02
PE (x)				
High	22.6	18.3	14.5	20.9
Low	16.8	12.1	8.7	14.8

** Forecast PE*

IJM Corporation

Current : RM5.45
Target (12-mth) : RM7.00

BUY

Sector	Construction
Bloomberg	IJM MK
Website	www.ijm.com
Exchange Rate	3.690/US$
52-Wk Range (RM)	6.40/4.10
52-Wk Avg Daily Vol. ('000)	949
No. of Shares (m)	492.7
Market Cap(RMm)	2,685.3
(US$m)	727.7
Major Shareholders (%)	
Tronoh Mines	18.9
EPF	11.4
NTA per Share (RM)	4.15
ROE (%)	8.2
Net Debt per Share (RM)	1.47
Alternative Instruments	
Warrant 2010	Ex-Price: RM4.80
Results Due	
1Q: Aug	1H: Nov
3Q: Feb	Final: May
Market PE - KLCI (x)	
2005	18.1
2006F	14.4

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BACKGROUND

IJM Corporation is the construction sector leader in Malaysia, with the largest orderbook of RM3.5b. Its track record includes the Putrajaya Convention Centre and North Klang Valley Expressway. IJM has also successfully penetrated the Indian construction market, with about 40% of its orderbook consisting of Indian contracts. Besides construction, IJM is involved in property development in Malaysia and India. It also holds toll road concessions in India (five) and Pakistan (one). IJM has a strong foreign investor following, including the likes of Capital Group (with an 11.7% stake).

OUTLOOK/RECOMMENDATION

- **Good prospects of winning SJER contracts.** This is due to its: excellent construction track record, efficient cost structure and strong balance sheet with relatively low net gearing of 0.3x. IJM is the front-runner to win large-scale landmark building projects, given its strong reputation for building high-end condominiums in the prestigious KLCC area and the Putrajaya Convention Centre.

- **Proxy to Indian infrastructure boom.** IJM's construction orderbook in India has grown to RM1.5b, or some 40% of its RM3.5b orderbook. Management targets to grow this to RM2b (+33%) by end-06. While many construction companies suffered losses in India, IJM has been profitable owing to its strong understanding of the Indian construction industry and established relationships with state and federal governments. IJM plans to unlock the value of its Indian operations with a potential listing in 2007. This will significantly enhance IJM's value as Indian construction companies can trade at more than 20x PE.

- **Acquisition of Europlus at cheap P/B of 0.3x.** IJM is acquiring a 25% stake in Kumpulan Europlus at an attractive price/book of 0.3x. The acquisition will allow IJM to gain control of the RM3.2b West Coast Expressway toll road concession project and control Europlus' 18,400-acre landbank.

- **Earnings to rebound in FY07 (+31.6%) after bottoming out in FY06 (-13.5%).** This will be driven by contributions from five new contracts secured in India since end-05. In addition, IJM is expected to complete a bigger portion of works on the Kajang-Seremban Highway, New Delhi Civic Centre (India) and Mahua-Jaipur Expressway (India).

- **Initiate Coverage with BUY and target price of RM7.00.** Our target price is based on valuing the construction business at 14x PE (average of Malaysian and Indian construction sector), and the property development business at 12x PE. Its toll highways and power concessions are valued using DCF (WACC: 10.5%). IJM's super-cycle target price is at RM9.90, based on 0.6x (sector average)its potential orderbook of RM5.5b.

Year to 31 Mar	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS* (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2005	1,802.3	294.0	185.5	35.5	23.6	15.2	10.7	15.0
2006	1,665.9	287.4	160.4	31.2	(12.1)	17.3	11.5	15.0
2007F	2,208.6	352.6	211.1	39.8	27.7	13.6	9.8	16.0
2008F	2,421.2	397.0	242.6	45.2	13.5	11.9	8.8	17.0
2009F	2,548.3	423.6	259.2	48.0	6.3	11.2	8.2	18.0

Consensus net profit – FY07: RM198.8m
– FY08: RM228.1m

** Based on fully diluted 586.2m shares*

Balance Sheet

Year to 31 Mar (RMm)	2005	2006	2007F	2008F	2009F
Fixed Asset	348.7	466.0	507.6	544.5	577.2
Concession Assets	159.2	218.5	209.7	201.3	193.3
Associates	730.6	769.5	813.9	872.6	936.1
Intangibles	57.6	61.3	61.3	61.3	61.3
Investments	140.0	131.7	131.7	131.7	131.7
Deferred Expenditure	12.4	14.5	14.5	14.5	14.5
Land Held for Property Development	154.5	246.5	296.5	346.5	396.5
Others	116.8	130.0	130.0	130.0	130.0
Current Assets	**1,729.6**	**2,078.6**	**2,433.3**	**2,574.2**	**2,641.9**
Property Development Costs	332.7	459.3	459.3	459.3	459.3
Stocks	100.3	150.0	200.5	219.8	231.3
Trade Debtors	1,131.8	1,152.6	1,514.4	1,660.1	1,747.3
Bank Deposits & Cash	79.9	232.6	175.1	150.9	119.9
Investments	84.9	84.1	84.1	84.1	84.1
Total Assets	**3,449.5**	**4,116.6**	**4,598.6**	**4,876.7**	**5,082.5**
Current Liabilities	**952.4**	**969.5**	**1,110.7**	**1,207.5**	**1,265.4**
Trade Creditors	748.8	767.8	1,005.3	1,102.1	1,160.0
Borrowings	192.7	196.4	100.0	100.0	100.0
Others	10.9	5.4	5.4	5.4	5.4
Long Term Loans	174.4	493.3	689.7	689.7	639.7
Bonds	247.8	248.3	248.3	248.3	248.3
Other Long Term Liabilities	101.3	170.2	150.7	136.9	125.6
Total Debt	**614.9**	**938.0**	**1,038.0**	**1,038.0**	**988.0**
Net Cash/(Debt)	**(535.0)**	**(705.4)**	**(862.9)**	**(887.1)**	**(868.1)**
Shareholders' Funds	**1,838.6**	**2,066.1**	**2,199.8**	**2,360.3**	**2,532.5**
Share Capital	458.7	479.9	479.9	479.9	479.9
Reserves	1,379.9	1,586.1	1,719.9	1,880.3	2,052.6
Share Premium & Capital Reserves	448.0	514.2	514.2	514.2	514.2
Retained Profits & General Reserves	931.9	1,071.9	1,205.7	1,366.1	1,538.4
Minority Interests	135.0	169.3	199.4	234.1	271.1
Total Liabilities	**3,449.5**	**4,116.6**	**4,598.6**	**4,876.7**	**5,082.5**

Cash Flow

Year to 31 Mar (RMm)	2005	2006	2007F	2008F	2009F
Operating	**(125.2)**	**99.3**	**54.1**	**190.9**	**237.6**
EBIT	242.3	231.5	294.2	333.9	356.3
Depreciation	51.7	55.9	58.4	63.1	67.3
Working Capital	(315.8)	(51.5)	(174.7)	(68.3)	(40.8)
Income Tax Paid	(59.7)	(65.6)	(93.8)	(107.8)	(115.2)
Others	(43.7)	(30.0)	(30.0)	(30.0)	(30.0)
Investing	**(354.8)**	**(297.0)**	**(136.0)**	**(136.0)**	**(136.0)**
CAPEX	(189.1)	(317.9)	(150.0)	(150.0)	(150.0)
Acquisitions/Associates	(248.3)	(25.8)	0.0	0.0	0.0
Proceeds from Sale of Fixed Assets	27.3	52.6	20.0	20.0	20.0
Others	55.4	(6.0)	(6.0)	(6.0)	(6.0)
Financing	**363.4**	**330.8**	**24.3**	**(79.1)**	**(132.6)**
Share Issue	232.3	91.6	0.0	0.0	0.0
Debt Repayment	(256.6)	(4.1)	(200.0)	(250.0)	(250.0)
Proceed from Borrowings	452.2	322.9	300.0	250.0	200.0
Dividends Paid	(47.1)	(50.3)	(55.7)	(59.1)	(62.6)
Others	(17.3)	(29.3)	(20.0)	(20.0)	(20.0)
Net Cash Inflow/(Outflow)	**(116.5)**	**133.1**	**(57.5)**	**(24.2)**	**(31.0)**
Forex Translations	0.2	0.5	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**152.9**	**36.5**	**170.1**	**112.6**	**88.4**
Ending Cash & Cash Equivalent	**36.5**	**170.1**	**112.6**	**88.4**	**57.4**
Adjustments	43.4	62.5	62.5	62.5	62.5
Ending Cash After Adjustments	**79.9**	**232.6**	**175.1**	**150.9**	**119.9**

Price Range

	2003	2004	2005	2006*
Price (RM)				
High	5.74	5.35	5.15	6.40
Low	3.77	3.81	4.36	4.10
PE (x)				
High	14.3	15.7	13.1	16.1
Low	7.9	11.2	11.1	10.3

** Forecast PE*

Profit & Loss

Year to 31 Mar (RMm)	2005	2006	2007F	2008F	2009F
Total Turnover	1,802.3	1,665.9	2,208.6	2,421.2	2,548.3
Construction	898.3	666.2	1,134.1	1,265.6	1,304.9
Property Development	440.6	491.6	516.2	542.0	569.1
Manufacturing & Quarrying	451.8	491.5	540.6	594.7	654.2
Plantation	0.0	0.0	0.0	0.0	0.0
Infastructure	4.9	10.7	11.8	13.0	14.3
Investment & Others	6.7	5.8	5.8	5.8	5.8
Less: COGS	(1,508.3)	(1,378.5)	(1,856.0)	(2,024.2)	(2,124.7)
EBITDA	294.0	287.4	352.6	397.0	423.6
Less: Depreciation	(51.7)	(55.9)	(58.4)	(63.1)	(67.3)
EBIT (Operating Profit)	242.3	231.5	294.2	333.9	356.3
Net Interest & Investment Income	(7.0)	(15.0)	(20.9)	(30.4)	(33.1)
Interest Expense	(41.2)	(48.8)	(62.1)	(65.3)	(63.7)
Interest Income	24.6	24.2	31.5	25.2	20.9
Investment Income	9.7	9.7	9.7	9.7	9.7
Exceptional Items	0.0	0.0	0.0	0.0	0.0
Associates	48.5	43.3	61.7	81.5	88.1
Pre-tax Profit	**283.8**	**259.8**	**335.0**	**385.0**	**411.4**
Construction	110.8	106.0	153.3	171.1	176.4
Property Development	88.0	95.6	100.4	105.4	110.7
Manufacturing & Quarrying	57.5	50.3	55.3	60.8	66.9
Plantation	32.1	25.4	37.0	51.2	58.4
Infastructure	(2.7)	(13.0)	(6.6)	1.0	3.5
Investment & Others	(1.9)	(4.5)	(4.5)	(4.5)	(4.5)
Less: Taxation	(79.3)	(76.4)	(93.8)	(107.8)	(115.2)
Effective Tax Rate (%)	(28.0)	(29.4)	(28.0)	(28.0)	(28.0)
Profit After Tax	204.5	183.3	241.2	277.2	296.2
Minorities	(19.0)	(22.9)	(30.1)	(34.6)	(37.0)
Net Profit	**185.5**	**160.4**	**211.1**	**242.6**	**259.2**

Ratios

Year to 31 Mar (%)	2005	2006	2007F	2008F	2009F
Growth					
Turnover	32.1	(7.6)	32.6	9.6	5.3
EBITDA	57.7	(2.3)	22.7	12.6	6.7
Pre-tax Profit	37.2	(8.5)	29.0	14.9	6.8
Net Profit	27.3	(13.5)	31.6	14.9	6.8
EPS	27.3	(13.5)	31.6	14.9	6.8
Profitability					
EBITDA Margin	16.3	17.3	16.0	16.4	16.6
Pre-tax Margin	15.7	15.6	15.2	15.9	16.1
Net Margin	10.3	9.6	9.6	10.0	10.2
ROA	61.9	39.4	43.4	46.1	46.2
ROE	11.1	8.2	9.9	10.6	10.6
Leverage					
Total Debt/Total Asset	17.8	22.8	22.6	21.3	19.4
Total Debt/Equity	33.4	45.4	47.2	44.0	39.0
Net Cash (Debt)/Equity	(29.1)	(34.1)	(39.2)	(37.6)	(34.3)
Interest Cover (x)	5.9	4.7	4.7	5.1	5.6

Major Indian Construction Projects Secured Since Early-05

Project	Value (RMm)	Duration (months)	Award Date
Rajasthan Toll Road (Mahua-Jaipur Section)	480	30	Mar 05
New Delhi Civic Centre	474	36	Apr 05
Residential Towers in Bangalore	140	30	Nov 05
Expressway Upgrade (Jhansi-Lakhnadon Section)	138	30	Jan 06
Civil Works for Commercial Blocks in Bangalore	99	24	Mar 06
Construction of Elevated Viaduct & Stations - Delhi Metro Line	189	24	Apr/May 06
Total Indian Contracts	1,520		
Total Group Orderbook	**3,500**		
Indian Contracts as % of Total Group Orderbook	43%		

SP Setia

Current : RM3.62
Target (12-mth) : RM5.19

BUY

Sector	Property
Bloomberg	SPSB MK
Website	www.spsetia.com.my
Exchange Rate	3.690/US$
52-Wk Range (RM)	4.14/3.06
52-Wk Avg Daily Vol. ('000)	1,547
No. of Shares (m)	661.7
Market Cap(RMm)	2,395.4
(US$m)	649.2
Major Shareholders (%)	
Dato' Sri Liew Kee Sin	8.1
EPF	7.9
NTA per Share (RM)	2.47
ROE (%)	13.7
Net Debt per Share (RM)	0.28
Alternative Instruments	
Nil	
Results Due	
1Q: Mar	1H: Jun
3Q: Sep	Final: Dec
Market PE - KLCI (x)	
2005	18.1
2006F	14.4

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BACKGROUND

With its strong brand name and prime landbank, SP Setia (SPSB) is poised to benefit from an improvement in Johor property prices. SP Setia has 1,412 acres of land in Johor, or 32% of its 4,437-acre landbank. Its Bukit Indah project is strategically located at the north of Bandar Nusajaya, while Setia Indah and Setia Tropika are located in adjacent Tebrau. SPSB also owns land in Klang (Bandar Setia Alam and Setia Eco-Park) and Penang (Setia Pearl Island).

OUTLOOK/RECOMMENDATION

- **Strategic landbank adjacent to Bandar Nusajaya.** Bukit Indah, which spans over 1,509 acres, sits within the RM10b South Johor Economic Region. The township, launched in 1997, has been receiving strong response despite a soft Johor property market. It has 600 acres of undeveloped land with a gross development value of RM1.7b. In nearby Tebrau, SPSB has just launched Setia Tropika, a 740-acre RM1.9b development, as a follow-up to its successful Setia Indah township which is almost near its completion (only 85 acres remain, with a GDV of RM600m). Within three months, the take-up rate is a respectable 45% for the 965 units launched.
- **Strong differentiation**. SPSB has a strong brand name and track record in both Klang Valley and Johor. Its projects have consistently received good take-ups due to several factors: a) its prime freehold landbank, b) differentiated products – innovative design, concept and landscaping, c) strong and innovative marketing, and d) good accessibility – SPSB constructed links/interchanges to major highways such as NKVE-Meru link for Bandar Setia Alam and direct access links to North-South Highway for Setia Tropika. SPSB has a knack for scouting for cheap landbank (Puchong and Bandar Setia Alam) and quick land turnaround (six to nine months vs sector average of 12 months).
- **Beneficiary of Penang infrastructure development.** SPSB's Setia Pearl Island is strategically located in Bayan Lepas, just 4-5km away from the proposed RM2.6b Second Penang Bridge. Accessibility is expected to be enhanced by the RM1.1b Penang Outer Ring Road and RM1.1b Penang Monorail projects announced in the Ninth Malaysia Plan. The RM800m Setia Pearl Island project offers landed properties (mid-range to high-end terrace and semi-detached houses), targetted at Penang's strong upgraders market.
- SP Setia trades at a 27% discount to our RNAV of RM5.19. Dividend yield is an attractive 6.6%.

Year to 31 Oct	Turnover (RMm)	EBIDTA (RMm)	Net Profit (RMm)	EPS (sen)	EPS Growth (%)	PE (x)	EV/ EBIDTA (x)	DPS (sen)
2004	1,025.1	218.7	161.2	28.5	25.7	12.7	12.5	20.0
2005	1,262.4	276.9	203.4	31.1	8.9	11.6	9.2	25.0
2006F	1,232.9	235.2	219.3	33.5	7.8	10.8	11.3	27.0
2007F	1,295.7	248.4	227.1	34.7	3.5	10.4	10.8	27.9
2008F	1,416.8	282.9	244.1	37.3	7.5	9.7	9.4	30.0

Consensus net profit – FY06: RM226.2m
– FY07: RM234.6m

Balance Sheet

Year to 31 Oct (RMm)	2004	2005	2006F	2007F	2008F
Fixed Asset	158.9	123.4	117.5	111.9	106.5
Associates/ JV	177.3	178.1	219.1	266.6	306.7
Intangibles	0.0	0.0	0.0	0.0	0.0
Investments	28.3	15.1	15.1	15.1	15.1
Deferred Tax Assets	2.1	1.1	1.1	1.1	1.1
Investment Properties	0.0	0.0	0.0	0.0	0.0
Land Held for Development	598.9	692.1	836.9	836.9	836.9
Current Assets	**1,630.1**	**1,425.3**	**1,467.5**	**1,536.3**	**1,633.3**
Inventories	15.1	19.7	17.6	18.5	20.0
Trade Debtors	362.0	264.3	305.8	321.4	351.4
Bank Deposits & Cash	456.8	403.8	384.2	361.9	386.9
Amounts Due from Associates	79.4	17.1	18.8	20.7	22.8
Development Properties	634.7	675.1	666.1	714.3	740.7
Others	82.1	45.4	74.9	99.4	111.5
Total Assets	**2,595.6**	**2,435.2**	**2,657.2**	**2,767.9**	**2,899.6**
Current Liabilities	**714.8**	**380.0**	**416.8**	**431.8**	**460.8**
Trade Creditors	331.5	273.2	295.3	310.3	339.3
Borrowings	331.2	92.3	107.0	107.0	107.0
Others	52.1	14.5	14.5	14.5	14.5
Long Term Loans	484.8	476.7	569.6	569.6	569.6
Long Term Liabilities	1.4	1.4	1.4	1.4	1.4
Others	1.0	1.4	1.4	1.4	1.4
Total Debt	**817.5**	**570.4**	**678.1**	**678.1**	**678.1**
Net Cash/(Debt)	**(360.7)**	**(166.6)**	**(293.9)**	**(316.1)**	**(291.2)**
Shareholders' Funds	**1,392.2**	**1,574.3**	**1,666.7**	**1,762.3**	**1,865.0**
Share Capital	568.0	490.7	490.7	490.7	490.7
Reserves	824.2	1,083.6	1,175.9	1,271.5	1,374.3
Share Premium & Capital Reserves	251.1	398.6	398.6	398.6	398.6
Retained Profits & General Reserves	573.0	685.0	777.3	872.9	975.7
Minority Interests	1.4	1.4	1.4	1.4	1.3
Total Liabilities	**2,595.6**	**2,435.2**	**2,657.2**	**2,767.9**	**2,899.6**

Cash Flow

Year to 31 Oct (RMm)	2004	2005	2006F	2007F	2008F
Operating	**332.3**	**469.4**	**138.6**	**103.8**	**155.4**
EBIT	218.7	269.7	229.3	242.8	277.5
Depreciation	7.8	7.2	5.9	5.6	5.4
Working Capital	210.9	350.9	(10.2)	(51.5)	(31.0)
Income Tax Paid	(52.5)	(101.6)	(86.4)	(93.2)	(96.5)
Others	(52.7)	(56.8)	0.0	0.0	0.0
Investing	**(392.7)**	**13.2**	**(131.1)**	**0.0**	**0.0**
CAPEX	(0.6)	0.0	0.0	0.0	0.0
Acquisitions/Associates	(106.3)	(1.6)	13.7	0.0	0.0
Land acquisition	(286.5)	14.8	(144.8)	0.0	0.0
Proceeds from Sale of Fixed Assets	0.0	0.0	0.0	0.0	0.0
Others	0.6	0.0	0.0	0.0	0.0
Financing	**(16.6)**	**(272.9)**	**(24.8)**	**(127.0)**	**(131.5)**
Share Issue	19.6	0.0	0.0	0.0	0.0
Net Debt Repayment	19.8	(251.6)	93.0	0.0	0.0
Dividends Paid	(56.0)	(21.2)	(117.8)	(127.0)	(131.5)
Others	(0.0)	0.0	0.0	0.0	0.0
Net Cash Inflow/(Outflow)	(77.1)	209.7	(17.3)	(23.2)	24.0
Forex Translations	0.0	0.0	0.0	0.0	0.0
Beginning Cash & Cash Equivalent	**268.8**	**191.7**	**401.5**	**384.2**	**361.9**
Ending Cash & Cash Equivalent	**191.7**	**401.5**	**384.2**	**361.9**	**386.9**
Adjustments	(265.1)	0.0	0.0	0.0	0.0
Ending Cash After Adjustments	**456.8**	**401.5**	**384.2**	**361.9**	**386.9**

Price Range

	2003	2004	2005	2006*
Price (RM)				
High	3.61	4.34	4.31	4.02
Low	1.89	2.99	3.06	3.26
PE (x)				
High	15.9	19.1	15.1	12.0
Low	8.4	12.3	9.4	9.7

** Forecast PE*

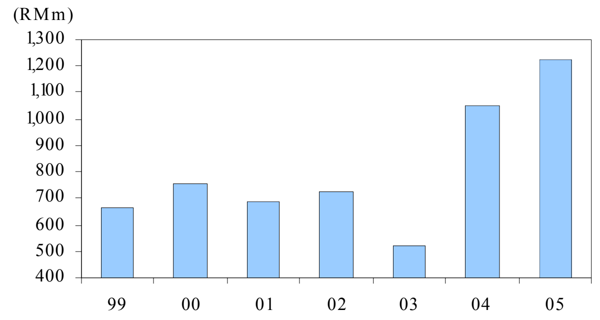
Profit & Loss

Year to 31 Oct (RMm)	2004	2005	2006F	2007F	2008F
Total Turnover	1,025.1	1,262.4	1,232.9	1,295.7	1,416.8
Construction	178.8	131.7	166.5	201.4	201.4
Property Development	786.0	1,058.7	990.6	1,014.9	1,131.9
Property & Investment Holding	60.2	72.1	75.7	79.5	83.5
Less: COGS	(806.4)	(985.5)	(997.7)	(1,047.3)	(1,133.9)
EBITDA	218.7	276.9	235.2	248.4	282.9
Less: Depreciation	(7.8)	(7.2)	(5.9)	(5.6)	(5.4)
EBIT (Operating Profit)	218.7	269.7	229.3	242.8	277.5
Net Interest & Investment Income	5.3	17.0	13.9	13.1	13.1
Interest Expense	(3.6)	(2.3)	(3.1)	(3.4)	(3.4)
Interest Income	8.8	11.9	9.6	9.1	9.1
Investment Income	0.0	7.4	7.4	7.4	7.4
Exceptional Items	0.0	0.0	20.5	0.0	0.0
Associates	10.6	3.1	48.8	67.7	57.2
Pre-tax Profit	**234.6**	**289.8**	**312.5**	**323.5**	**347.8**
Construction	35.2	2.4	5.2	8.0	8.0
Property Development	185.3	268.0	287.4	295.2	318.9
Property & Investment Holding	8.8	9.8	10.3	10.8	11.3
Others/Eliminations	5.3	9.6	9.6	9.6	9.6
Less: Taxation	(73.5)	(86.4)	(93.2)	(96.5)	(103.7)
Effective Tax Rate (%)	(31.3)	(29.8)	(29.8)	(29.8)	(29.8)
Profit After Tax	161.1	203.4	219.3	227.1	244.1
Minorities	0.1	0.0	0.0	0.0	0.0
Net Profit	**161.2**	**203.4**	**219.3**	**227.1**	**244.1**

Ratios

Year to 31 Oct (%)	2004	2005	2006F	2007F	2008F
Growth					
Turnover	24.7	23.2	(2.3)	5.1	9.3
EBITDA	30.2	26.6	(15.1)	5.6	13.9
Pre-tax Profit	31.0	23.5	7.8	3.5	7.5
Net Profit	27.9	26.2	7.8	3.5	7.5
EPS	25.7	8.9	7.8	3.5	7.5
Profitability					
EBITDA Margin	21.3	21.9	19.1	19.2	20.0
Pre-tax Margin	22.9	23.0	25.3	25.0	24.5
Net Margin	15.7	16.1	17.8	17.5	17.2
ROA	6.6	8.1	8.6	8.4	8.6
ROE	12.1	13.7	13.5	13.2	13.5
Leverage					
Total Debt/Total Asset	31.5	23.4	25.5	24.5	23.4
Total Debt/Equity	58.7	36.2	40.7	38.5	36.4
Net Cash (Debt)/Equity	(25.9)	(10.6)	(17.6)	(17.9)	(15.6)
Interest Cover (x)	7.5	9.3	8.2	8.0	9.1

Property Sales Trend



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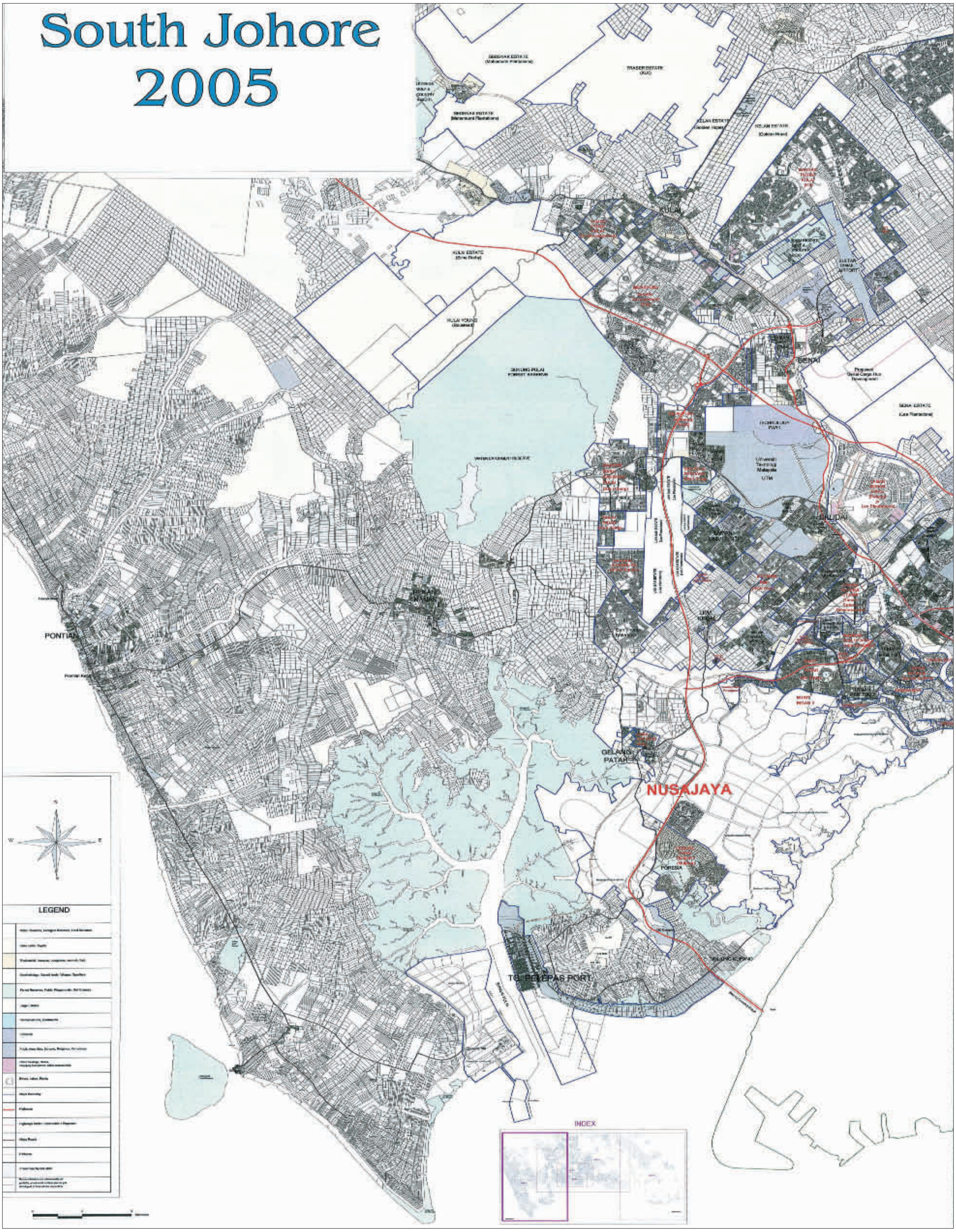
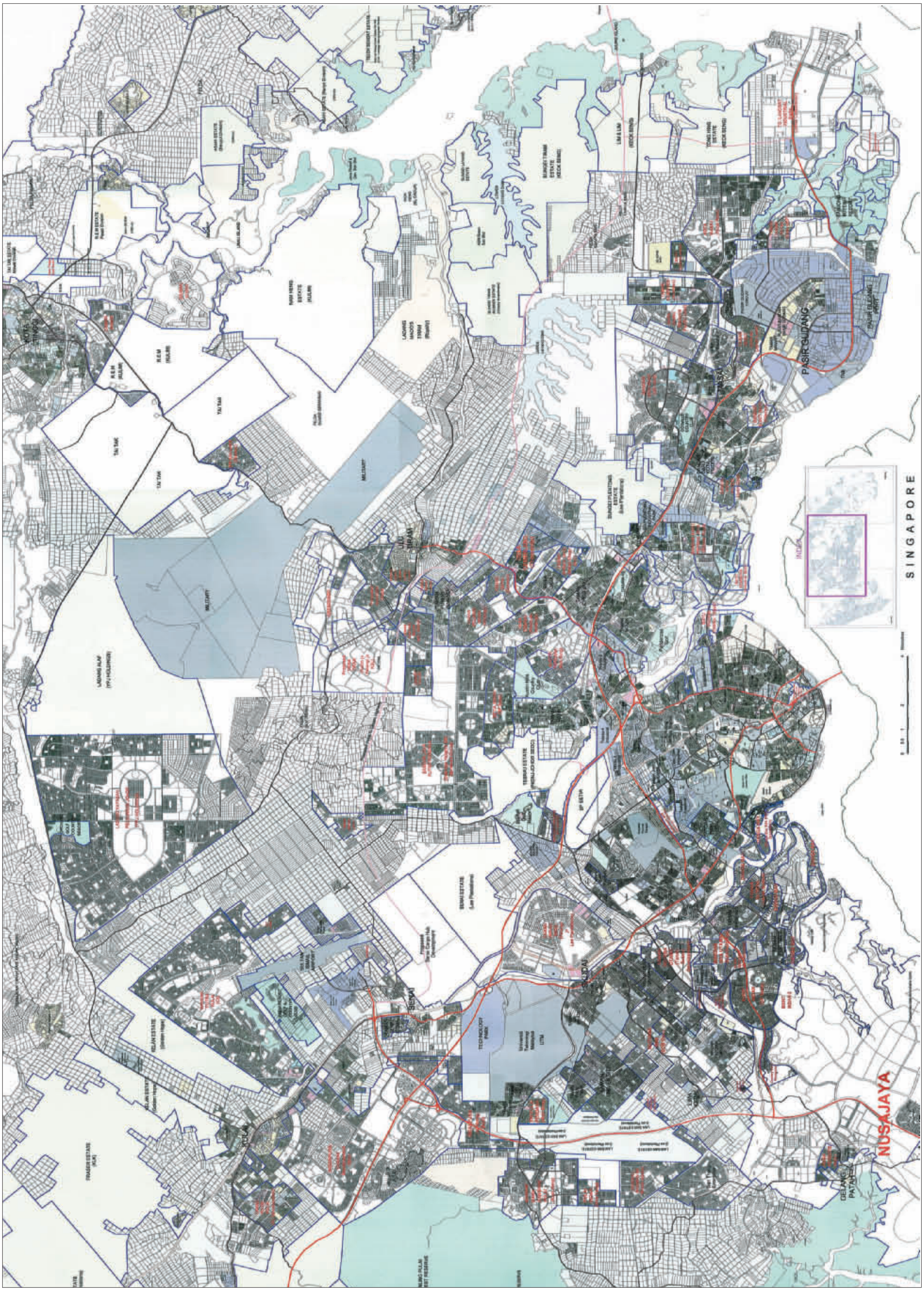
Appendix

Figure 31: Around Nusajaya



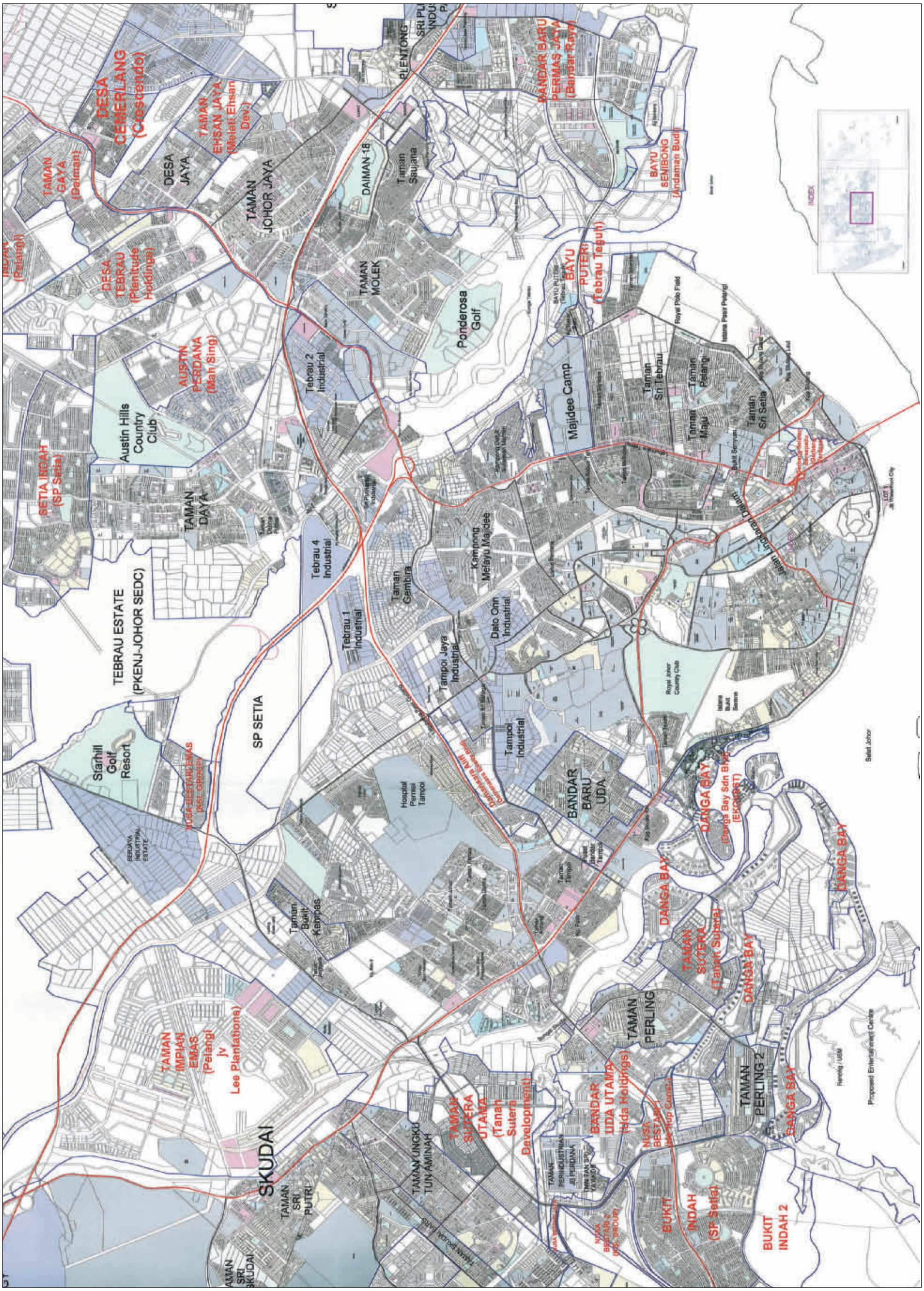
Source: Ho Chin Soon Research Sdn Bhd

Figure 32: Centre of South Johor



Source: Ho Chin Soon Research Sdn Bhd

Figure 33: Around Johor Bahru



Source: Ho Chin Soon Research Sdn Bhd

Speech By Prime Minister, Dato' Seri Abdullah Badawi

The Prime Minister's recent speech at the Kuala Lumpur Business Club is important as he touched on key issues that are relevant to the potential performance of the stock market:

a) Re-designing the NEP policy so as not to create a culture of dependency,
b) Competition for FDI in today's environment,
c) Unlocking value via regulatory and taxation reforms,
d) New privatisation model (PFI),
e) Private sector to reassume role of engine of growth, and
f) Implementation risks and action plans.

"MALAYSIA: FULLSTEAMAHEAD"
By Dato' Seri Abdullah Badawi
Prime Minister
KL Business Club
24 Apr 06

I launched my most ambitious project – the national mission, an over-arching develop-mental framework covering a 15-year time horizon that will take us to 2020; as well as the Ninth Malaysia Plan (9MP), the first five-year plan in the national mission. Although Parliament is still in the midst of debating this important policy document, I believe that it has been well received throughout the country. It has spelt out in great detail how 2020 is to be achieved. If in the past we have successfully described what 2020 looks like, today we have drawn up a roadmap, erected signposts and set markers toward this end.

The next 15 years will indeed determine whether Malaysia becomes a developed nation in the time we have given ourselves. All of you here will know that 15 years is very little time. It's a tough call to make. We are at the half-way stage of the vision, but not quite half-way there. With everything that is happening in the world – escalating oil prices, the rise of China and India, a continued global macroeconomic imbalance – the next five years will probably determine whether we'll make it. That's why the 9MP is critical.

On Implementation Risks:

I am aware that notwithstanding the enthusiasm generated by the mission, many still have misgivings about follow-through. I couldn't agree with you more. Poor implementation has always been our undoing. It has so often frustrated our best intentions and most inno-vative suggestions but I will not allow it to frustrate us at this crucial time. That is why it is identified as one of the five major thrusts of the national mission – the first time execution is highlighted and emphasised in our Malaysia plans. I have reorganised government in order to make civil servants more accountable and ministers, including myself, more hands-on.

This mission is absolutely critical for Malaysia. It must not be dismissed as sloganeering nor the 9MP viewed as just another five-year plan. The national mission must drive home the point that this may be our only opportunity to safeguard our future. The sense of purpose and urgency that it has created is not without basis. I am not an economic historian but, as someone who has studied the rise and fall of civilisations, I am under no illusion that this is one of those turning points in our history.

On Competiton for FDI today:

In the last few years, we have seen increased competition from our neighbours and from other regions. We have seen foreign direct investments (FDIs) chase new development opportunities elsewhere. We have seen countries that were once poor and backward reform their education systems. The boom-boom days of the 80s and 90s are past. Japan is only now recovering from its prolonged sickness, unable to invest in us like before. There is not as much left to privatise, there is a limit to how much physical infrastructure we need and can afford. We have entered a new economic paradigm and if we fail to change our policies, we will fail to stay relevant.

The mission and plan emphasise that we must move up the value chain in all economic activities, not just because of competition lower down the ladder, but also because of the higher rewards from higher value-added. Moving up the value chain and improving the education system are objectives that are not easy to execute. If our growth in the past was largely driven by FDI, tomorrow's growth must be propelled by our own creativity and capabilities.

The national mission and the 9MP are not static documents that exist in isolation. I will personally oversee strategic rethinking in different sectors to ensure that micro deliverables are consistent with the macro framework. For example, my government has announced landmark industry-specific policies like the national biotechnology policy and recently, the National Automotive Policy – these types of pronouncements will continue.

On Unlocking Value via Regulatory and Taxation Reforms:

The government will also continue to facilitate private investment. Although we have set a high target for private sector investment during the 9MP of 11.2 per cent per annum, it is a target that, I believe, is achievable. The business environment will be improved with continued improvements to the public sector delivery system. Regulatory and taxation reforms will follow to unlock the value of certain sectors. Targeted government spending will also lead the way for private investment to follow.

On GLCs not to Crowd-out the Private Sector:

I am also aware that the private sector must not be crowded out by an increasingly dynamic set of government-linked companies (GLCs). I have reminded them to work with private companies rather than squeezing you out of the market. We will also be promoting a new form of partnership between the government and the private sector through private finance initiatives (PFI). Under such arrangements, the government will save from having to allocate funds upfront for certain development projects. Private sector promoters will have to structure innovative and bankable proposals that can also help develop the domestic debt market. In fact, I would like to go on record to say that in the relevant sectors, I will give preference to proposals that are structured as PFI.

On New Privatization model:

I would also like it to be clear that the PFI that we are promoting today is a different animal from the concessions of the past. The PFI of today will be characterised by a fair agreement for both the government and the private sector. I will not allow the government and, ultimately, the tax payers to suffer from lopsided agreements which give dis-proportionately lucrative returns to private sector promoters. The government will also not easily guarantee or subsidise future concessions, where in the past profits were privatised and losses were nationalised.

The government believes that PFI will entice the private sector into participating in infra-structure development together with the government. The PFI concept will introduce greater flexibility in the way the private sector participates, including via arrangements involving build-lease-transfer, build-operate-transfer or build-own-operate.

On Private Sector to Reassume Engine of Growth:

The question, therefore, is whether the private sector is ready and able to lead the charge again, in order for it to truly assume the role of engine of growth? The private sector needs to re-assess its role and capacity in transforming the Malaysian economy and in preparing for a more challenging economic landscape. The private sector must continue to pursue real value creation and think in the long term. Many companies must move away from relying on domestic concessions, permits and licences. Malaysian companies must continue to invest in creating and building efficient businesses with world-class products, services and brands.

On What Private Sector Needs to do:

To achieve this, more Malaysian companies need to upgrade the quality of their human capital. I hope you will upgrade your investment in training, as well as seek out the best brains and expertise by providing sufficient rewards and incentives. After all, such brains and expertise come with a high premium but they are actually critical to our longer-term plans, so please don't be penny- wise, pound-foolish when it comes to your best people.

On Implementation Action Plan:

Before anyone else, as the chief executive of this country, I give full emphasis to implementation. I am going beyond the operations room former Prime Minister Tun Abdul Razak instituted for his rural development plans. I am putting in place a machinery of project and programme management system not unlike that you would put in place for your business plans, although of course this will be on a massive national scale that will include many weak links in the chain.

I know, with so many authorities involved, implementation could be a bureaucratic nightmare, but I will drive the monitoring through this machinery from the centre. With the objectives we have and the time-line we are working under, we cannot afford delays and leakages. Only the best able will be awarded contracts. Any gross negligence or dereliction, such as the unconscionable sub-standard work and delay with respect to the new Kuching prison project which I visited just last week, will be investigated and legal action taken where necessary.

I know some want to see audacious and even disruptive moves in the environment of implementation, seeing as we are in such a competitive environment, but we must be careful to ensure that the machinery of government is not disabled. I want to enable it, give it ownership, unleash talent. However, if procedures are defective and duplicative, I will not hesitate to change them, as I have with the proposed merger of the Securities Commission and the Companies Commission of Malaysia. And, if officers are unwilling to put their shoulder to the till, after having been given the chance to perform, I will move them.

On Wealth & Growth Distribution:

This is a national mission for all and not just for businesses. The economic philosophy that has allowed for this to be accepted as a national mission is that growth must be accompanied by distribution. It is fashionable in modern economics to promote the view that all you need is growth and that growth alone will result in better incomes and improved livelihoods. Yes, growth is important but if it is not distributed equitably, it will threaten the very fabric of our society. If inequity persists in Malaysia, especially when it is formed along ethnic lines, it becomes a time bomb waiting to explode.

On Designing NEP Not to Create a Culture of Dependency:

That is why the national mission is a broad-based development plan that will see rural wealth creation, agricultural regeneration, incentives for small and medium enterprises and continued assistance for the underprivileged; these and other measures underpin the headline growth strategies led by the private sector. Growth corridors in the north, east coast, south as well as Sabah and Sarawak, will be created with different emphases but with one objective – to spread and share the wealth. Without a solid social foundation created by a distributive policy, we will not have the stability to stay relevant.

Policies to help the bumiputera – a cornerstone of our social contract – will continue but will be designed to bring the best out of the community rather than consigning them to a culture of dependency. These socio-economic priorities are uniquely Malaysian and are firmly non-negotiable.

On the Right Thing to do:

I am sometimes asked, "Pak Lah, why don't you just spend and build? Get the construction sector going. Dish out government projects. I am told that this will be popular and it will grease the wheels of our economy. I am not averse to spending. The 9MP plan proves that. But if my economic policy is only about tax and spend, without any thought given to structural changes, what will I leave behind for the future generations? I don't want to leave behind a debt burden or contingent liabilities. I don't want us to succeed today so that future generations can pick up the tab.

All politicians want to be popular. That is our bread and butter. But popularity must not come ahead of doing the right thing. I have not set out to do what is popular. I have set out to try and do what is right for this country. I have set out to do what I believe is right not just for this generation but for those to follow. Never mind that I may not build great monuments or glittering cities. What is important to me is that what we do today, what we change today will enable us to succeed now and far into the future. The future, as one famous author put it, has many names. For the weak, it is unattainable. For the fearful, it is unknown. For the bold, it is opportunity. Let us be bold and seize the opportunity before us and move full steam ahead.

Figure 34: 9MP – Growth Conurbations

Source: 9MP

9MP: REGIONAL GROWTH CONURBATIONS

The 9MP is positive for the economy but remains underestimated by the market:

- **Significant size.** The size of the developmental budget is a significant RM50b, or 30% more than in the 8MP.

- **Better spread.** Regional growth conurbations (group of towns united by expansion) have been proposed. This will help spread growth and leverage on the respective competitive advantages of different regions.

- **Kick-start new investment cycle.** Large infrastructure projects re-introduced nationwide will boost private sector confidence and kick-start a new investment cycle.

Plans for Johor most aggressive. Among all the plans under the 9MP, the plans for Johor have the greatest upside potential. Despite having world-class logistics infrastructure, low-cost advantage, land availability and proximity to Singapore, Johor has lagged Kuala Lumpur and Penang in development and attracting investments. Johor is ready to rise more so from a very low base.

Southern Region. Johor will receive an allocation of RM10.2b, or 5.1% of 9MP (RM9.2b in 8MP). Major development projects will be carried out in SJER, encompassing a triangle that stretches from Mukim Serkat in the west to Pasir Gudang in the east, and from Kulai in the north down to Johor Bahru in the south. This triangle encapsulates Johor's logistic hub, which includes two international seaports and an international airport. Major projects in the SJER will be driven by the private sector under a masterplan that will include the extension of the Senai airport runway to support Senai as an integrated logistics hub for the southern region. Several other catalyst projects have also been identified. The development of Bandar Nusajaya as the new state administrative centre, as well as the development of an education hub, a centre for creative industries and nearby tourist resorts will further spur development in the state. The development of these projects will be coordinated by Khazanah Nasional under the leadership and support of the federal and state governments.

Northern Region will receive an allocation of RM23.8b, or 11.9 % of 9MP budget (RM20.8b in 8MP). The projects include the Trans-Eastern Kedah Hinterland Highway in Kedah which will open up the eastern corridor of Kedah and northern Perak for development and provide economic opportunities in the areas. In addition, an integrated *halal* hub and permanent food production parks will be established in Kedah. The expansion of Kulim Hi-Tech Park will further stimulate industrial growth in the State. For Pulau Pinang, some of the projects include the construction of the Pulau Pinang Outer Ring Road, the design and construction of the second bridge as well as the establishment of new growth areas. For Perak, one of the major development projects is the construction of the national food terminal in Ipoh while for Perlis, it is the establishment of an integrated *halal* hub.

Eastern Region. Some RM22.3b, or 11.2% of 9MP budget, will be allocated (RM14.3b in 8MP). Infrastructure projects will be the focus of the development. Among the projects are the Simpang Pulai-Gua Musand-Kuala Terengganu Road, which will provide the third trunk road link to the Eastern Corridor, and the East Coast Highway Phase 2 in Terengganu. In addition, the Kuala Terengganu airport will be upgraded to handle wide-bodied aircraft to boost tourism and industrial developments. To further spur the development in northern Terengganu and provide more educational opportunities, the main campus of a new university will be located in Besut. In addition, a new university will be established in Kelantan. For Pahang, development projects will include permanent food production parks, a palm oil industrial cluster and an integrated halal hub.

Central Region still needs projects to meet its development needs. Hence, RM56.2b, or 28.1% of 9MP budget, will be allocated. This is to finance infrastructure works such as several federal roads including the Banting-Taiping Coastal Highway. For Negeri Sembilan, the focus will be the development of Bandar Baru Nilai as a new biotechnology centre and a beef valley in the Gemas and Jelai areas. For Melaka, development projects include the upgrading of Melaka airport to handle narrow-bodied jets to boost tourism.

EAST MALAYSIA

Sarawak. Some RM13.4b, or 6.7% of 9MP budget, will be allocated for development projects (RM12.8b in 8MP). These projects include the upgrading of Oya-Mukah-Balingan Road in the Sibu-Bawang-Assan-Seredeng Road and the Integrated Deep Sea Fishing Complex in Tanjung Manis. This coastal road project will act as a catalyst for the development of the tourism industry in the state. The large-scale planting of oil palms and rubber will further enhance the agriculture sector in Sarawak. To facilitate further downstream agro-based industrial activities, a palm oil industrial cluster will also be developed.

Sabah will receive RM15.7b, or 7.8% of 9MP budget (RM13.2b in 8MP). The completion of Sepulut-Kalabakan Road and Sipitang-Tenom Road will further improve linkages to the hinterland of Sabah and support agricultural development. Other projects include the development of a palm oil industrial cluster that will generate more downstream processing of palm oil in the state and measures to attain self-sufficiency in rice and beef production.

9MP PRIVATISATION MODEL: PRIVATE FINANCE INITIATIVE

With the privatisation model evolving into the Private Finance Initiative (PFI) model under the 9MP where companies are tasked with building, leaseback and maintenance, infrastructure companies with strong balance sheets and strong operating track records such as **Gamuda, IJM and UEM World (via UEM Builders)** will stand a better chance of winning a bigger share of the large infrastructure projects.

The PFI involves the transfer to the private sector the responsibility to finance and manage a package of capital investments and services, including the construction, management, maintenance, refurbishment and replacement of public sector assets such as buildings, infrastructure, equipment and other facilities, which creates a standalone business. The private sector will create the assets and deliver payment in the form of lease rental charges throughout the concession period. The structure of the lease rental payment of PFI projects will guarantee a total return to the concessionaire's capital investment expenditure, including financing cost repayment and profit to investment. The assets and facilities will be transferred to the public sector when the concession period expires.

As the evaluation and procurement process involved in implementing PFI will be more elaborate, particularly the need to be clear about output specifications, maintenance, performance indicators and distribution of risks, an effective framework for implementation will be developed. In this regard, steps will be undertaken to establish a public sector comparator in evaluating the proposals and determining the value for money as compared with the conventional approach.

An effective mechanism will be developed to expedite the procurement process and respond to the demands of the contract details as required in the PFI approach. Measures will also be undertaken to establish long-term financing schemes through local financial institutions, including the EPF, to facilitate the financing of PFI projects, which normally have long gestation periods.

Figure 35: Ease of Doing Business Survey

Country	East of Doing Business	Starting A Business	Dealing with Licence	Hiring & Firing	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing A Business
1) New Zealand	1	4	2	4	1	7	1	16	15	4	21
2) Singapore	2	5	7	7	14	8	2	9	6	11	2
3) US	3	3	17	6	12	15	7	30	17	10	17
4) Canada	4	1	21	24	27	10	3	12	13	34	4
5) Norway	5	19	11	46	7	39	16	40	7	1	3
6) Australia	6	2	12	14	34	3	26	14	22	12	15
7) HK, China	7	6	77	3	70	2	4	2	26	16	14
8) Denmark	8	15	6	17	31	22	18	61	1	2	25
9) UK	9	9	29	15	23	1	9	81	21	30	10
10) Japan	10	81	5	20	36	18	14	50	12	3	1
11) Ireland	11	11	14	59	69	11	10	21	18	32	7
12) Iceland	12	14	27	31	11	17	69	56	23	5	12
13) Finland	13	18	19	84	16	23	39	68	4	23	6
14) Sweden	14	20	13	86	8	30	95	38	2	14	18
15) Lithuania	15	37	16	93	2	36	61	31	31	7	29
16) Estonia	16	43	9	111	29	48	27	18	14	19	42
17) Switzerland	17	28	26	11	13	31	119	13	57	9	33
18) Belgium	18	34	31	43	141	45	13	33	9	17	9
19) Germany	19	47	20	131	33	5	57	54	3	25	30
20) Thailand	20	29	8	23	22	59	33	34	89	49	37
21) Malaysia	21	57	101	34	53	6	5	19	36	61	43
22) Puerto Rico	22	7	51	44	46	27	n.a	37	40	77	26
23) Mauritius	23	24	30	35	131	86	11	20	20	26	62
24) Netherlands	24	42	66	70	20	14	103	120	5	20	8
25) Chile	25	23	35	37	30	32	36	63	42	41	82
26) Latvia	26	26	47	103	89	26	40	83	62	15	11
27) Korea	27	97	25	105	64	25	87	44	16	18	13
28) South Africa	28	51	37	66	77	40	8	84	55	38	53
29) Israel	29	12	83	58	134	12	6	97	11	103	38
30) Spain	30	86	50	150	37	29	94	25	10	24	16
31) Maldives	31	25	10	5	n.a	134	63	1	52	50	100
32) Austria	32	59	41	110	28	20	121	72	8	35	20
33) Namibia	33	76	58	13	118	37	15	28	86	67	35
34) Fiji	34	53	44	18	63	16	38	41	41	108	89
35) Taiwan, China	35	79	126	108	26	58	65	32	54	27	5
36) Tonga	36	17	28	2	100	126	47	17	27	132	75
37) Slovak Republic	37	48	40	74	6	28	118	69	60	81	44
38) Saudi Arabia	38	147	34	28	3	56	74	5	87	95	67
39) Samoa	39	71	36	12	60	89	23	53	28	78	110
40) Botswana	40	74	113	16	80	4	99	59	66	45	28
44) France	44	13	23	142	144	115	56	35	44	13	32
54) Poland	54	92	120	64	75	88	22	106	34	104	23
60) Pakistan	60	38	80	91	43	72	20	127	103	134	36
61) Mongolia	61	49	22	54	21	69	n.a	101	133	51	103
65) Bangladesh	65	52	53	22	151	44	17	92	125	75	77
66) Colombia	66	73	46	130	50	62	37	148	81	83	27
70) Italy	70	45	93	138	48	51	86	102	90	76	40
71) Peru	71	106	97	83	32	73	21	133	93	114	60
73) Mexico	73	84	49	125	74	68	125	95	39	100	22
75) Sri Lanka	75	36	60	98	112	101	64	117	92	54	54
77) Argentina	77	85	103	132	65	42	51	143	43	91	52
91) China	91	126	136	87	24	113	100	119	48	47	59
93) Turkey	93	46	137	141	49	103	75	66	95	37	125
99) Vietnam	99	82	18	122	39	106	143	107	83	102	95
113) Philippines	113	89	91	82	92	121	132	80	33	89	132
115) Indonesia	115	144	107	120	107	63	58	118	49	145	116
116) India	116	90	124	116	101	84	29	103	130	138	118

Source: World Bank

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As of 13 June 2006, the analyst and his/her immediate family do not hold positions in the securities recommended in this report.

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