Malaysian Construction

DBS Group Research . Equity

24 Jun 2016

Completing the AMPC Puzzle

- Double tracking and HSR to largely complete AMPC
- Cross-border opportunities will be vital
- Earnings delivery becoming more crucial
- Top picks Gamuda and Sunway Construction

AMPC-driven transport spending. The ASEAN Master Plan for Connectivity (AMPC) is ASEAN's flagship infrastructure project and aims to link Southeast Asian countries via a system of rail, roads and ports. Malaysia's progress on AMPC is deemed to be advanced and at the upgrading phase. The convergence of the Singapore-Kunming Railway with Malaysia's railway connectivity plans is already taking shape with the last leg of the double tracking being awarded to China Railway Construction Company. We expect more clarity on the High Speed Rail from KL to Singapore when the MOU is signed by end-June. The slew of transportation projects amounting to US$45bn will also ensure greater regional and urban connectivity and is a key focus for Malaysian contractors.

Cross-border opportunities. The 2015/16 GCI survey ranks Malaysia 25th out of 140 countries and second best in ASEAN for infrastructure, implying the pipeline of mega projects will wane in the coming years. While not crucial now, there will be a pressing need to venture overseas. This is not unchartered territory and based on their respective track records, IJM will be the go-to proxy for India, Gamuda – Vietnam, WCT and Sunway Construction – the Middle East, and Muhibbah – Cambodia. Collectively, our universe contributed 41% of the total projects completed overseas from 1986-2015. Malaysian contractors are already exploring opportunities overseas where Indonesia is the largest market for ASEAN. It is likely to stand a higher chance given similar languages, culture and historical precedence.

Execution is key for upward rerating. Consensus earnings for FY16F and FY17F are on average down by 10% and 4% respectively over the past one year. We have also seen the strongest share price performance for Sunway Construction and Kimlun which also has the best earnings delivery coupled with upgrades in earnings. Hence, we are now seeing a higher correlation between share prices and earnings but only for upgrades. We think this will be more crucial once the majority of key projects are rolled out this year, implying that execution is the next important milestone to monitor.

Stock picks. Our two key transportation infrastructure picks with potential for cross-border opportunities are Gamuda and Sunway Construction. Gamuda remains the best transportation infrastructure proxy, and is present in almost all large-scale local projects. Its proven PDP role for the largest project in Malaysian history, the MRT, is a much-needed feather in the cap. Sunway Construction is the only contractor with a track record in MRT, LRT and BRT works.

KLCI : 1,639.98

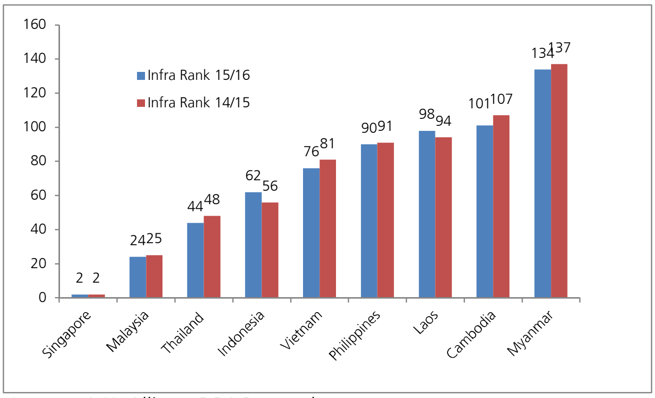
Analyst
Chong Tjen-San, CFA +60 3 26043972
tjensan@alliancedbs.com

STOCKS

	Price	Mkt Cap	Target Price	Performance (%)		
	RM	US$m	RM	3 mth	12 mth	Rating
Gamuda	4.84	2,956	5.80	0.6	(2.0)	BUY
IJM Corp	3.44	3,130	3.30	(1.4)	(0.2)	HOLD
WCT Holdings Bhd	1.56	492	1.55	(4.9)	9.7	HOLD
Muhibbah	2.20	263	3.10	(10.2)	(4.8)	BUY
MMC Corporation	2.07	1,593	3.50	(0.5)	(15.9)	BUY
Sunway	1.58	516	1.92	(3.1)	N.A	BUY
Kimlun Corp	1.79	136	2.38	(0.6)	34.6	BUY

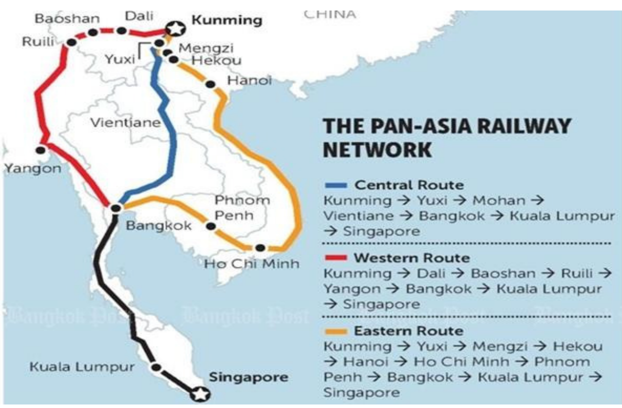
Source: AllianceDBS Research

Infrastructure Ranking in ASEAN – Malaysia 2nd Best



Source: GCI, AllianceDBS Research

Pan-Asia Railway Network



Source: Internet, AllianceDBS Research

CHONG Tjen-San, CFA (603)-26043972
tjensan@alliancedbs.com

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ASEAN MASTER PLAN FOR CONNECTIVITY AND MALAYSIA'S INFRASTRUCTURE PLANS

AMPC – Regional Connectivity and Emphasis on Transport-based infrastructure

The ASEAN Masterplan for Connectivity (AMPC) was launched in 2010 and is ASEAN's flagship infrastructure project aimed at enhancing land connectivity and integration among ASEAN member countries. This is crucial as infrastructure development forms the backbone of the economy of ASEAN countries and is vital in the region's economic, social and connectivity development.

Besides improving the level of public transport ridership locally, the interconnectivity within ASEAN member states is also important through national, sub-regional and regional infrastructure development. This will eventually improve logistic efficiency, support growth of investment, trade and tourism and could lower the cost of doing business.

Similar to the One Belt, One Road (OBOR) project, the AMPC which is more mature aims to link Southeast Asian countries via a system of rail, roads and even ports for RoRo (roll-on and roll-off). OBOR's goals are also to boost infrastructure connectivity and economic growth, albeit, a much larger scale. Launched in Beijing in 2013, the initiative will start at Fujian, China and transcend 65 countries over three continents, through the overland route known as the Silk Road Economic Belt, while the sea route is billed the Maritime Silk Road.

Of significance from an infrastructure standpoint, the focus for AMPC has been the Pan-Asia Rail Network and Asian Highway Network. It remains to be seen how compatible AMPC and OBOR are, which shares some similarities on wanting to enhance transport connectivity.

China has recently been involved in Indonesia's Jakarta-to-Bandung High Speed Rail (HSR) and Malaysia's Gemas-JB double tracking and Bandar Malaysia. Meanwhile, it is also aggressively pursuing the KL-Singapore HSR, which is a positive sign and indicates the momentum for China-ASEAN initiatives to ensure AMPC comes to fruition.

Pan-Asia Railway Network

Source: Internet

Pan-Asia Railway Network. The convergence of the Singapore-Kunming Railway or Pan-Asia Railway Network with ASEAN's railway connectivity plans is taking shape. If completed, this will link Kunming, the capital of China's southwest Yunnan province, with all the capitals of mainland ASEAN countries.

The Singapore-Kunming Railway or Pan-Asia Railway Network refers to a network of railways spanning 6,667km that would connect China, Singapore and all the countries of mainland Southeast Asia. In 2007, ASEAN and China proposed building three routes, the Eastern, Western and a Central Route via Laos. The proposed network consists of three main routes from Kunming, China to Bangkok, Thailand; the Eastern Route via Vietnam and Cambodia; the Central Route via Laos; and the Western Route via Myanmar.

The southern half of the network from Bangkok to Singapore has long been operational, though a high-speed line has been proposed. The missing links are mainly in Cambodia, Myanmar, Thailand and Vietnam.

Malaysia and the missing links for AMPC. Based on the Global Competitiveness Index (a topic which we will focus on later), Malaysia is the second most advanced country in ASEAN for infrastructure. In terms of Malaysia's status on its infrastructure linkages for AMPC, it is deemed to be at the stage for more upgrade works.

The electrified double tracking works is part of this ambitious Pan-Asia Railway Network. So far, all sections have been completed apart from the Gemas-Johor Bahru section which was awarded to a consortium led by China Railways Corporation for RM7bn.

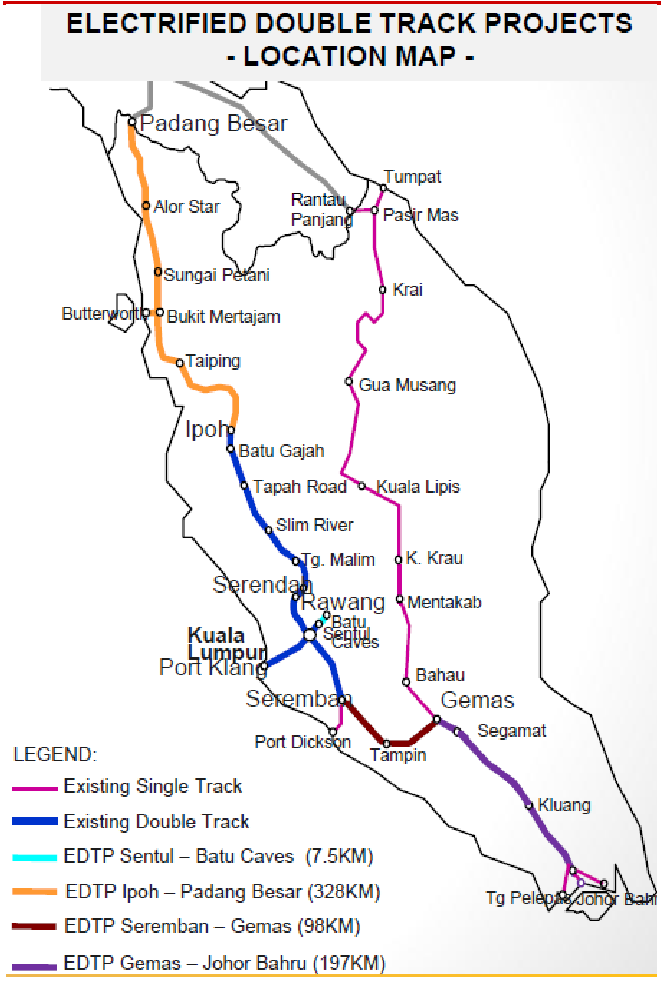
There are parties from China, Japan, South Korea and many others who are keen to bid for the KL-Singapore HSR project. Of significance is the China Railway Group Limited (CREC) which is partnering Iskandar Waterfront. Together with its partner, it has bought a 60% stake in Bandar Malaysia which will be a key station. For Malaysia, it has given its commitment towards China's Pan-Asia Railway and its One Belt One Road Project.

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

Section	Status
Rawang - Ipoh (178km)	Completed July 2007
Seremban - Gemas (98km)	Completed July 2013
Ipoh - Padang Besar (328km)	Physical construction completed Nov 2014
	Systems works now
Gemas - Johor Bahru (197km)	Land acquisition process

Source: Internet; AllianceDBS Research

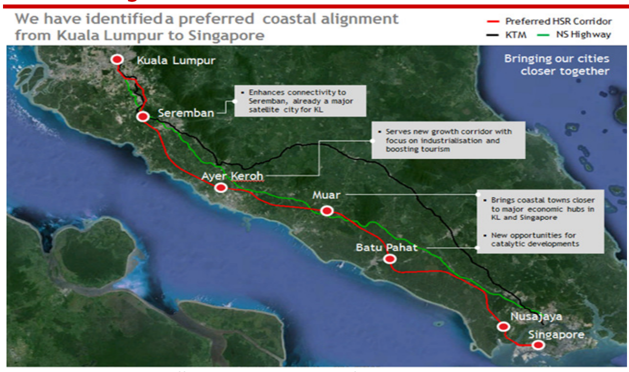
Electrified double tracking in Malaysia – part of Pan-Asia Railway Network



Source: Internet, AllianceDBS Research

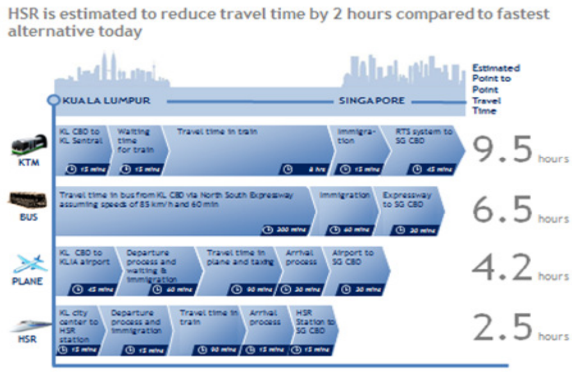
High Speed Rail. MyHSR Corp which is the project delivery vehicle for the HSR was also quoted as saying that they are still in the midst of discussions with Singapore on key issues such as approach to tendering and whether it will be a government design-and-build contractor model. A MOU is expected to be signed by mid-2016. The tentative alignment will be based on two services – a direct service (90 minutes) and another with transit stops (Bandar Malaysia, Seremban, Melaka, Muar, Batu Pahat and Nusajaya which will take two hours). We expect this to be a close race between the Chinese and Japanese contractors.

Probable alignment of HSR



Source: MyHSR, AllianceDBS, DBS Vickers

HSR – Cutting down travelling time



Source: MyHSR, AllianceDBS, DBS Vickers

Transport Infrastructure Important for Regional Connectivity

Infrastructure	Connecting countries	Companies (Contractors)	Remarks
Neak Loeung Bridge	Cambodia and Viet Nam	Sumitomo Mitsui Construction (Japan)	Construction of the bridge started in 2011 and is expected to be completed in 2015 at an estimated cost of $130 million.
Second Thai–Lao Friendship Bridge	Savannakhet (Lao PDR) and Mukdahan (Thailand)	Sumitomo Corporation (Japan)	Completed in 2006 at an estimated cost of $70 million.
Third Thai–Lao Friendship Bridge	Thahhek (Lao PDR) and Nakhon Phanom (Thailand)	Italian-Thai Development (Thailand)	Completed in 2011 at an estimated cost of $57 million.
Fourth Thai–Lao Friendship Bridge	Thailand and Lao PDR	China Railway No.5 Engineering Group and Krung Thon Engineering (Thailand)	The two companies jointly constructed the bridge, which was completed in 2013 The budget of the bridge was estimated at about $44.8 million.
Lao–Myanmar Friendship Bridge	Luang Namtha (Lao PDR) and Xienglap, Thakilek (Myanmar)	China Harzone Industry Corporation supplied steel trusses for the construction of the bridge.	The bridge links Lao PDR's National Road No.17E and Myanmar's National Road No. 4, and connects Xiengkok river port in the Long district in Lao PDR with Xienglap, Thakilek district (Myanmar). The bridge was opened in May 2015.
Kuala Lumpur to Singapore High-Speed Rail Link	Malaysia to Singapore	A number of companies have been reported to have expressed interest in undertaking the project: • China Railway Construction Corporation • East Japan Railway Company (JR East) • Alstom (France) • Siemens AG (Germany)	The project is in the bidding process.
Thai Railway Construction (eventually part of the SKRL)	Thailand		The project is waiting for the EIA approval process and other documentation process with limited progress.The participating contractors should be both Thai and Chinese contractors.
Thai–Lao–China rail freight link	Thailand, Lao PDR and Cambodia	Giant Consolidated (Malaysia)	The rail link is estimated to cost $7.2 billion. Construction of the project will be undertaken with Chinese supervision. The current construction of this project does not include the routes within Thai border.
900 km double railway line in Thailand	Eventually part of the SKRL	• Ch. Karnchang (Thailand) • Sino-Thai Engineering & Construction (Thaila	The first two routes was awarded to the contractors already while the remaining 9 routes are in the bidding and EIA approval process.
Thailand to Viet Nam Railway (through Lao PDR)	Thailand to Viet Nam	Giant Consolidated Ltd (Malaysia)	Rich Banco Berhad (New Zealand) provided a loan to Giant Consolidated Limited (Malaysia) to fund the construction of rail running across Lao PDR from the Thai to the Vietnamese border. However, according to our channel check, there is so limited information on this project annoucing to the public.

Sources: UNCTAD 2015b, based on industry reports and media.

TRANSPORT-BASED INFRASTRUCTURE – Malaysia

Malaysia – Transportation based infrastructure projects

Projects	Amount (RMbn)	Amount (US$bn)	Potential winners	Foreign Participation
MRT Line 2 and 3	56.0	14	Gamuda, MMC, IJM, Sunway, various	Yes, Tunnelling via Swiss Challenge
Penang Integrated Transport	27.0	7	Gamuda. IJM likely to have subcon role	Zenith-BUCG awarded undersea tunnel
KL Bullet Train to Singapore	40.0	10	Gamuda, YTL, various	Yes, likely to China or Japan
LRT 3	10.0	2	MRCB-George Kent and other local contract	No apart from system and rolling stock
6 new highways	19.0	5	Various	No
Pan Borneo Highway	27	7	CMS, Naim, HSL, other West Malaysian playe	No
Gemas-JB double tracking	8	2	Fajar Baru, Gamuda, IJM, WCT	Yes awarded to China Railway Construction
Jalan Tun Razak traffic dispersal	0.9	0	Various	No
Total	187.9	46		

Source: AllianceDBS, Companies

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

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

There is some element of foreign participation for these projects largely either from Chinese-based contractors which comes with associated funding or G-to-G relationships or from a technical standpoint where local contractors do not have the required expertise.

MRT Line 1 which links Sungai Buloh to Kajang is slated for full completion in July 2017. The cumulative financial progress for underground is 85% and PDP is 76% with no significant cost overruns and is on track to meet KPIs.

MRT Line 2. The Sungai Buloh-Serdang-Putrajaya (SSP) Line or MRT Line 2 will serve a corridor with a population of around 2m people, stretching from Sungai Buloh to Putrajaya and will include Sri Damansara, Kepong, Kampung Batu, Jalan Sultan Azlan Shah, Jalan Tun Razak, KLCC, Tun Razak Exchange, Kuchai Lama, Seri Kembangan and Cyberjaya. The proposed length is 52.2km of which 13.5km is underground. A total of 36 stations, 11 of them underground, will be built. At commencement of full service in 2Q2022, the SSP Line is expected to have a ridership of 529,000 passengers per day.

So far, four out of the ten viaduct packages have been awarded while the balance six will be awarded over the next 12 months. Only contractors which were involved in MRT Line 1 were allowed to bid for the first three viaduct packages, V201, V202 and V203. As for tunnelling, MMC-Gamuda has won the RM15.47bn contract without having to exercise the Swiss Challenge, implying margins should be intact. The PDP fees have been set at 6% (similar to Line 1) but with three additional KPIs which will constitute about 0.5ppt of the 6%. This will be for safety, quality and response to the public.

MRT Line 2 awards so far

Company	Date	Contract Amount (RM)	Package	Scope of works
Ahmad Zaki Sdn Bhd	25-Mar-16	1.44bn	V202 (Reserved for Bumi contractor)	Construction and completion of the viaduct guideway and other associated works for a 4.5km stretch of the SSP Line elevated guideway from Persiaran Dagang to Jinjang, Kuala Lumpur
Sunway Construction Group	28-Mar-16	1.21bn	V201	Construction and completion of the viaduct guideway and other associated works for a 4.9km stretch of the SSP Line elevated guideway from Sungai Buloh to
TRC Synergy Bhd	28-Mar-16	103.8m	N/A (SBK Line)	Construction of Pasar Seni LRT link and other associated works between Pasar Seni LRT station and Kuala Lumpur
Kimlun Corp Bhd	29-Mar-16	199m	V201-V205	Supply and delivery of segmental box girders for viaduct packages V201 to V205
Acres Works Sdn bhd	29-Mar-16	170m	V206-V210	Supply and delivery of segmental box girders for viaduct packages V206 to V210
Potensi Cekal Sdn Bhd	29-Mar-16	62.5m	N/A (SBK Line)	Construction of an MRT feeder bus depot and related supporting buildings and facilities for the SBK Line at
MMC- Gamuda JV (50:50)	31-Mar-16	15.47bn	Tunnelling package	Design, construction and completion of tunnels, underground stations and associated structures such as portals and escape shafts for the SSP Line's 13.5km underground alignment from the Jln Ipoh North Escape Shaft to the Desa Waterpark South Portal
IJM Construction Sdn Bhd	12-May-16	1.47bn	V203	Construction and completion of the 4.6km viaduct package and other associated works from Jinjang to Jalan Ipoh North Portal
MRCB	12-May-16	648m	V210	Construction and completion of the 2.6km viaduct guideway and other associated works from Persiaran APEC in Cyberjaya to Putrajaya Sentral
HAP Consortium (comprisingHyundai Rotem Company of Korea, Malaysian company Apex Communications Sdn Bhd and POSCO Engineering Co Ltd)	12-May-16	1.62bn	SY203	Engineering, procurement, construction, testing and commissioning of electric trains and depot equiptment
Consortium comprising Bombardier (Malaysia Sdn Bhd) and Global Rail Sdn Bhd	12-May-16	458.02M	SY201	Engineering, procurement, construction, testing and commissioning of the signalling and train control system

Source: MRT Co, AllianceDBS, DBS Vickers

LRT 3

As for LRT 3, which links Bandar Utama to Klang, the appointment of MRCB-George Kent for the PDP role will see more concrete tenders and awards in 2016. The total length is 37 km comprising 26 stations and when completed, will carry 74,000 passengers per day.

The prequalification process saw 22 key construction players prequalifed for the larger packages. Some of the key contractors are Gamuda, Bina Puri, Crest Builder, WCT, IJM, Naza Engineering, Muhibbah Engineering and Sunway Construction. Also, eight companies have been shortlisted for the tunnelling portion which spans 2km. We expect awards at the earliest in 4QCY16.

The PDP will receive a fixed fee of 6% paid on a quarterly basis and will not participate directly in the civil works.

West Coast Expressway

The West Coast Expressway is a 233km tolled expressway which will link Banting to Taiping. Specifically, it starts at a junction with Selangor State Road B18 which runs from Banting, Selangor and ends at the ramp of Changkat Jering toll plaza of the North-South Expressway at Taiping, Perak. It is planned and designed to be connected to the existing highways (such as PLUS, SKVE, NKVE, NNKSB, LATAR, KESAS, etc.). The entire expressway will have 21 interchanges. According to its website, progress has reached 19.8% as at April 2016. IJM is the main contractor for this project and has been awarded RM2.8bn worth of works out of the RM5bn contract amount.

WCT was awarded a RM282m contract from IJM for subcontracting works for Section 3,4,5,8 & 9 for WCE. This forms part of IJM's RM2.8bn contract for the WCE. The scope of works consists of site clearance and earthworks, geotechnical works, drainage works and box culverts, sub-base, road base and pavement, traffic signs, road markings and road furniture, utilities and services, erosion control sediment plan, environmental protection and enhancement.

We understand tenders from the RM2.2bn open tender portion for packages 1, 2, 6, 7, 10 and 11 will be called in 2016.

High Speed Rail

Malaysia's and Singapore's land transport regulators (SPAD and LTA) said they received 98 submissions in response to the request-for-information exercise for the High Speed Rail (HSR) project. They include companies from Malaysia, Singapore, the Asia-Pacific, Europe, the Middle East and North America. Of the 98 submissions, there were 13 from Malaysia and four from Singapore.

At the recent China High Speed Railway symposium in KL, 14 companies were shortlisted to present their views on the project. Apparently, the companies are France's Alstom SA, Germany's Siemens AG, Spain's CAF and Talgo SA, Canada's Bombardier, China Railway and consortiums from South Korea and Japan. SPAD is also exploring the use of Transport Oriented Development (TOD), which is a mixed-use residential and commercial area aimed at maximising access to public transport along the HSR line.

SPAD and LTA's CEOs were also quoted as saying that the governments of Malaysia and Singapore expect to finalise the commercial model and procurement approach of the project by 2016. A MOU is expected to be signed by mid-2016.

According to a local daily as reported in early January 2016, both the Malaysian and Singaporean governments have agreed on the alignment and have decided on two services – a direct service (90 minutes) and another with transit stops (Bandar Malaysia, Seremban, Melaka, Muar, Batu Pahat and Nusajaya, which will take two hours).

Prime Minister Najib has also confirmed China's interest in the HSR following the signing of the eight G-to-G MOU. The sale of 1MDB's power assets to China General Nuclear Power Corp for RM9.83bn and China Railway Engineering Corp.'s involvement in Bandar Malaysia could be a precursor to more Chinese involvement in Malaysia's mega infrastructure projects like the HSR.

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

Penang Transport Master Plan

Gamuda, via SRS Consortium, has been appointed by the Penang State Government to be PDP for the Roads and Public Transport Projects in Penang (Penang Transport Master Plan Strategy 2013-2030). The shareholding structure is as follows: Gamuda (60%), Ideal Property Development (20%), and Loh Poh Yen Holdings (20%).

Gamuda is hoping to have two bites of the cherry – being PDP, and also turnkey contractor for some key components, but that is still uncertain at this stage.

The components are an LRT from Komtar to Bayan Lepas, a monorail from Komtar to Air Itam and Tanjung Bungah, e-buses across North Channel, bus rapid transits on the mainland and a 20-km Pan Island Link Highway connecting Tanjung Bungah to Penang International Airport and Tun Dr Lim Chong Eu Expressway (LCE) with tunnels cutting through the hills.

The first components are supposed to be the LRT (which is 20km in length) and the Pan Island Link Highway, given their high economic IRR of 12.2% and 14% respectively. The media also highlighted the plan to reclaim two islands in the south of Penang Island, which will be fully owned by the Penang government. The land will then be auctioned to finance the project. The estimated cost for reclaiming two islands of 1,300 acres and 2,100 acres respectively is RM7-8bn. This works out to be RM47-54psf as compared to E&O's reclamation cost at Seri Tanjung Pinang of RM90-140psf. The previously speculated land to be reclaimed in Middle Bank is not likely to happen given the strong protests from environmentalists and civic groups.

The PDP where Gamuda has a 60% stake is in the midst of extending the signing of the PDP agreement which has since lapsed. Presentations have been made to the Federal government, with the feedback being positive so far. There are two key milestones to achieve which are:

1) SPAD submission by June/July for the whole public transportation system
2) Department of Environment submission likely by 4QCY16.

Gemas-to-Johor Bahru double tracking.

This 197-km stretch represents the last link for the whole double tracking project in Malaysia. The contract, worth an estimated RM7bn, was awarded to an entity headed by China Railway Construction Company. However, local contractors are eyeing a subcontractor role.

Pan Borneo Highway

In 2013, the Prime Minister stated his commitment towards the Pan Borneo Highway which was also included in Budget 2016 where a total allocation of RM29bn was made for the total stretch of 2,239km. The Sarawak portion costing c.RM16bn has been progressing with the appointment of the PDP role to Lebuhraya Borneo Utara for the 1,090-km stretch. The Sarawak portion will be rolled out in two phases and be fully completed by 2023. So far, the timing of the Sabah portion costing RM12.8bn remains elusive but the PDP has been appointed, comprising Warisan Tarang (60%) and a JV between UEM and MMC holding 20% equity stake each. This will run from Sindumin to Tawau where the total length is 706km.

The total length of the Sarawak portion is 1,089 km stretching from Tanjung Datu to Merapok. The scope of the project is mostly on the upgrading of the current road system from the present 2-lane single carriageway to a 4-lane dual carriageway (JKR R5 standard design). At present, only 144km of federal route 1 is a 4-lane dual carriageway. But there will also be construction of some additional 30km of roadworks.

So far, two work packages have been awarded in 2015 and there are now eight remaining work packages to be awarded this year. The tenders for this eight closed at the end of May and will be awarded from June to July onwards. On average, each work package will be for 60-90km and will be at least RM1bn in value. The initial portions will be from Jalan Nyabau to Bakun junctions (43km) and Telok Melano to Sematan (33km). Phase 1 is from Sematan to Miri (746km) and Phase 2 from Kuala Baram (Jalan Perlis) to Sg Tujuh, Limbang, Lawas area (96km).

This project will involve participation from West Malaysian contractors where they are allowed to take a maximum of 30% equity stake in a JV company where there must be a Sarawak partner which will take the balance 70%. Our conversations with the listed players (Gamuda, IJM, WCT, Sunway Construction, Binapuri) have revealed their keen interest. Cahya Mata Sarawak is the most obvious direct proxy as besides having a main contractor role, it also supplies premix, RMC, and aggregates for roadworks. We believe the West Malaysian contractors have a crucial role to play given their vast experience in the construction of toll roads .

GLOBAL COMPETITIVENESS INDEX – Standings and opportunities?

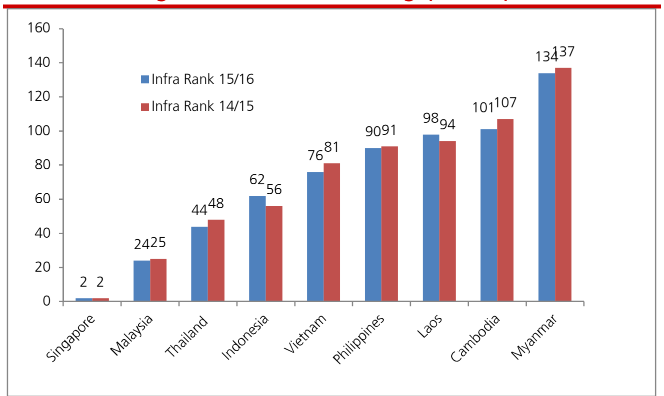
ASEAN Member States have invested in infrastructure to varying degrees in terms of spending and development. The Global Competitiveness Index (GCI) findings for 2015/16 are based on 140 countries while for 2014/15, it covers 144 countries.

ASEAN Countries' Country Rank and Infrastructure Rank

ASEAN Countries	Country Rank 15/16	Infra Rank 15/16	Country Rank 14/15	Infra rank 14/15
Singapore	2	2	2	2
Malaysia	18	24	20	25
Thailand	32	44	31	48
Indonesia	37	62	34	56
Myanmar	131	134	134	137
Vietnam	56	76	68	81
Cambodia	90	101	95	107
Philippines	47	90	52	91
Laos	83	98	93	94

Source: GCI, AllianceDBS, DBS Vickers

ASEAN Ranking on Infrastructure – Singapore tops, M'sia 2nd



Source: GCI, AllianceDBS, DBS Vickers

Based on a survey, among the three countries, the infrastructure needs of Indonesia is the highest at US$235bn over 2013-2020, followed by Thailand at US$105bn and Malaysia at US$100bn.

Comparison of infrastructure needs

	Population	GDP	Infrastructure needs from 2013-2020
Malaysia	29.5m	US$305bn	US$100bn
Indonesia	244.5m	US$879bn	US$235bn
Thailand	67.9m	US$366bn	US$105bn

Source: IMF, World Economic Outlook, Other surveys

We highlight the infrastructure quality of all ASEAN countries based on the last two recent GCI findings. In short, we have concluded that:

i) Unsurprisingly, Singapore is ranked the highest in ASEAN and second in the world.

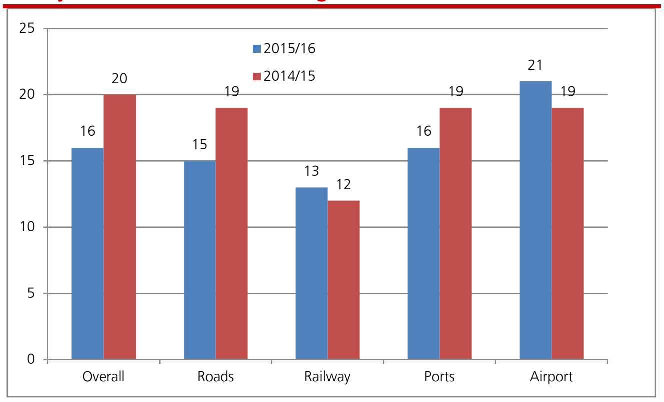
ii) All ASEAN countries showed improvement in the latest 2015/16 rankings for infrastructure apart from Indonesia and Laos.

iii) All ASEAN countries apart from Singapore, Malaysia Vietnam and Myanmar cite the inadequate supply of infrastructure as the top 5 most problematic reasons for doing business. For Vietnam and Myanmar, this issue does not appear, most likely because other issues cited such as access to financing, inadequate educated workforce, political instability, corruption, tax regulations and inefficient government bureaucracy take precedence. For Philippines, inadequate supply of infrastructure appears as the number two reason while for Cambodia, Indonesia and Laos, it is the third reason.

iv) Among the three ASEAN countries (Malaysia, Thailand and Indonesia), the biggest opportunities likely lie in Indonesia given the poorest ranking in terms of infrastructure among the three and concerted efforts by the Jokowi-led government to address this.

v) Malaysian contractors likely stand a higher chance for Indonesian-based projects given similar languages, culture and historical precedence.

Malaysia Infrastructure Ranking Detail

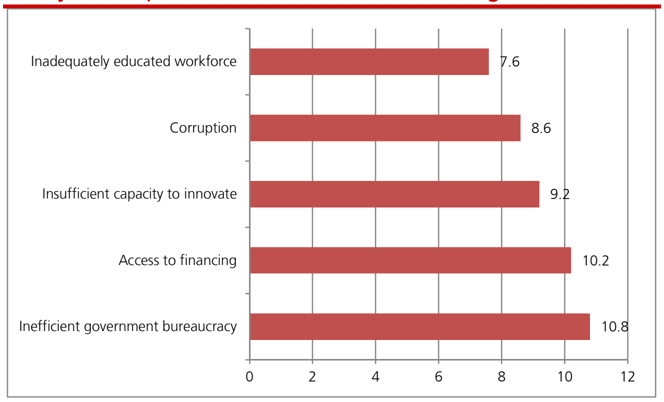


Source: GCI, AllianceDBS, DBS Vickers

Out of three ASEAN countries, Malaysia's infrastructure is probably the most mature. This implies while there is a surge in transport-related infrastructure currently, contractors will eventually need to venture overseas again.

For the detailed ranking for infrastructure, the overall infrastructure ranking for 2015/16 falls to 16 vs 20 in 2014/15. It showed improvement for roads and ports but not for railways and airports. For railways, it fell to 13 in 2015/16 (vs 12 in 2014/15) and airports fell to 21 in 2015/16 (vs 19 in 2014/15). Roads and ports showed improvement to 15 and 16 in 2015/16 respectively vs 19 for both categories in 2014/15.

Malaysia – Top 5 Problematic Reasons for Doing Business



Source: GCI, AllianceDBS, DBS Vickers

DBS VICKERS SECURITIES

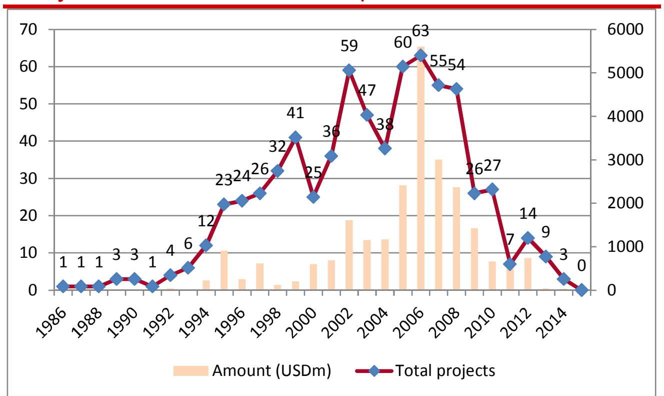
CROSS-BORDER OPPORTUNITIES

Malaysian contractors overseas (2013-15 selective)

Company	Types of projects	Location	Contract Value US!	Year Complete
ASEAN Member States				
Trans Resources Corp	Modernization of airport termina	Brunei	98	2014
Bina Puri	Building construction	Brunei	4	2014
MTD Construction	Toll road	Indonesia	371	2015
Johawaki	Toll road	Indonesia	428	2014
UEM Builders	Toll road	Indonesia	641	2015
Bina Puri	Mini Hydropower plant	Indonesia	10	2015
Salcon Engineering	Others	Lao PDR	1	2013
Eastern Soldar	Tankage Work	Singapore	16	2014
Salcon Engineering	Reservior	Thailand	7	2014
Prinsiptek	Building and Residential	Thailand	14	2015
Bina Puri	Building	Thailand	25	2014
Salcon Engineering	Water Treatment	Vietnam	22	2013
Gamuda	Transmission line, mech and electrical	Vietnam	146	2013
Ireka	Hopsital	Vietnam	26	2013
Other developing economies				
Malaysian Maritime & Dredging	Dredging and bank protection	Bangladesh	27	2013
HG Power Transmission	Transmission Line	Bangladesh	5	2014
HG Power Transmission	Transmission Line	Bangladesh	23	2015
Scomi	Monorail	Brazil	621	2014
Scomi	Monorail	Brazil	652	2015
MTD	Highway	China	429	2014
Mersing	Sewage	China	14	2014
Mersing	Water	China	26	2015
IJM	Road and highway	India	24	2014
Salcon Engineering	Water Treatment	India	5	2013
IJM	Mahua-Jaipur Section 6	India	6	2015
IJM	Mahua-Jaipur Section 9	India	9	2014
UEM Builders	Buidling	India	13	2014
UEM Builders	Road works	India	50	2013
Mudajaya	Power plant	India	588	2013
Ho Hup	Road	Iraq	20	2015
Ho Hup C	Water System	Iraq	88	2015
Steelworks	Steel Water Tank	Kenya		2013
Ranhill	Residential	Libya	143	2013
WCT	Expressway	Oman		2015
WCT	Road and Building	Watar	334	2015
Bina Puri	Water System	Saudi	8	2013
Salcon Engineering	Water Supply	Sri Lanka	18	2015
MTD	Sewage tunnel	UAE	19	2013

Source: CIDB, AllianceDBS, DBS Vickers

Malaysian contractor's overseas exposure – Number and value



Source: CIDB, AllianceDBS, DBS Vickers

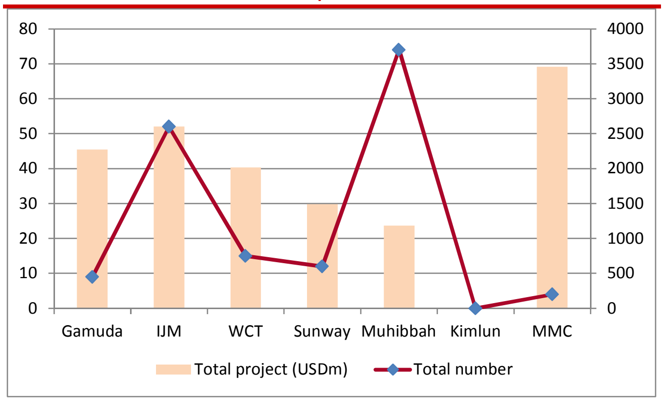
Malaysian contractors are no stranger to overseas ventures. Based on the statistics by Construction Industry Development Board (CIDB), the number of contracts and amounts awarded for overseas jobs slowed significantly post 2011-12 as contractors were more focused on domestic jobs such as MRT, while there was still a strong pipeline for property-related projects from the private sector. However, this has slowed significantly since then and 2015 saw no new overseas projects. A case in point is IJM where it made a conscious effort to remain domestic in terms of order flows, given that its Indian projects faced nagging issues.

DBSV construction universe exposure for overseas contractors vs Total

	Total number	Total project (USDm)	Completed project value (USDm)	On-going project value (USDm)
Gamuda	9	2273	2273	0
IJM	52	2603	2293	224
WCT	15	2016	1292	723
Sunway	12	1493	1493	0
Muhibbah	74	1184	1184	0
Kimlun	0	0	0	0
MMC	4	3458	3458	0
Total	166	13027	11993	947
Total including others	789	31853	24404	6668
% of Total	21	41	49	14

Source: CIDB, AllianceDBS, DBS Vickers

DBSV construction universe exposure for overseas contractors



Source: CIDB, AllianceDBS, DBS Vickers

Based on the above, contractors under our coverage contributed 21% of the total number of contracts awarded but 41% of the project value from 1996-2015. The key contributors were Gamuda, IJM and MMC.

Gamuda's exposure to overseas projects has been varied but largely to Vietnam, India and the Middle East.

IJM has a long-standing history in India since the 1990s but given the strong pipeline projects in Malaysia and its peak orderbook of RM8.5bn, we think it will be selective in exploring overseas projects for now.

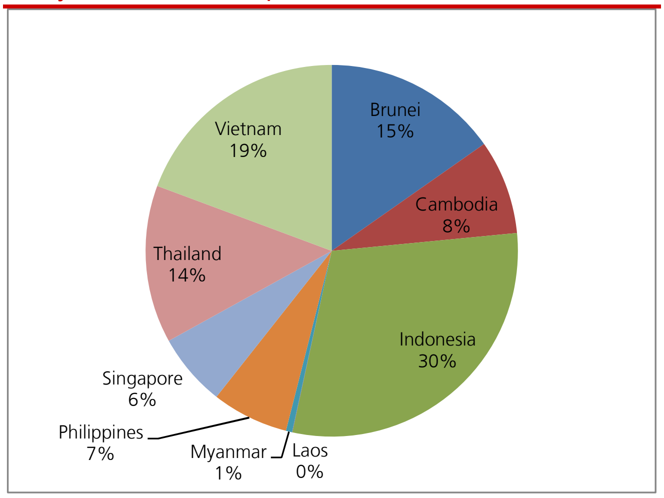
20% of WCT's current outstanding orderbook comprises Middle East projects (two projects in Qatar). It continues to selectively bid for projects there.

Sunway Construction has a successful track record in the Middle East with its Rihan Heights project with JV partner CapitaLand. It has also done several road projects in India for the National Highway Authority of India. We understand it has been winning at every level for the arbitration process and there is a high probability of some write-backs this year.

Muhibbah's exposure overseas has also been varied but it would benefit from potential flows in Cambodia given that it owns a 21% stake in the airport concession and has some on-the-ground feel of the market there.

While Malaysian contractors are in a sweet spot currently with ample domestic job flows, we think post the rollout of HSR and MRT Line 3 in the next few years, there will be no meaningful large-scale project to look forward to. Based on our conversations with contractors, there are already making some preparatory ground work to explore potential overseas contracts. For future projects, we expect Joint Ventures to be formed to minimise project risk.

Malaysian contractor's exposure to ASEAN countries



Source: CIDB, AllianceDBS, DBS Vickers

JV projects overseas

Company	Project	Amount (USm)	Completed
Gamuda -WCT (70:30)	4 Laning of Panagarh – Palsit Section of NH – 2 West Bengal, India	68	2005
Gamuda-WCT (70:30)	4 Laning of Durgapur Expressway (Dankuni – Palsit Section on NH-2) West Bengal, India	29	2005
MRCB-Zelleco Construction (50:50)	Osmani International Airport, Bangladesh	7.7	2007
Gamuda-WCT (85:15)	Design and build Airfield Paving Tunnel and Detention Ponds NDIA	663	2008
Gamuda-WCT (51:49)	Durkhan Highway	112	2009
IJM-LFE (70:30)	Hotel Development Al-Reem Island, Abu Dhabi	108	2008

Source: CIDB, AllianceDBS, DBS Vickers

IJM's presence in India is strong

Project	Description	Started	Completed
Mumbai-Pune Expressway Section 'A' from Kon to Chowk (Maharashtra)	Laying of 3-lane dual carriageway concrete pavement road.	Jan-98	Apr-00
Chennai Bypass Phase-I	2-lane single Carriageway bituminous pavement.	Jun-98	Oct-01
Tallada-Devarapalli Road Project (APSH-7)	Widening to 4-lane and strengthening existing carriage way	Apr-99	Jun-04
Tallada-Torur-Warangal Road Project (APSH-8)	Widening and Strengthening of existing single lane bituminous road.	Mar-00	Jun-04
Chilakaluripet-Vijayawada Road Project (Packages 1,2&3)	Widening to 4-lane and Strengthening of existing 2-lane	Apr-01	Nov-02
Ongole-Chilakaluripet Road Project (AP-13)	Rehabilitation and Upgrading of existing 2-lane road to 4/6 lane,divided Carriageway Configuration f	May-01	Dec-05
Tada Nellore	Widening and strengthening of existing 2 lane to 4 lane between Tada-Nellore	Aug-01	Dec-03
Satna-Umaria Road Project	Strengthening, Widening Rehabilitation of the Road	Oct-02	Feb-05
Rewa-Amarkantak Road Project	Strengthening, Widening Rehabilitation of the Road	Oct-02	Oct-04
Delhi Metro Rail Corporation Limited	Construction of elevated viaduct	Apr-03	Completed
Raintree Park-Integrated Township Hyderabad	Construction and development of Integrated Township on turnkey basis	Aug-06	Completed
Jaipur-Mahua BOT Road Project	Improvement, Operation and Maintenance, Rehabilitation and Strengthening of existing 2-lane road and widening to 4-lane	Oct-05	Jun-09
Prestige Shantiniketan Township, Bangalore	Construction of Residential Township comprising of 23 Towers along with associated podium works	Dec-05	Nov-06
TCS IT Park, Gachibowli, Hyderabad	Construction of General Civil Works, Road works and site development for proposed office at IT Park	Dec-05	Nov-06
DMRC Phase II - Contract No. BC - 4	Part Design and Construction Elevated Viaduct and structural work three elevated stations	May-06	Apr-08
DMRC Phase II – Contract No. BC - 8	Part Design and Construction of Elevated Viaduct and structural work elevated stations	May-06	Feb-10
Ulunderpet - Padalur BOT Road Project	Engineering, Construction, Development, Finance, Operation and Maintenance of 4 laning the existing 2 lane section	Jul-06	Jun-09
DMRC-C2	Construction of viaduct and Dhaula Kuan Section for Airport Metro Express line including Ramps	Dec-07	Jul-10
RAINTREE PARK DWARAKA KRISHNA,Vijayawada - Guntur	Construction of Integrated township	Dec-07	Dec-11
Prestige Shantiniketan-Commercial ,Bangalore	Construction of civil and architectural works for high rise commercial blocks cum multi level car park	Mar-12	Completed
C-4 Section of Jhansi - Lakhnadon ADB Road Project	Rehabilitation and Upgradation to four laning of existing two lane road	Mar-12	Completed
MCD Civic Centre Building Project	Construction of Civic Centre for Muncipal Corporation	Jul-12	Completed
Rob project across spinal road	Construction of ROB across Spinal road connecting Kukatpally and HITECH City,Hyderabad.	May-13	Completed
Pune-Solapur Road	Strengthening of existing 2-Lane Road and Widening to 4-Lane divided highway	Feb-14	Completed
Tada-Nellore NH-5 Overlay project	Localized Rehabilitation Overlay and Associated Works	Feb-15	Completed
Jaipur-Mahua NH-11 Overlay road project	Localized Rehabilitation Overlay and Associated Works	Jan-15	Completed
Nandigama Road NH-9 Overlaying project	Localized Rehabilitation Overlay and Associated Works	Feb-15	Completed
Vijayawada-Chilakaluripet Road Project	Six laningto be executed as BOT(Toll) on DBFO pattern under NHDP Phase V.	Apr-15	Completed

Source: Company, AllianceDBS, DBS Vickers

Gamuda's presence overseas has been varied

Project	Description	Date start	Date end
Yenso Water Treatment Plant Vietnam	Design, construciton, testing and commissioning	2009	2012
Panagarh-Palsit India	Design, construciton, testing and commissioning	2002	2005
Durgarpur Expressway India	Design, construciton, testing and commissioning	2002	2005
Hamad International Airport, Qatar	Runways, taxiways, parking aprons, buildings	2005	2011
Sinohydro-Gamuda-WCT JV			
Durkhan Highway, Qatar	Roadworks, Bridgeworks & Ancillary works	2005	2009
Sitra Bridges, Bahrain	Construction, dredging, reclamation, earthworks	2006	2009
Kaohsiung MRT, Taiwan	Construction Underground Tunnels and Stations	2002	2008

Source: Company, AllianceDBS, DBS Vickers

Muhibbah's presence overseas has been varied

Project	Description	Type of works
Cambodia Restoration Project	Road works PCS deck beams bridges and others drainage	Infrastrucure
Catering facility for New Doha International Airport, Qatar	Construction of Catering Facilities	Airport
Sihanoukville International Airport - Runway improvement	Construction of Runway Widening & Taxiway Widening	Airport
Phonm Penh International Airport	New Domestic Arrival Building	Airport
Phonm Penh International Airport	New Terminal Building (Phase TA & TB), Apron & Car parks	Airport
Siem Reap - Angkor International Airport	Building and External Works (Drainage, roads,car park &	Airport
Siem Reap - Angkor International Airport	Taxiway Apron Extension of 15,000m2 of concrete apron slab &	Airport
Yemen LNG	Includes LNG Loading Jetties, Water Intake / Outfall GRP Pipes Pumping Station and Outfall Basin, Electrical Substation	Oil and Gas
Horixaon Bulk Liquid Products Terminal Jurong, Singapore	4 nos. of Jetty at Horizon Terminal with capacity from 50,000 DWT min to 275,000 DWT max	Oil and Gas
Yemen LNG project	Includes LNG Loading Jetties, Water Intake/ Outfall GRP Pipes Pumping Station and Outfall Basin, Electrical Substation &	Marine and Port
Berth K12, K13 & K14 at Keppel Terminal, Singapore	Upgrading of Berth K12 at Keppel Terminal and Dredging works	Marine and Port
Jurong PrimeWide Pte Ltd	4 nos. of Jetty at Horizon Terminal Ltd with capacity from 50,000	Marine and Port
Wiggins Island Coal Export Terminal	Construction of coal terminal	Marine and Port
50:50 JV between Muhibbah and Monadelphous		

Source: Company, AllianceDBS, DBS Vickers

WCT's presence overseas skewed to Middle East

Project	Description	Amount
Lusail Development Project, Doha, Qatar. (70:30 JV with Al-Ali Projects)	Construction of commerical boulevard, road, LRT, car park	RM1.3bn
Durkhan Highway, Doha Qatar (JV Gamuda)	43km new four-land dual carriageway	RM784m
Yas Marina Yacht Club, Abu Dhabi	Completion of Marina Landside Facilities for Yas Island	RM270m
Yas Marina Yacht Club	Landside amenities also includes yacht brokerages and charter companies, chandlery, provisioning store, crew lounge and meeting facilities.	RM235m
Bahrain City Centre (5)% JV with Cebarco)	Retial, car park, hotel, theme park, water park, interior fittings	RM1.6bn
Bahrain International Circuiy	Construction which includes the buildings, racetracks, tunnels, paddock area, roads and other related infrastructure works in compliance with FIA rules and regulations	RM586m
New Doha International Airport, Qatar (WCT has 49%)	Design and construction of airfield facilities, tunnels and detention ponds	QR3.5bn
Qatar Ministry Complex	Construction, completion and maintenance	n/a
Yas Marina Circuiy, Abu Dhabi	Construction, completion and maintenance of the Yas Marina Circuit. It also includes the grandstands, facilities and buildings, dune buggy track, off road vehicle track, go karting track and drag strip.	RM4.3bn

Source: Company, AllianceDBS, DBS Vickers

Sunway Construction's presence overseas skewed to India

	Project Description	Client	Date Start	Date End	Contract Value (RMm)
Civil/ Infrastructure	Phase 1, Plot 1, Zone C of Al-Reem Island, Abu Dhabi, UAE	Tamouh Investments LLC	Oct-06	Apr-09	1,323
	Phase 1 A, Plot H of Rihan Heights project, Abu Dhabi, UAE	Mubadala Capitaland Real Estate LLC	Nov-08	Nov-10	1,865
	Belgaum Bypass, Kartanaka, India	NHAI	Jun-01	Dec-03	56
	Roadworks Package 5-C, India	NHAI	Sep-01	Mar-05	172
	Dharwad- Belgaum Package 3, Kartanaka India	NHAI	Apr-02	Oct-04	118
	Grand trunk road, India	NHAI	Apr-02	Apr-05	228
	East- West Corridor roadworks, Rajasthan, India	NHAI	Jul-05	Jan-08	165
	East- West Corridor roadworks, Uttar, Pradesh, India	NHAI	Jul-05	Jan-08	239
	Cochin Port Connectivity Vallarpadam, Cochin India	NHAI	Aug-07	Feb-10	189
	Ministry of Legal Affairs Tower, Trinidad and Tobago	NHAI	May-05	Aug-07	213
Mechanical, electrical & plumbing services	Phase 1 A, Plot H of Rihan Heights project, Abu Dhabi, UAE	Silver Coast-Sunway Innopave Joint Venture	Jan-09	Oct-09	341

Source: Company, AllianceDBS, DBS Vickers

EARNINGS MOMENTUM AND CONSENSUS CHANGE

Consensus earnings for FY16F and FY17F are on average down by 10% and 4% respectively over the past one year. On average, our universe of construction stocks is up by 11% for the corresponding period. We think this implies some optimism has been priced in for 2016.

We have also seen the strongest share price performance for Sunway Construction and Kimlun which also has the best earnings delivery, coupled with upgrades in consensus earnings. The correlation coefficient and R-Squared between Sunway Construction's change in consensus earnings and share price for the past one year has been 0.87 and 76% while for Kimlun it was 0.92 and 85%. Hence, we are now seeing a higher correlation between share prices and consensus earnings change but only in terms of earnings upgrades. We think this will be more crucial once the majority of key projects are rolled out this year, implying that execution is the next important milestone to monitor.

For Gamuda, the cuts in earnings for FY16-17F have largely been from the dilution of the warrants issue; given that the company had long forewarned that FY16F (Y/E July) net profit was expected to be lower y-o-y. Similarly, the cuts for WCT for FY16-FY17F have also factored in the dilution from the warrants but this is also coupled with its poor earnings delivery so far from lacklustre property sales while its higher-margin infrastructure projects have yet to contribute.

Note that our forecast earnings are generally in line with consensus apart from IJM. We think there could be more downgrades for IJM given the recent weak 4QFY16 (Y/E March) results.

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

	GAM	IJM	WCTHG	SCGB	MUHI	KICB
FY16 EPS Revision	-25.9%	-	-34.3%	18.5%	-13.4%	25.9%
FY17 EPS Revision	-20.6%	-29.5%	-24.6%	38.0%	-9.6%	19.5%
FY18 EPS Revision	-9.8%	-27.1%				
DBSV vs. consensus (FY16)	98.1%	-	107.8%	101.6%	95.0%	102.2%
DBSV vs. consensus (FY17)	94.1%	82.0%	94.0%	89.9%	102.6%	105.2%
DBSV vs. consensus (FY18)	89.9%	77.1%	92.7%	97.4%	103.0%	114.0%

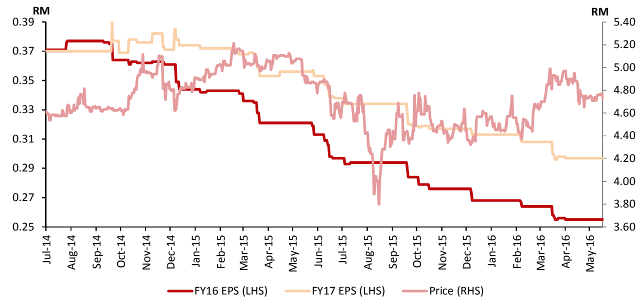
Source: Bloomberg Finance L.P, AllianceDBS, DBS Vickers.

Summary of CORREL & RSQ between consensus earnings change and share prices for 1-year

	CORREL	RSQ
Gamuda	-0.22	n/a
IJM	-0.36	n/a
WCT	-0.67	n.a
SCGB	**0.87**	**76%**
MUHI	-0.39	n/a
KICB	**0.92**	**85%**

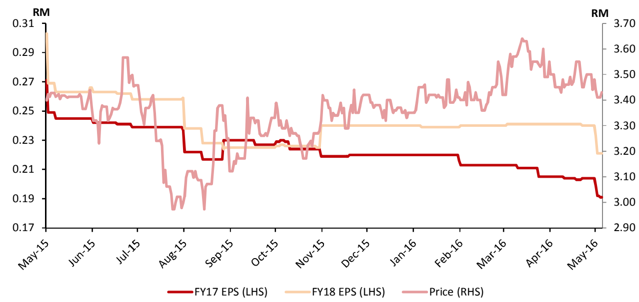
Source: Bloomberg Finance L.P, AllianceDBS, DBS Vickers

Gamuda's consensus EPS trend vs. share price



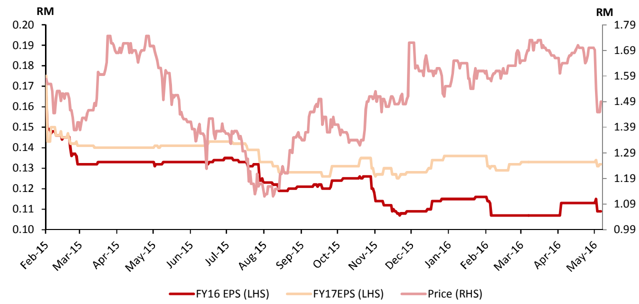
Source: Bloomberg Finance L.P, AllianceDBS, DBS Vickers

IJM's consensus EPS trend vs. share price



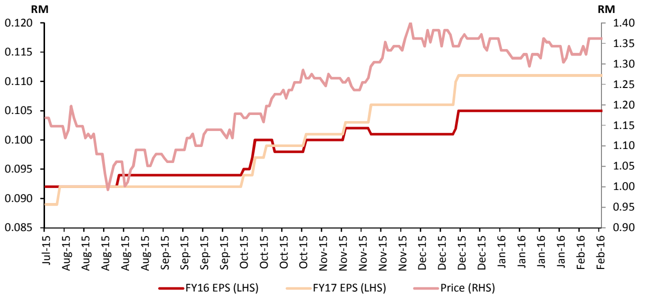
Source: Bloomberg Finance L.P, AllianceDBS, DBS Vickers

WCT's consensus EPS trend vs. share price



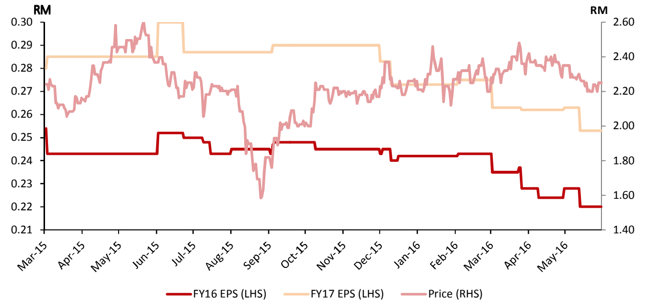
Source: Bloomberg Finance L.P, AllianceDBS, DBS Vickers

Sunway Construction's consensus EPS trend vs. share price



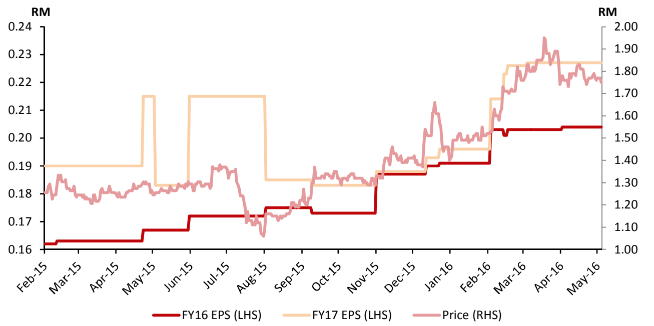
Source: Bloomberg Finance L.P, AllianceDBS, DBS Vickers

Muhibbah's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P, AllianceDBS, DBS Vickers

Kimlun's consensus EPS trend vs. share price



Source: Bloomberg Finance L.P, AllianceDBS, DBS Vickers

VALUATION AND SECTOR COMPARISON

Sector Comparison

	Market Cap	Rec.	TP	Diluted PE (x)			P/NTA (x)			Net Div Yield (%)			ROE (%)			CY15-CY17 EPS CAGR	Market cap/order book (x)
	(USDm)		(Local currency)	CY15	CY16	CY17	CY15	CY16	CY17	CY15	CY16	CY17	CY15	CY16	CY17		
Malaysia																	
Gamuda	2,819.1	BUY	5.80	18.7	20.8	19.0	1.9	1.9	1.8	1.9	1.9	1.9	10.7	9.6	9.8	-1%	1.4
IJM	3,053.4	HOLD	3.30	17.5	19.1	19.8	1.4	1.4	1.3	2.4	2.1	2.1	8.4	7.2	6.7	-6%	1.5
WCT	473.5	HOLD	1.55	11.6	16.6	15.6	0.7	0.9	0.9	2.2	2.2	2.2	9.0	5.8	5.9	-14%	0.4
Muhibbah Eng	251.5	BUY	3.10	12.0	10.6	9.7	1.2	1.1	1.1	1.8	1.9	2.1	11.7	11.2	11.6	11%	0.5
Kimlun	129.3	BUY	2.38	10.0	9.8	8.5	1.2	1.0	1.0	2.1	2.0	2.3	14.8	13.4	13.8	9%	0.3
SunCon	525.0	BUY	1.92	16.1	14.3	13.9	4.5	3.8	3.8	2.5	2.6	2.7	33.2	28.7	25.0	7%	0.4
Simple Average				**14.3**	**15.2**	**14.4**	**1.8**	**1.7**	**1.7**	**2.1**	**2.1**	**2.2**	**14.6**	**12.7**	**12.1**	**1%**	**0.8**

Source: DBS Vickers, AllianceDBS, Bloomberg Finance L.P

DBSV KL Construction – PE trading ranges

Source: DBS Vickers, Bloomberg

DBSV KL Construction – P/BV trading ranges

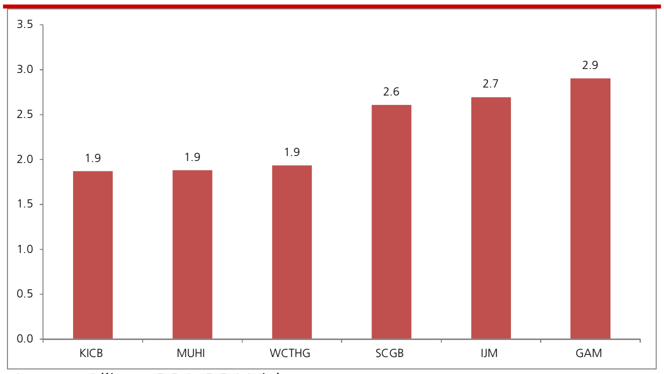
Source: DBS Vickers, Bloomberg Finance L.P

Our construction universe is now trading at 1-year forward PE of 15x and P/BV of 1.7x. This is roughly at mean to +1SD levels.

The sector also commanded premium valuations during periods of more aggressive contract flows and pump-priming such as the 9MP and 10MP. During the onset of the 10MP in 2011, the sector traded to a high of >+2SD above mean or 23x PE and 3.3x P/NTA. But it subsequently derated to -1SD in late 2011 due to an overall soft equity market. Similarly from January 2007 to September 2008, when the 9MP projects were rolled out, the sector traded at up to 24x PE and 2.2x P/NTA.

Moving to the start of the 11MP, we believe there is a probability that the sector will command higher valuations given it is at just mean to +1SD valuations. But we think this need to be also balanced by Malaysia's less-than-favourable fiscal position given still low oil and CPO prices. In 2015, we already saw the appointment of PDP roles for key projects like MRT Line 2, LRT 3, Penang Transport Master Plan and KL 118, and a slew of projects for RAPID and TRX. We think the timely rollout and award of these projects and stronger earnings delivery will see further valuation expansion.

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



Source: AllianceDBS, DBS Vickers

Based on the chart above, large-cap contractors Gamuda and IJM have the best revenue visibility at 2.9x and 2.7x respectively. This is followed closely by Sunway Construction at 2.6x. In our view, all three companies have also the least earnings risk, given their strong execution track record and higher-margin orders comprising infrastructure-related or design-and-build projects.

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

IJM's RM8.5bn orderbook comprises largely two key projects which are the recently won V203 package for MRT Line 2 worth RM1.47bn and the RM2.8bn WCE contract. This package, V203 is 79% higher on a RMbn/km basis as compared to IJM's MRT Line 1 (V5 package).

Sunway Construction's orderbook now stands at RM5bn which is at its peak. The largest projects are Putrajaya Parcel F and MRT Line 2 (V201 package) which forms 53% of this. We think pretax margins for these two key projects will also be at least 7-8%. For the Putrajaya Parcel F, Sunway Construction has already locked in 50% of the steel requirements at an average price of roughly RM1,800 to RM2,000/tonne. This is a design-and-build project, where it was also a criteria to be VDC-enabled, implying there is room to achieve higher margins. For MRT Line 2 (V201 package), pricing is 30% higher on a per km basis as compared to its V4 package for MRT Line 1, while all raw material requirements are borne by the government. Works are anticipated to start in June/July.

Malaysia Stock Picks

We have BUY ratings on Gamuda, Sunway Construction, Muhibbah and Kimlun. For exposure to more transportation-led projects with potential for cross-border opportunities, our two top BUYs are Gamuda and Sunway Construction.

Gamuda (BUY, TP RM5.80) – Best Transportation proxy

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

Sunway Construction – (BUY, TP RM1.92) Malaysia's leading pure construction player

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

Muhibbah (BUY, TP RM3.10) – Scarcity premium

Muhibbah is an ideal proxy to the 11th Malaysian Plan given its expertise in three core areas: i) civil engineering; ii) marine-based construction, and iii) offshore and onshore fabrication works, where its Petronas licence offers an advantage. Other contractors do not have this combination to vie in the competitive civil engineering space. Its Cambodian airport concession is a strong cash cow. Siam Reap and Phnom Penh airports have doubled their capacity to 12m passengers. Passenger arrivals grew 13% to 6.5m passengers in FY15.

Kimlun (BUY, TP RM2.38) – Small-cap MRT proxy

Within our construction universe, Kimlun stands out as the most direct small-cap proxy to MRT projects. Despite its impressive 3-year EPS CAGR of 30% and decent yields of c.2-2.3% with stronger order replenishment ahead, Kimlun is currently trading at bargain valuations.

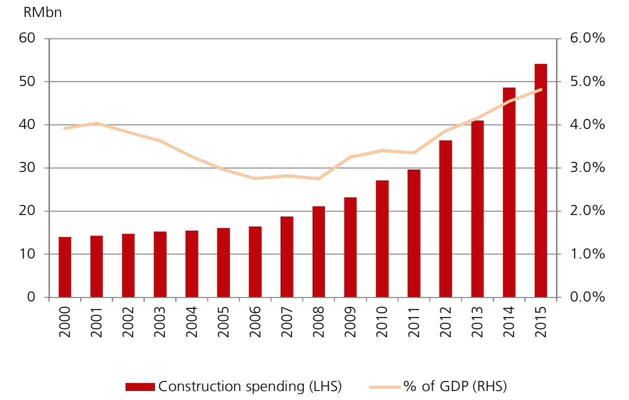
Malaysia - Public sector to drive growth

According to the Economic Report 2015/16, the government's development expenditure for 2015 will grow by 20% to RM47.4bn or 4.1% of GDP. This is slightly less than the RM48.5bn expected in the Economic Report 2014/15. The strong growth is expected as it represents the last year of the Tenth Malaysia Plan (10MP).

For 2016, the government has set aside RM50bn in development expenditure, translating into a growth rate of 5.4% y-o-y and 4% of GDP. This will be the first year of the Eleventh Malaysia Plan (11MP) where development expenditure is set at RM260bn over the next five years.

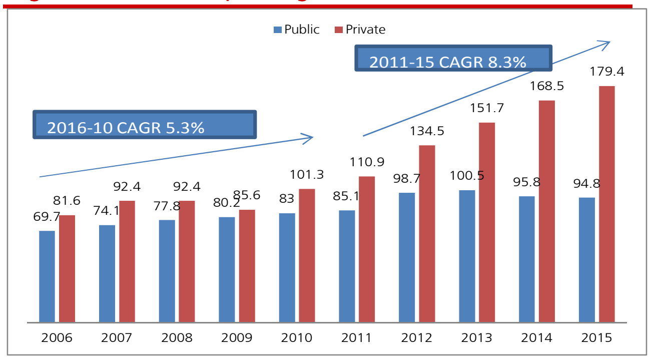
Unlike in previous years, we think the public sector will be the key driver of project flows in 2016 but there could also be a resurgence of private sector property jobs if the market recovers. According to data from CEIC, the private sector was the key driver of construction spending over the past few years.

Construction spending as percentage of GDP



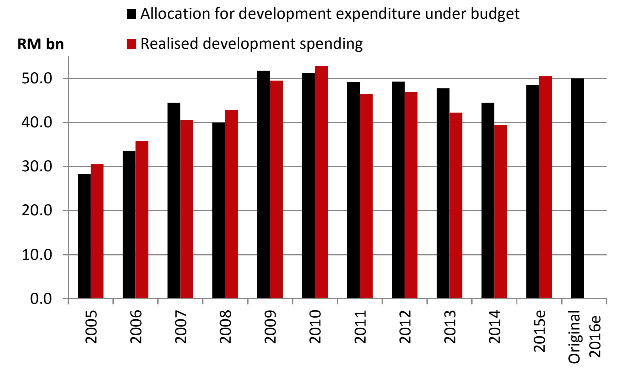
Source: BNM Reports, Alliance DBS, DBS Vickers

Higher construction spending CAGR for 2011-15



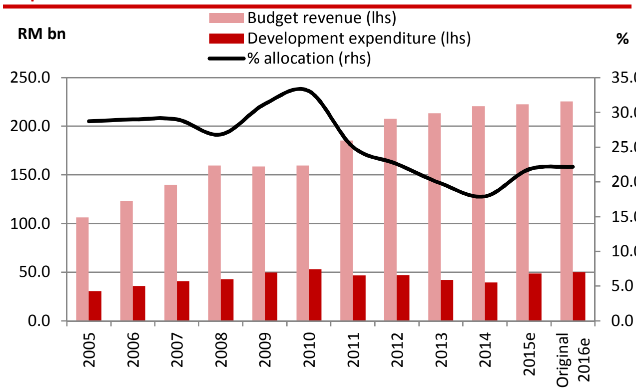
Source: ETP, Alliance DBS, DBS Vickers

Allocation of development expenditure and realised spending



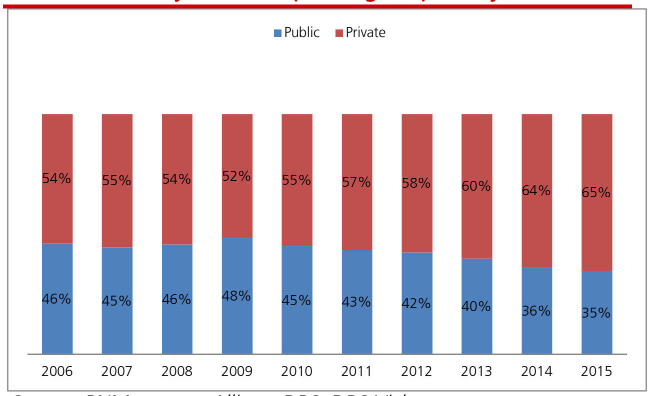
Source: BNM reports, AllianceDBS, DBS Vickers

Budget revenue and percentage allocation for development expenditure



Source: BNM reports, AllianceDBS, DBS Vickers

Private sector key driver of spending for past 5 years



Source: BNM reports, AllianceDBS, DBS Vickers

We think government development expenditure will still be relatively intact despite concerns of widening budget deficit with the current low oil price environment. Even during the

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

At the Budget 2016 revision, the Prime Minister emphasised that the implementation of major projects such as Mass Rapid Transit (MRT) and Light Railway Transit (LRT), Pan-Borneo Highway, Malaysian Vision Valley, Cyber City Centre, RAPID Pengerang and High-Speed Rail will go ahead as planned.

List of potential contracts in the pipeline

	Amount (RMbn)	Potential winners
Transport related infra spending		
MRT Line 2 and 3	56.0	Gamuda, MMC, IJM, Sunway, WCT, Muhibbah
Penang Integrated Transport	27.0	Gamuda. IJM likely to have subcon role
KL Bullet Train to Singapore	40.0	Gamuda, YTL, foreign based contractors
LRT 3	10.0	MRCB-George Kent and other local contractors
6 new highways	19.0	Various
Pan Borneo Highway	27	CMS, Naim, HSL, other West Malaysian players
Gemas-JB double tracking	8	Fajar Baru, Gamuda, IJM, WCT
Jalan Tun Razak traffic dispersal	0.9	Various
Sub total	187.9	
Development related infra spending		
RRIM Land	10	MRCB, Various building contractors
Tun Razak Exchange	26	WCT, Various building contractors
Warisan Merdeka	5	UEM-Samsung
Pudu Jail	5	Various
Kampung Baru Redevelopment	43	Various
Subtotal	89	
Others		
Petronas RAPID	62	Muhibbah, Ho Hup, WCT, Gadang, others
Klang River Revitalisation	18	MRCB
KK Water Supply Scheme	2.8	WCT
Northport, Westport and Samalaju	1	Muhibbah
Subtotal	83.8	
Total	360.7	

Source: DBS Vickers, AllianceDBS, Various Sources

DBS VICKERS SECURITIES

Appendix: Company Guides

Malaysia Company Guide
Gamuda

Version 4| Bloomberg: GAM MK | Reuters: GAMU.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jun 2016

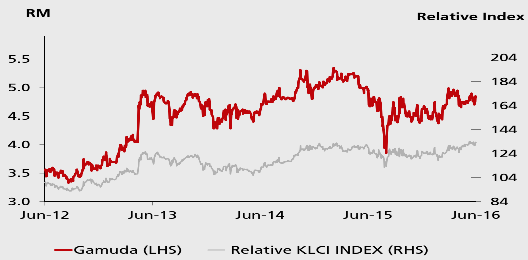
BUY

Last Traded Price: RM4.84 (**KLCI :** 1,639.98)
Price Target : RM5.80 (20% upside)

Potential Catalyst: New order wins from other 11MP projects
Where we differ: Our preference is for Gamuda as our large-cap pick

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

Price Relative



Forecasts and Valuation

FY Jul (RMm)	2015A	2016F	2017F	2018F
Revenue	2,400	1,862	4,071	5,122
EBITDA	590	558	664	718
Pre-tax Profit	858	824	921	963
Net Profit	682	616	694	727
Net Pft (Pre Ex.)	682	616	694	727
Net Pft Gth (Pre-ex) (%)	(5.2)	(9.7)	12.7	4.8
EPS (sen)	28.4	21.9	24.7	25.9
EPS Pre Ex. (sen)	28.4	21.9	24.7	25.9
EPS Gth Pre Ex (%)	(8)	(23)	13	5
Diluted EPS (sen)	28.4	21.9	24.7	25.9
Net DPS (sen)	8.88	8.88	8.88	8.88
BV Per Share (sen)	263	240	258	276
PE (X)	17.1	22.1	19.6	18.7
PE Pre Ex. (X)	17.1	22.1	19.6	18.7
P/Cash Flow (X)	19.3	62.1	47.1	42.9
EV/EBITDA (X)	24.9	30.0	25.2	23.3
Net Div Yield (%)	1.8	1.8	1.8	1.8
P/Book Value (X)	1.8	2.0	1.9	1.8
Net Debt/Equity (X)	0.4	0.4	0.4	0.3
ROAE (%)	11.6	9.4	9.9	9.7
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		25.5	29.7	32.3
Other Broker Recs:		B: 15	S: 2	H: 6

Source of all data: Company, AllianceDBS Research, Bloomberg Finance L.P

Best transportation proxy for infra

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

Large multi-year projects ensure strong earnings visibility
We estimate that Gamuda's outstanding orderbook now stands at RM8.3bn which does not include the PDP fees for MRT Line 2 aboveground works. The final contract value for the aboveground works will only be known once all the packages are awarded which will likely be above the initial RM16bn estimate. Earnings will shrink in FY16F due to the timing of recognition for MRT Line 2, but this has been priced in by the market. Construction works for MRT Line 2 are scheduled to start in mid-2016, which suggests earnings recognition will only commence in FY17F. Gamuda is also vying for other large scale projects such as Pan Borneo Highway (with JV partner Naim), LRT 3 and Gemas-JB double tracking.

Swapping one-off dividend for long-term growth
There are expectations for the Splash deal to be concluded in 2016 at close to the book value of RM2.8bn. We do not expect special dividends, as the sale proceeds will likely be used for the Penang Transport Master Plan project. This will be positive as Gamuda could secure long-term construction earnings and a firm footing in Penang's property market.

Valuation:
We maintain our BUY rating and SOP-derived TP of RM5.80. We have accounted for the dilution of warrants and corresponding increase in cash raised from full conversion while also assuming some marginal wins outside of MRT 2.

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

At A Glance

Issued Capital (m shrs)	2,416
Mkt. Cap (RMm/US$m)	11,693 / 2,956
Major Shareholders (%)	
EPF	9.8
KWAP	6.8
Free Float (%)	78.8
3m Avg. Daily Val (US$m)	3.9

ICB Industry : Industrials / Construction & Materials

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

On track for next earnings upcycle. We think the market has priced in the expected earnings decline in FY16F. The decline is because MRT Line 1 is largely completed and MRT Line 2 will only contribute in FY17F.

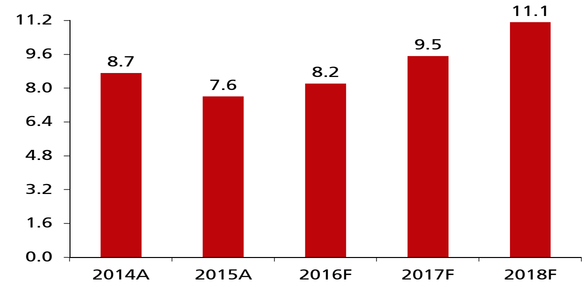
MRT Line 2 to contribute in FY17. There is low risk of the project being delayed or shelved because it is deemed a high-multiplier and top priority ETP project. The PDP fee remains at 6% similar to MRT Line 1. The only difference is MRT Co. has introduced three additional KPIs (safety, quality and public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

Sale of Splash. The sale of Splash remains the biggest overhang for Gamuda. It remains optimistic about concluding the deal by end-2016 with pricing likely at a book value of about RM2.8bn. Given that it is actively pursuing the Penang Integrated Transport System project which requires higher upfront capex, there may not be special dividends from the sale.

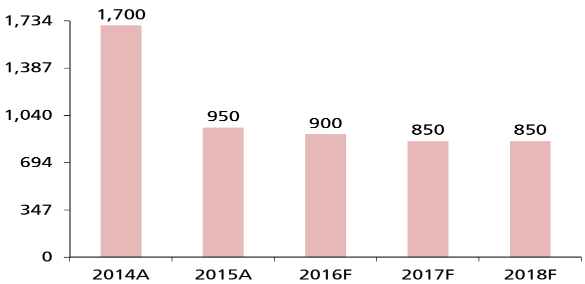
Awaiting approvals for Penang Transport Master Plan (PTMP). Gamuda has received a Letter of Award (LOA) – via SRS Consortium – from the Penang State Government to be the PDP for the Roads and Public Transport Projects in Penang (Penang Transport Master Plan Strategy 2013-2030). The key hurdle for this project is obtaining the federal government's approval for land reclamation and for the LRT. Gamuda is hoping to have two bites of the cherry – PDP, and also as turnkey contractor for some key components – but these are uncertain at this stage. The two main components of the project are LRT from George Town to Bayan Lepas and the Pan Island Link highway. We understand that so far, discussions with the relevant parties have been encouraging. The environmental and social impact assessment studies have commenced, together with the alignment optional studies.

Property sales under review. FY16F sales target is set at RM1.33bn (RM700m local and RM630m overseas) but will be revised lower given the slower 1H showing. There are four projects planned for launch in FY16F which are High Park Suites in Kelana Jaya (GDV RM600m), Bukit Bantayan in Sabah (GDV RM820m), Chapel Street Melbourne (GDV RM400m) and Toa Payoh in Singapore (GDV RM2bn).

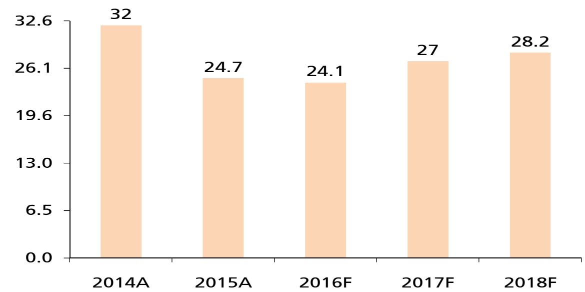
Construction margins



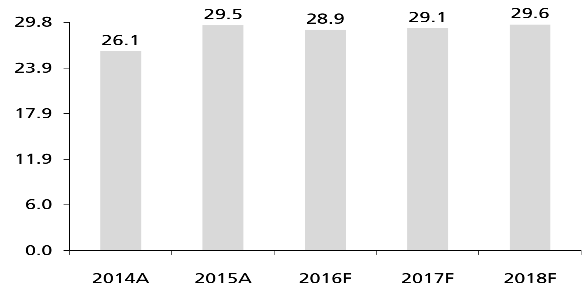
Property launches Malaysia



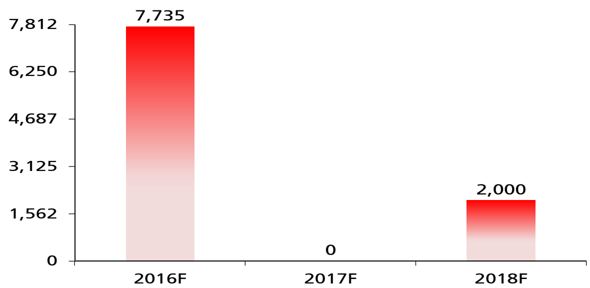
Construction profit contribution



Property profit contribution



New order wins



Source: Company, AllianceDBS Research

Balance Sheet:

Manageable net gearing. Net gearing remained manageable at 0.53x as at 31 January 2016, but has inched up from 0.46x as at 31 October 2014 largely due to land banking over the past two years. More recent land bank purchases include its maiden project in Toa Payoh, Singapore for S$345.9m (Gamuda has 50% share), a small parcel of freehold land in Melbourne for AUD40m, 18-acre land in Kota Kinabalu for RM100m, and a 257-acre parcel located just 2km from Kota Kemuning for RM392m.

Further land banking could raise gearing. Gamuda is still seeking to land bank further in choice locations despite the softening property market. But it will be more selective now given its aggressive land banking over the past year or so.

Share Price Drivers:

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

Resolution for Splash. A successful resolution for Splash would remove the overhang on the stock. Investors could welcome potential earnings prospects from the Penang Integrated Transport project at the expense of a one-off special dividend.

Key Risks:

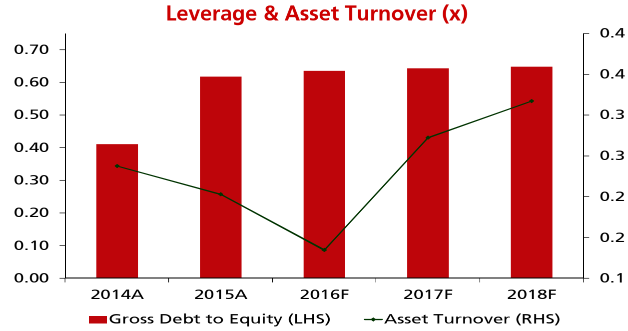
Macroeconomic factors. Generally, an economic slowdown could adversely affect the group because this could defer or halt some projects, especially infrastructure projects. This could result in slower order book replenishment.

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

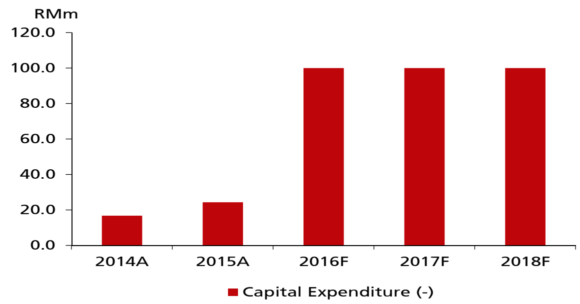
Company Background

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

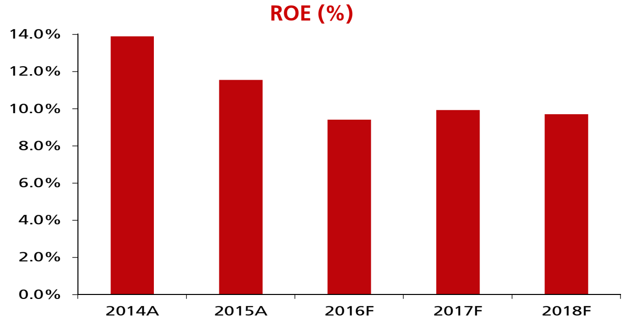
Leverage & Asset Turnover (x)



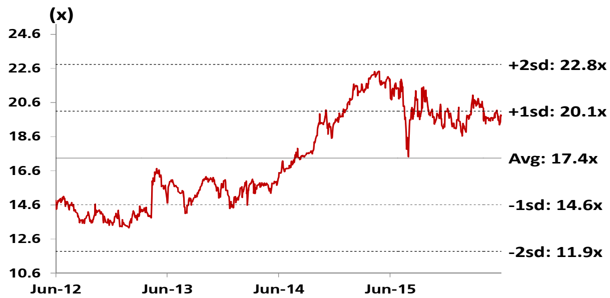
Capital Expenditure



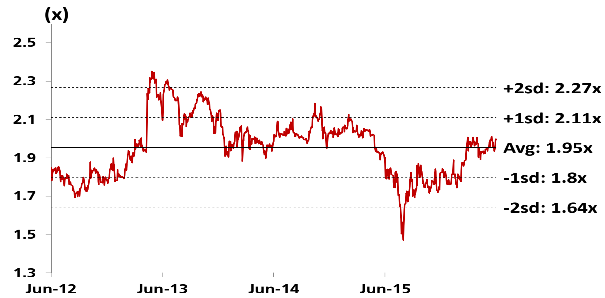
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, AllianceDBS Research

Key Assumptions

FY Jul	2014A	2015A	2016F	2017F	2018F
Construction margins	8.70	7.60	8.15	9.54	11.1
Property launches Malaysia	1,700	950	900	850	850
Construction profit (%)	32.0	24.7	24.1	27.0	28.2
Property profit (%)	26.1	29.5	28.9	29.1	29.6
New order wins			7,735	0.0	2,000

Segmental Breakdown

FY Jul	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
Construction	1,180	1,158	333	2,365	3,297
Property development	895	842	685	660	600
Infrastructure	154	401	409	417	425
Others	0.0	0.0	435	630	800
Total	**2,230**	**2,400**	**1,862**	**4,071**	**5,122**
Pretax profit (RMm)					
Construction	294	242	233	291	319
Property development	239	289	192	196	196
Infrastructure	385	450	455	473	477
Others	0.0	0.0	87.0	117	138
Others	(66.4)	(124)	(143)	(155)	(168)
Total	**852**	**858**	**824**	**921**	**963**
Pretax Margins (%)					
Construction	24.9	20.9	69.9	12.3	9.7
Property development	26.7	34.4	28.0	29.7	32.7
Infrastructure	N/A	N/A	N/A	N/A	N/A
Others	N/A	N/A	(32.8)	(24.7)	(21.0)
Total	**38.2**	**35.7**	**44.2**	**22.6**	**18.8**

Income Statement (RMm)

FY Jul	2014A	2015A	2016F	2017F	2018F
Revenue	2,230	2,400	1,862	4,071	5,122
Cost of Goods Sold	(1,741)	(1,820)	(1,343)	(3,351)	(4,306)
Gross Profit	**488**	**580**	**519**	**720**	**816**
Other Opng (Exp)/Inc	(28.2)	(10.4)	17.5	(81.6)	(127)
Operating Profit	**460**	**570**	**536**	**639**	**689**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	430	375	379	382	386
Net Interest (Exp)/Inc	(38.0)	(86.6)	(91.0)	(99.8)	(112)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**852**	**858**	**824**	**921**	**963**
Tax	(117)	(133)	(165)	(184)	(193)
Minority Interest	(15.7)	(43.3)	(43.3)	(43.3)	(43.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**719**	**682**	**616**	**694**	**727**
Net Profit before Except.	719	682	616	694	727
EBITDA	481	590	558	664	718
Growth					
Revenue Gth (%)	(42.6)	7.6	(22.4)	118.7	25.8
EBITDA Gth (%)	42.7	22.7	(5.5)	19.1	8.2
Opg Profit Gth (%)	47.4	23.9	(5.9)	19.1	7.9
Net Profit Gth (Pre-ex) (%)	33.0	(5.2)	(9.7)	12.7	4.8
Margins & Ratio					
Gross Margins (%)	21.9	24.2	27.8	17.7	15.9
Opg Profit Margin (%)	20.6	23.7	28.8	15.7	13.4
Net Profit Margin (%)	32.3	28.4	33.1	17.0	14.2
ROAE (%)	13.9	11.6	9.4	9.9	9.7
ROA (%)	7.7	5.8	4.4	4.6	4.5
ROCE (%)	4.8	4.6	3.6	3.9	4.0
Div Payout Ratio (%)	28.7	31.3	40.5	35.9	34.3
Net Interest Cover (x)	12.1	6.6	5.9	6.4	6.1

Source: Company, AllianceDBS Research

Quarterly / Interim Income Statement (RMm)

FY Jul	2Q2015	3Q2015	4Q2015	1Q2016	2Q2016
Revenue	653	554	623	513	527
Cost of Goods Sold	(506)	(429)	(531)	(428)	(454)
Gross Profit	**148**	**125**	**91.8**	**84.9**	**73.9**
Other Oper. (Exp)/Inc	22.3	22.6	43.0	24.2	35.6
Operating Profit	**170**	**147**	**135**	**109**	**110**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	88.5	86.2	99.3	114	112
Net Interest (Exp)/Inc	(28.7)	(24.5)	(43.6)	(30.2)	(29.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**230**	**209**	**191**	**193**	**192**
Tax	(36.2)	(31.8)	(35.5)	(19.7)	(22.2)
Minority Interest	(11.4)	(16.8)	(1.3)	(11.6)	(9.9)
Net Profit	**182**	**160**	**154**	**161**	**160**
Net profit bef Except.	182	160	154	161	160
EBITDA	258	233	234	223	221
Growth					
Revenue Gth (%)	14.7	(15.2)	12.5	(17.7)	2.9
EBITDA Gth (%)	1.0	(9.7)	0.3	(4.9)	(0.6)
Opg Profit Gth (%)	13.4	(13.3)	(8.5)	(19.0)	0.4
Net Profit Gth (Pre-ex) (%)	(2.0)	(11.9)	(4.2)	4.9	(0.7)
Margins					
Gross Margins (%)	22.6	22.5	14.7	16.6	14.0
Opg Profit Margins (%)	26.0	26.6	21.6	21.3	20.8
Net Profit Margins (%)	27.9	29.0	24.7	31.4	30.4

Balance Sheet (RMm)

FY Jul	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	285	312	391	465	535
Invts in Associates & JVs	1,234	2,621	2,999	3,382	3,768
Other LT Assets	3,125	5,163	5,163	5,163	5,163
Cash & ST Invts	920	1,438	1,801	2,237	2,702
Inventory	295	186	213	245	282
Debtors	1,716	1,377	1,583	1,821	2,094
Other Current Assets	2,778	2,230	2,230	2,230	2,230
Total Assets	**10,353**	**13,326**	**14,380**	**15,543**	**16,774**
ST Debt	792	777	1,177	1,577	1,977
Creditor	881	1,355	1,558	1,792	2,061
Other Current Liab	126	327	327	327	327
LT Debt	1,739	3,358	3,358	3,358	3,358
Other LT Liabilities	653	815	815	815	815
Shareholder's Equity	5,474	6,337	6,745	7,231	7,750
Minority Interests	687	356	399	443	486
Total Cap. & Liab.	**10,353**	**13,326**	**14,380**	**15,543**	**16,774**
Non-Cash Wkg. Capital	3,783	2,110	2,141	2,177	2,218
Net Cash/(Debt)	(1,611)	(2,698)	(2,735)	(2,698)	(2,634)
Debtors Turn (avg days)	212.6	235.2	290.2	152.6	139.5
Creditors Turn (avg days)	195.5	226.8	402.3	183.9	164.4
Inventory Turn (avg days)	41.4	48.7	55.1	25.2	22.5
Asset Turnover (x)	0.2	0.2	0.1	0.3	0.3
Current Ratio (x)	3.2	2.1	1.9	1.8	1.7
Quick Ratio (x)	1.5	1.1	1.1	1.1	1.1
Net Debt/Equity (X)	0.3	0.4	0.4	0.4	0.3
Net Debt/Equity ex MI (X)	0.3	0.4	0.4	0.4	0.3
Capex to Debt (%)	0.7	0.6	2.2	2.0	1.9
Z-Score (X)	2.7	1.9	1.9	2.0	1.9

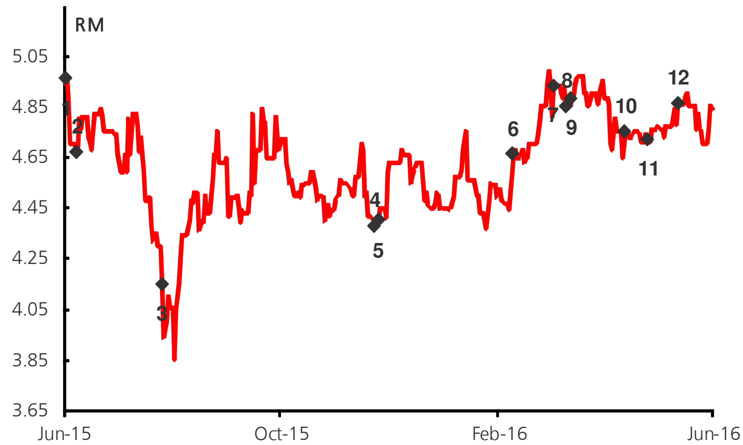
Source: Company, AllianceDBS Research

Cash Flow Statement (RMm)

FY Jul	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	852	858	824	921	963
Dep. & Amort.	20.9	20.2	21.6	25.7	29.6
Tax Paid	(72.9)	(882)	(165)	(184)	(193)
Assoc. & JV Inc/(loss)	(430)	(375)	(379)	(382)	(386)
Chg in Wkg.Cap.	(712)	164	(31.1)	(35.8)	(41.1)
Other Operating CF	(83.7)	818	(51.9)	(55.6)	(55.6)
Net Operating CF	**(426)**	**604**	**219**	**289**	**317**
Capital Exp.(net)	(16.6)	(24.3)	(100.0)	(100.0)	(100.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	123	83.5	0.0	0.0	0.0
Other Investing CF	88.1	(1,473)	51.9	55.6	55.6
Net Investing CF	**195**	**(1,413)**	**(48.1)**	**(44.4)**	**(44.4)**
Div Paid	(277)	(285)	(208)	(208)	(208)
Chg in Gross Debt	354	1,561	400	400	400
Capital Issues	142	219	0.0	0.0	0.0
Other Financing CF	(374)	(167)	0.0	0.0	0.0
Net Financing CF	**(155)**	**1,328**	**192**	**192**	**192**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(386)	518	363	437	464
Opg CFPS (sen)	12.3	18.3	8.91	11.6	12.7
Free CFPS (sen)	(19.0)	24.1	4.24	6.72	7.72

Source: Company, AllianceDBS Research

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	24 Jun 15	4.96	6.00	BUY
2:	30 Jun 15	4.67	6.00	BUY
3:	17 Aug 15	4.15	6.00	BUY
4:	15 Dec 15	4.38	5.60	BUY
5:	17 Dec 15	4.40	5.60	BUY
6:	02 Mar 16	4.66	5.60	BUY
7:	25 Mar 16	4.93	5.80	BUY
8:	01 Apr 16	4.85	5.80	BUY
9:	04 Apr 16	4.88	5.80	BUY
10:	04 May 16	4.75	5.80	BUY
11:	17 May 16	4.72	5.80	BUY
12:	03 Jun 16	4.86	5.80	BUY

Source: AllianceDBS Research

Malaysia Company Guide

Sunway Construction Group

Version 2 | Bloomberg: SCGB MK | Reuters: SCOG.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jun 2016

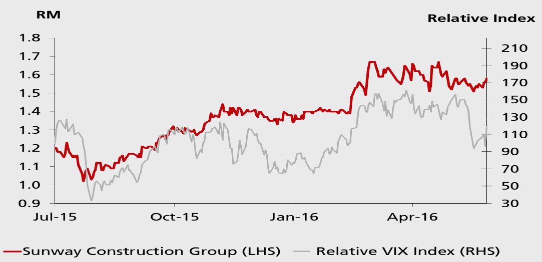
BUY

Last Traded Price: RM1.58 (**CBOE SPX Volatility :** 17.25)
Price Target : RM1.92 (22% upside)

Potential Catalyst: Good proxy to 11MP infra projects, highly profitable precast segment
Where we differ: While our earnings forecasts are broadly in line, we are more bullish in terms of TP. We believe SCG will rerate with stronger earnings deliverance and contract wins.

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

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2015A	2016F	2017F	2018F
Revenue	1,917	1,989	2,150	2,571
EBITDA	178	221	225	250
Pre-tax Profit	141	178	183	210
Net Profit	127	143	146	168
Net Pft (Pre Ex.)	127	143	146	168
Net Pft Gth (Pre-ex) (%)	1.9	12.1	2.8	14.5
EPS (sen)	9.84	11.0	11.3	13.0
EPS Pre Ex. (sen)	9.84	11.0	11.3	13.0
EPS Gth Pre Ex (%)	2	12	3	14
Diluted EPS (sen)	9.84	11.0	11.3	13.0
Net DPS (sen)	4.00	4.08	4.19	4.80
BV Per Share (sen)	34.9	41.8	49.0	57.1
PE (X)	16.1	14.3	13.9	12.2
PE Pre Ex. (X)	16.1	14.3	13.9	12.2
P/Cash Flow (X)	8.7	11.8	10.4	9.2
EV/EBITDA (X)	9.6	7.4	6.8	5.6
Net Div Yield (%)	2.5	2.6	2.7	3.0
P/Book Value (X)	4.5	3.8	3.2	2.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	33.2	28.7	25.0	24.4
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		10.8	12.4	13.8
Other Broker Recs:		B: 10	S: 0	H: 2

Source of all data: Company, AllianceDBS Research, Bloomberg Finance L.P

Strong and dependable

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

Riding on Singapore's public housing development. Its precast division is a strong proxy to the growing demand for HDB residences in Singapore where the government is targeting to build an additional 88,000 units of public housing in FY16-FY19. With premium EBIT margins recorded over the past few years, the business is ROE-enhancing and also synergistic to its construction business. The completion of its third precast plant in Iskandar should give it ample capacity to cater for more orders while also compensating for the eventual return of the Tampines plant.

Still bidding for more jobs and looking to exceed RM2.5bn forecast. Not one to rest on its laurels, SCG will be bidding for LRT 3 (already prequalified), DASH and SUKE, Pan Borneo Highway and the internal projects from the property arm of its holding company. Its total tenderbook now stands at RM18bn. Assuming SCG were to win one package for LRT, one for either DASH and SUKE and also Pan Borneo Highway, it is likely to beat its 2013 new order wins of RM2.9bn, inclusive of precast.

Valuation:

BUY, TP set at RM 1.92. Our TP is based on sum-of-parts (SOP) valuation to reflect the growing contribution from its high-margin precast business. While our SOP value is RM2.77bn or RM2.14/share, we have ascribed a 10% discount to arrive at our target price of RM1.92.

Key Risks to Our View:

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

Issued Capital (m shrs)	1,293
Mkt. Cap (RMm/US$m)	2,043 / 516
Major Shareholders (%)	
Sunway Berhad	55.6
Tan Sri Jeffrey Cheah & Family	7.6
Free Float (%)	37.9
3m Avg. Daily Val (US$m)	1.6

ICB Industry : Industrials / Construction & Materials

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

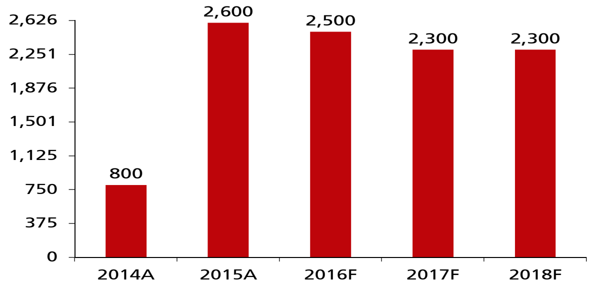
Sweet spot ahead. We think SCG's construction segment is entering a 'sweet spot' on the back of the expected upturn in Malaysia's construction industry. Given its notable brand name and strong execution track record, we believe the group is one of the strongest contenders to bag several key projects under the Eleventh Malaysia Plan (11MP). We are of the view that SCG is on a strong footing to bag several key infrastructure packages such as LRT3 and BRT as well as other major highway projects like SUKE, DUKE and Pan-Borneo Highway.

Stronger infrastructure orderbook. With MRT2 viaduct package (V201) being the major infra win in 2016 so far, we estimate its construction orderbook now stands at RM5.0bn. We think SCG has gotten off to a strong start with construction YTD wins of RM1.9bn. This means that SCG will only need to clinch another c.RM300m worth of contracts to meet our FY16F new wins assumptions for construction, as we have assumed a total of RM2.2bn new orders for this division.

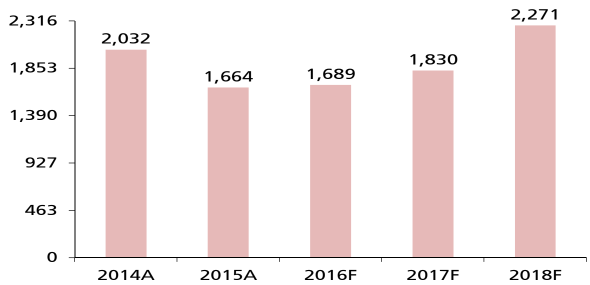
Highly profitable precast segment. SCG's precast segment should be sturdy in contributing a larger share of earnings to the group. SCG's precast division made up 13-16% of revenue in FY12-FY15. It was the largest earnings contributor in FY15, accounting for 57% of the group's overall EBIT. The group believes the normalised margin lies in the 20-25% range. This is supported by sustainable orders from the Singapore market. Assuming that it will retain the third precast plant this year, its total annual production capacity in 2016 is estimated to rise to 251,000 m³. The continuous expansion of its plants enables the group to have ample capacity to cater for more orders from the Singapore market, as the group plans to return the Tampines plant by year 2017.

Potential next win – Pan Borneo Highway. SCG has partnered with a local private company in Sarawak, KTS Holdings Sdn Bhd. For this project, it is understood that the share of the JV must be 70:30 with the local Sarawak contractor holding the majority stake. It is estimated that total cost for the Pan Borneo Highway Sarawak project amounted to RM16.1bn, with each package worth around RM1.0-1.5bn. Hence, we expect SCG to win at least another RM450m, based on 30% share of the RM1.5bn package.

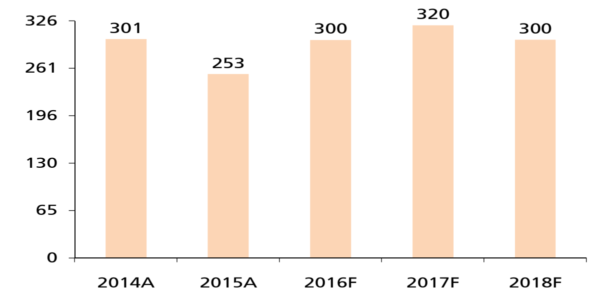
New order wins



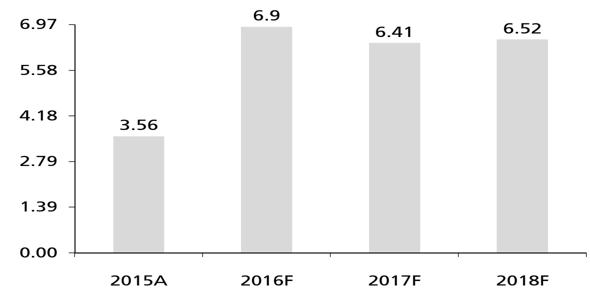
Construction revenue



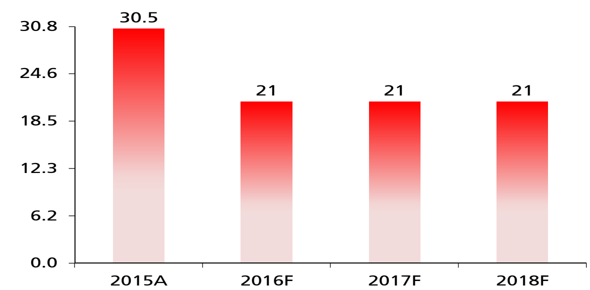
Precast revenue



Construction EBIT margins



Precast EBIT margins



Source: Company, AllianceDBS Research

Balance Sheet:

Strong balance sheet and cash-generation ability. As at 31 December 2015, the company had a net cash position of RM332m, with no long-term borrowings and minimal working capital requirements going forward. We estimate the group will retain its strong balance sheet with next cash position of RM417m and RM527m for FY16-FY17F. Meanwhile, its ROAE is expected to hover around 27-29%.

Share Price Drivers:

Executing on peak orderbook. SCG's orderbook now stands at RM5bn which is at its peak. This will give it two and a half years' visibility. The largest projects are Putrajaya Parcel F and MRT Line 2, V201 package which forms 53% of this. More importantly, we think pretax margins for these two key projects will also be at least 7-8%. Recall that 2015 pretax margin was low at 3.6% due to MRT Line 1 and KLCC project (NEC and Package 2 and 2A) where certain losses and provisions were fully provided for.

Dividend payout policy of at least 35%. SCG is committed to distribute a minimum 35% of its core profit to shareholders, which is rare among construction players. This could be attributable to its sizeable operations with a large asset base that requires little capex spending going forward. We have imputed a 37% dividend payout ratio, based on our strong net cash forecasts. This translates into decent yields of c.3%.

Key Risks:

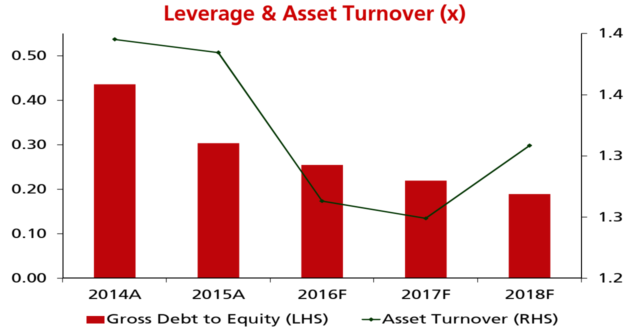
Delays in construction. There may be project cost overruns due to several factors such as design and engineering issues and soil conditions.

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

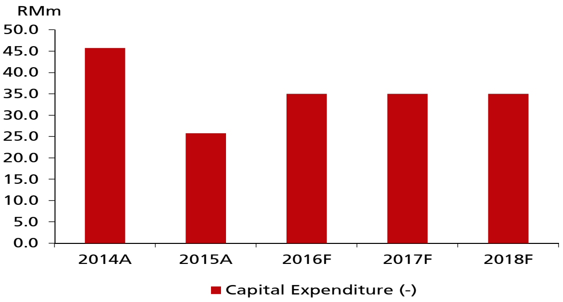
Company Background

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

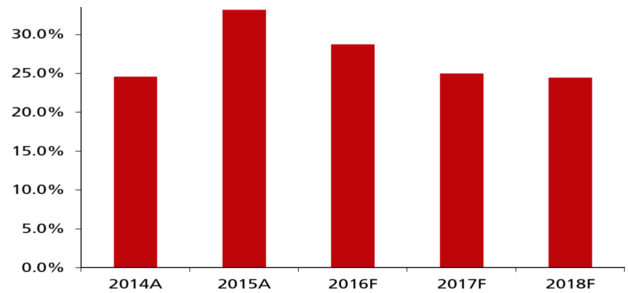
Leverage & Asset Turnover (x)



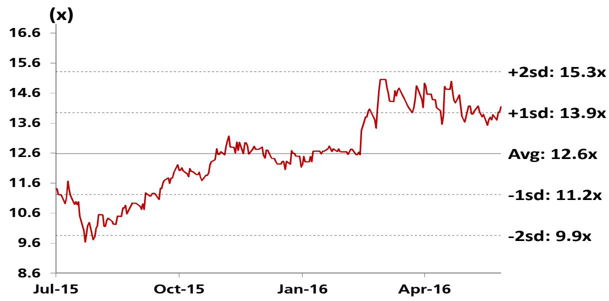
Capital Expenditure



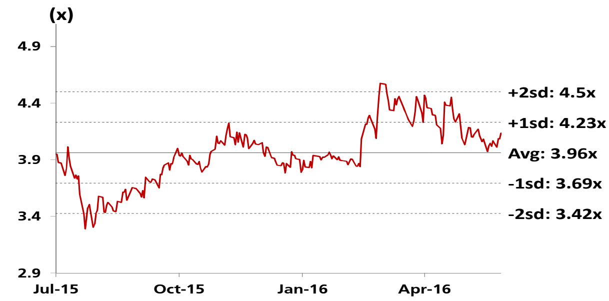
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, AllianceDBS Research

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
New order wins	800	2,600	2,500	2,300	2,300
Construction revenue	2,032	1,664	1,689	1,830	2,271
Precast revenue	301	253	300	320	300
Construction EBIT margins		3.56	6.90	6.41	6.52
Precast EBIT margins		30.5	21.0	21.0	21.0

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
Construction	2,032	1,664	1,689	1,830	2,271
Precast Concrete	301	253	300	320	300
Consolidated Adjustments	(452)	0.0	0.0	0.0	0.0
Total	**1,881**	**1,917**	**1,989**	**2,150**	**2,571**
EBIT (RMm)					
Construction		59.2	117	117	148
Precast Concrete		77.1	62.9	67.2	63.0
Total	**120**	**136**	**180**	**185**	**211**
EBIT Margins (%)					
Construction	N/A	3.6	6.9	6.4	6.5
Precast Concrete	N/A	30.5	21.0	21.0	21.0
Total	**6.4**	**7.1**	**9.0**	**8.6**	**8.2**

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	1,881	1,917	1,989	2,150	2,571
Cost of Goods Sold	(1,485)	(1,514)	(1,529)	(1,684)	(2,077)
Gross Profit	**395**	**403**	**460**	**466**	**494**
Other Opng (Exp)/Inc	(275)	(267)	(280)	(281)	(283)
Operating Profit	**120**	**136**	**180**	**185**	**211**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	30.4	(0.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.72	4.54	(1.4)	(1.4)	(1.5)
Exceptional Gain/(Loss)	(10.6)	0.0	0.0	0.0	0.0
Pre-tax Profit	**141**	**141**	**178**	**183**	**210**
Tax	(26.5)	(13.0)	(35.6)	(36.6)	(41.9)
Minority Interest	0.05	(0.6)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**114**	**127**	**143**	**146**	**168**
Net Profit before Except.	125	127	143	146	168
EBITDA	162	178	221	225	250
Growth					
Revenue Gth (%)	2.2	1.9	3.7	8.1	19.6
EBITDA Gth (%)	90.0	10.1	24.0	1.6	11.3
Opg Profit Gth (%)	183.7	13.4	31.7	2.8	14.4
Net Profit Gth (Pre-ex) (%)	86.5	1.9	12.1	2.8	14.5
Margins & Ratio					
Gross Margins (%)	21.0	21.0	23.1	21.7	19.2
Opg Profit Margin (%)	6.4	7.1	9.0	8.6	8.2
Net Profit Margin (%)	6.1	6.6	7.2	6.8	6.5
ROAE (%)	24.6	33.2	28.7	25.0	24.4
ROA (%)	8.5	9.2	9.0	8.5	8.5
ROCE (%)	21.8	25.3	22.1	19.9	20.0
Div Payout Ratio (%)	0.0	40.7	37.0	37.0	37.0
Net Interest Cover (x)	NM	NM	130.7	130.5	145.2

Source: Company, AllianceDBS Research

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	496	500	450	470	424
Cost of Goods Sold	0.0	0.0	0.0	0.0	0.0
Gross Profit	**496**	**500**	**450**	**470**	**424**
Other Oper. (Exp)/Inc	(457)	(459)	(422)	(443)	(389)
Operating Profit	**39.2**	**41.3**	**28.2**	**27.6**	**35.4**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.44	0.37	1.90	1.84	2.14
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**39.6**	**41.7**	**30.1**	**29.4**	**37.5**
Tax	(5.2)	(3.8)	(5.0)	0.97	(8.5)
Minority Interest	0.0	0.0	0.46	(1.0)	0.0
Net Profit	**34.4**	**37.8**	**25.7**	**29.4**	**29.1**
Net profit bef Except.	34.4	37.8	25.7	29.4	29.1
EBITDA	39.2	41.3	28.2	27.6	35.4
Growth					
Revenue Gth (%)	N/A	0.8	(10.0)	4.4	(9.8)
EBITDA Gth (%)	nm	5.4	(31.6)	(2.4)	28.4
Opg Profit Gth (%)	nm	5.4	(31.6)	(2.4)	28.4
Net Profit Gth (Pre-ex) (%)	nm	10.0	(32.1)	14.4	(1.0)
Margins					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	7.9	8.3	6.3	5.9	8.3
Net Profit Margins (%)	6.9	7.6	5.7	6.2	6.8

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	179	163	156	151	147
Invts in Associates & JVs	24.2	0.0	0.0	0.0	0.0
Other LT Assets	10.8	17.4	17.4	17.4	17.4
Cash & ST Invts	222	468	555	662	789
Inventory	20.2	17.3	19.8	21.5	25.9
Debtors	790	835	872	943	1,127
Other Current Assets	8.52	14.4	14.4	14.4	14.4
Total Assets	**1,254**	**1,515**	**1,634**	**1,809**	**2,121**
ST Debt	135	137	138	139	140
Creditor	791	913	942	1,023	1,228
Other Current Liab	13.2	9.26	9.26	9.26	9.26
LT Debt	0.07	0.0	0.0	0.0	0.0
Other LT Liabilities	4.29	4.10	4.10	4.10	4.10
Shareholder's Equity	315	451	541	633	739
Minority Interests	(5.2)	0.63	0.63	0.63	0.63
Total Cap. & Liab.	**1,254**	**1,515**	**1,634**	**1,809**	**2,121**
Non-Cash Wkg. Capital	14.1	(56.1)	(45.1)	(54.0)	(70.5)
Net Cash/(Debt)	86.4	332	417	523	649
Debtors Turn (avg days)	175.7	154.7	156.6	154.0	146.9
Creditors Turn (avg days)	192.4	211.3	227.6	218.1	201.7
Inventory Turn (avg days)	5.8	4.6	4.6	4.6	4.2
Asset Turnover (x)	1.4	1.4	1.3	1.2	1.3
Current Ratio (x)	1.1	1.3	1.3	1.4	1.4
Quick Ratio (x)	1.1	1.2	1.3	1.4	1.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	33.8	18.8	25.4	25.2	25.0
Z-Score (X)	3.4	3.1	3.2	3.2	2.9

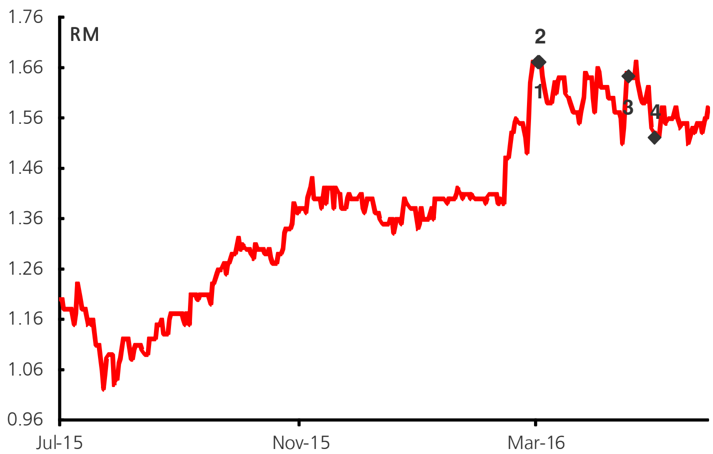
Source: Company, AllianceDBS Research

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	151	141	178	183	210
Dep. & Amort.	41.6	41.9	41.5	40.1	39.0
Tax Paid	(26.5)	(13.0)	(35.6)	(36.6)	(41.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	297	79.9	(11.0)	8.96	16.4
Other Operating CF	(279)	(13.6)	0.0	0.0	0.0
Net Operating CF	**184**	**236**	**173**	**196**	**223**
Capital Exp.(net)	(45.7)	(25.7)	(35.0)	(35.0)	(35.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	395	(38.8)	0.0	0.0	0.0
Net Investing CF	**349**	**(64.5)**	**(35.0)**	**(35.0)**	**(35.0)**
Div Paid	(429)	(70.0)	(52.7)	(54.2)	(62.0)
Chg in Gross Debt	46.5	1.64	1.00	1.00	1.00
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(85.5)	65.7	0.0	0.0	0.0
Net Financing CF	**(468)**	**(2.6)**	**(51.7)**	**(53.2)**	**(61.0)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	65.5	169	86.3	107	127
Opg CFPS (sen)	(8.7)	12.1	14.2	14.4	16.0
Free CFPS (sen)	10.7	16.3	10.7	12.4	14.6

Source: Company, AllianceDBS Research

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	28 Mar 16	1.67	1.92	BUY
2:	29 Mar 16	1.67	1.92	BUY
3:	13 May 16	1.64	1.92	BUY
4:	27 May 16	1.52	1.92	BUY

Source: AllianceDBS Research

Malaysia Company Guide

Muhibbah Engineering

Version 5 | Bloomberg: MUHI MK | Reuters: MUHI.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jun 2016

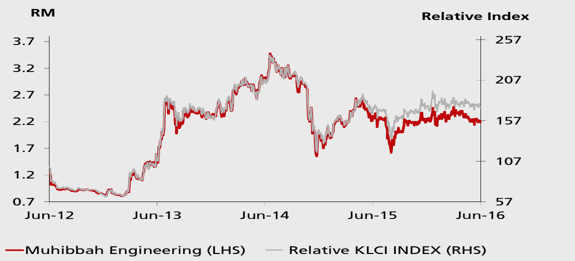
BUY

Last Traded Price: RM2.20 (**KLCI :** 1,639.98)
Price Target : RM3.10 (41% upside)

Potential Catalyst: Chunkier higher-margin wins
Where we differ: Our earnings are below consensus as we have factored in the potential private placement

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

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2015A	2016F	2017F	2018F
Revenue	1,605	1,754	1,781	1,707
EBITDA	251	225	251	267
Pre-tax Profit	165	149	177	195
Net Profit	86.0	99.8	117	128
Net Pft (Pre Ex.)	86.0	99.8	117	128
Net Pft Gth (Pre-ex) (%)	5.4	16.1	17.1	9.7
EPS (sen)	18.2	20.7	22.6	24.7
EPS Pre Ex. (sen)	18.2	20.7	22.6	24.7
EPS Gth Pre Ex (%)	5	13	9	10
Diluted EPS (sen)	18.2	20.7	22.6	24.7
Net DPS (sen)	3.98	4.13	4.51	4.95
BV Per Share (sen)	175	199	204	224
PE (X)	12.1	10.6	9.8	8.9
PE Pre Ex. (X)	12.1	10.6	9.8	8.9
P/Cash Flow (X)	33.7	13.7	9.4	7.1
EV/EBITDA (X)	7.9	9.0	8.3	7.6
Net Div Yield (%)	1.8	1.9	2.1	2.2
P/Book Value (X)	1.3	1.1	1.1	1.0
Net Debt/Equity (X)	0.6	0.5	0.4	0.3
ROAE (%)	11.7	11.2	11.6	11.6
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		22.0	25.3	29.5
Other Broker Recs:		B: 6	S: 0	H: 0

Source of all data: Company, AllianceDBS Research, Bloomberg Finance L.P

Scarcity premium infra proxy

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

Cash cow: Cambodia airport concession. Siam Reap and Phnom Penh airports have doubled their capacity to 12m passengers. Passenger arrivals grew 13% to 6.5m in FY15. We estimate its 21% stake in the Cambodia airport concession is worth RM677m (DCF, WACC 10%, RM/USD 4.15, and average passenger traffic growth of 5% p.a. until 2040), which is already 63% of the stock's market capitalisation. Revenues are also in USD which is a boost to its earnings given the weak MYR.

Good start for 2016. Contract flows so far for 2016 have been promising. For its infrastructure division, it has won two contracts, a RM137m building contract from PETRONAS Carigali, in which it has a 70% stake, implying a contract value of RM96m and a smallish contract for the Phnom Penh airport expansion. For its shipyard division, it clinched a RM92m contact win from the Ministry of Transport to undertake the design and construction of a multi-purpose vessel for the Malaysia Marine Department. Its total outstanding orderbook is now RM2.1bn, of which RM1.4bn comes from infrastructure.

Valuation:

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

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	472
Mkt. Cap (RMm/US$m)	1,039 / 263
Major Shareholders (%)	
Mac Ngan Boon	22.1
Lembaga Tabung Haji	9.6
Free Float (%)	60.7
3m Avg. Daily Val (US$m)	0.21
ICB Industry : Industrials / Construction & Materials	

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

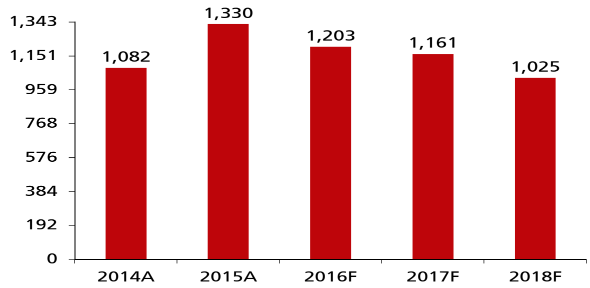
Stronger earnings growth ahead. We expect Muhibbah to deliver stronger earnings growth in FY16. With its Petronas licence and marine-based expertise, Muhibbah is poised to clinch more RAPID contracts in 2016. Within our construction universe, Muhibbah stands out as an excellent proxy to the 11MP projects. Given that we are at the start of an upswing for construction awards, we expect new job wins to kick in significantly in 2H16. Overall orderbook stood at RM2.1bn (as at May 2016). We believe this will grow further on the back of its strong execution track record while also anchored by its ability to replenish its orderbook.

Infrastructure division most promising. Muhibbah believes the infrastructure sector is on a multi-year upcycle with potentially RM153bn worth of projects up for grabs (RM100bn RAPID, RM50bn Infrastructure Construction and RM3bn Marine/Ports). Muhibbah will be bidding for major projects such as RAPID, MRT Line 2 and WCE, and is quietly confident of clinching other marine-based projects. So far, 2016 has gotten off to a decent start with two wins – one from Petronas Carigali and the other for Phnom Penh airport expansion.

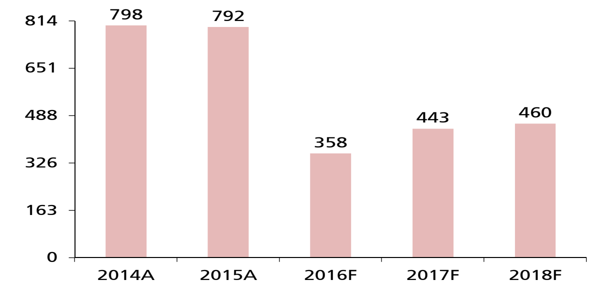
Cambodia airports to double capacity. Effective July, the Siam Reap and Phnom Penh airports will double their existing capacity to 12m passengers. The US$85m capex has been financed by only one year of operating cashflow, which suggests the airports are cash cows. Passenger arrivals reached 6.5m in 2015 (+13 % y-o-y), led by the recovery in Chinese tourists. We estimate its 21% stake is worth RM677m (DCF, WACC 10%, RM/USD 4.15, and average passenger growth of 5% p.a. until 2040).

Favco capitalising on other revenue streams. Total outstanding orderbook now stands at RM604m (as at May 2016) which is sufficient for earnings visibility until early 2017. Out of this amount, 84% is still from offshore cranes (vs peak of 95%). The slowdown in offshore crane demand is expected to be partly compensated by an increase in demand for tower cranes. Locally, Favelle Favco has won a RM30m contract from UEM-Samsung to build KL 118. Note that Favelle Favco's cranes have been used to build 12 out of the 14 tallest buildings in the world. We understand there may be M&A opportunities given its strong balance sheet with net cash of RM270m as at 31 December 2015.

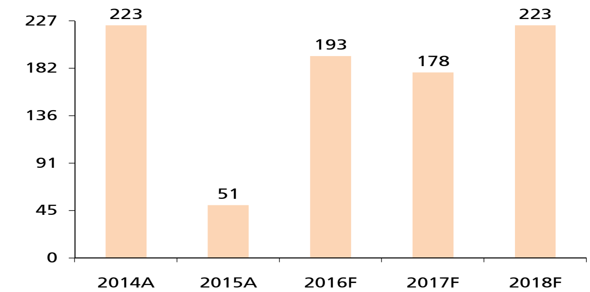
Construction revenue contribution



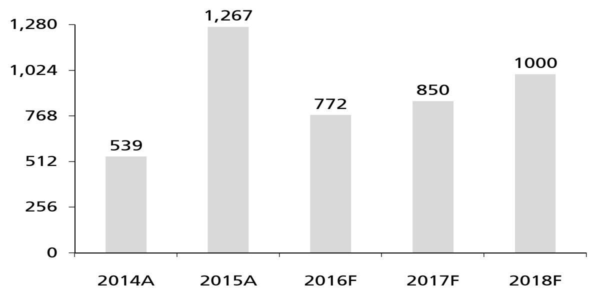
Cranes revenue contribution



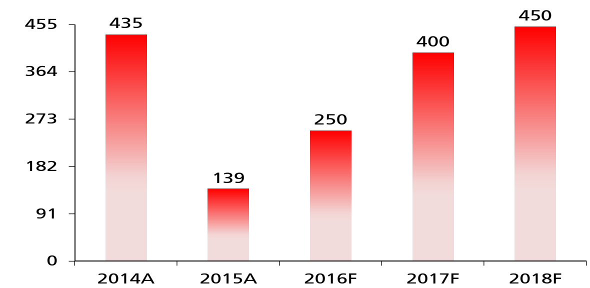
Shipyard revenue contribution



New orders for construction



New orders for cranes



Source: Company, AllianceDBS Research

Balance Sheet:

Needs bigger balance sheet. Muhibbah's shareholder's funds as at 31 March 2016 stood at RM1.1bn (including minority interest). The proposed private placement of up to 10% of new shares will help Muhibbah strengthen its capital base. This will help bring net gearing down to c.0.5x from 0.6x as at December 2015, while its cash-generating Cambodia airport concession should provide adequate cash flow. Based on the minimum and maximum scenario, this is expected to raise up to RM109-112m. The majority of the proceeds amounting to RM75m will be used to pare down borrowings while the balance will be for working capital purposes.

Share Price Drivers:

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

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

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

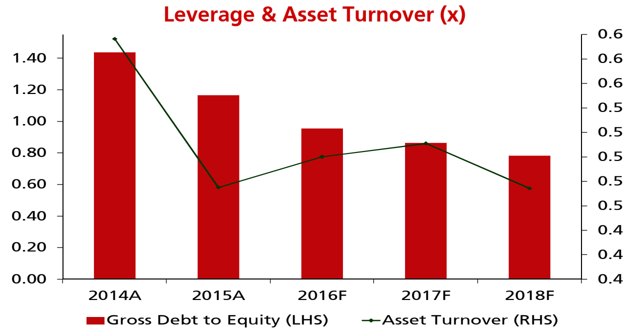
Completed landmark projects. Muhibbah has an impressive track record, having completed a list of landmark projects locally and abroad. Of significance is the LNG Regasification project for Petronas Gas in Melaka and South Klang Valley Expressway.

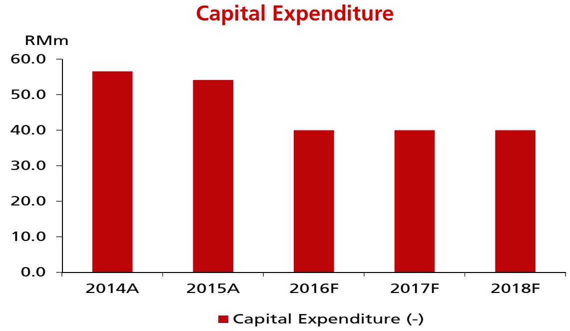
Key Risks:

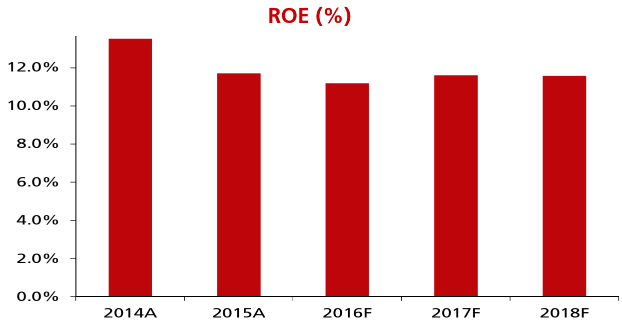
Delays in project flows and sudden spikes in raw material costs could dampen its earnings outlook.

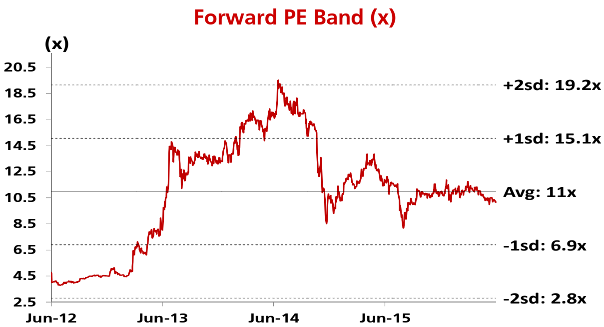
Company Background

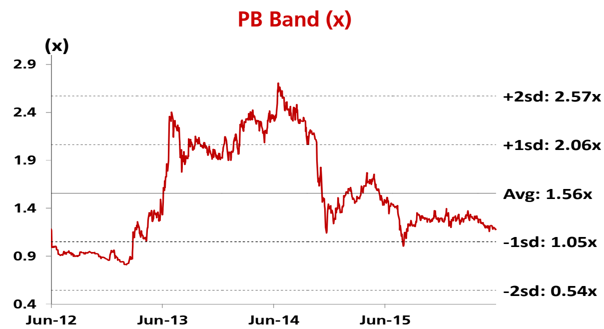
Muhibbah is primarily involved in construction, fabrication of cranes and shipbuilding. These three core divisions cater largely for the O&G sector. It also holds a 21% associate stake in two concessions, namely the Cambodian airports and Federal road maintenance in Malaysia.











Source: Company, AllianceDBS Research

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Construction revenue	1,082	1,330	1,203	1,161	1,025
Cranes revenue contribution	798	792	358	443	460
Shipyard revenue contribution	223	50.5	193	178	223
New orders for construction	539	1,267	772	850	1,000
New orders for cranes	435	139	250	400	450

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
Construction	1,082	1,330	1,203	1,161	1,025
Cranes	798	792	358	443	460
Ships	223	50.5	193	178	223
Inter-segment	(369)	(568)	0.0	0.0	0.0
Total	**1,734**	**1,605**	**1,754**	**1,781**	**1,707**

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	1,734	1,605	1,754	1,781	1,707
Cost of Goods Sold	(1,479)	(1,343)	(1,522)	(1,523)	(1,441)
Gross Profit	**254**	**262**	**231**	**258**	**266**
Other Opng (Exp)/Inc	(131)	(138)	(135)	(146)	(147)
Operating Profit	**123**	**124**	**96.3**	**113**	**120**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	49.2	62.2	65.3	73.1	79.7
Net Interest (Exp)/Inc	(28.5)	(20.7)	(12.6)	(8.6)	(4.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**144**	**165**	**149**	**177**	**195**
Tax	(24.8)	(27.8)	(20.9)	(26.0)	(28.9)
Minority Interest	(37.3)	(51.3)	(28.2)	(34.4)	(38.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**81.6**	**86.0**	**99.8**	**117**	**128**
Net Profit before Except.	81.6	86.0	99.8	117	128
EBITDA	228	251	225	251	267
Growth					
Revenue Gth (%)	(10.5)	(7.4)	9.3	1.6	(4.2)
EBITDA Gth (%)	10.9	10.1	(10.3)	11.6	6.1
Opg Profit Gth (%)	17.2	0.5	(22.1)	17.1	6.3
Net Profit Gth (Pre-ex) (%)	(5.6)	5.4	16.1	17.1	9.7
Margins & Ratio					
Gross Margins (%)	14.7	16.3	13.2	14.5	15.6
Opg Profit Margin (%)	7.1	7.7	5.5	6.3	7.0
Net Profit Margin (%)	4.7	5.4	5.7	6.6	7.5
ROAE (%)	13.5	11.7	11.2	11.6	11.6
ROA (%)	2.8	2.5	2.8	3.4	3.6
ROCE (%)	2.8	2.8	3.5	4.2	4.6
Div Payout Ratio (%)	23.4	21.8	20.0	20.0	20.0
Net Interest Cover (x)	4.3	6.0	7.6	13.2	28.0

Source: Company, AllianceDBS Research

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	363	410	394	432	482
Other Oper. (Exp)/Inc	(337)	(378)	(354)	(403)	(464)
Operating Profit	**26.3**	**32.2**	**39.5**	**29.0**	**18.1**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	16.3	11.4	14.4	20.0	18.3
Net Interest (Exp)/Inc	(3.0)	(6.3)	(3.5)	(8.0)	(2.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**39.6**	**37.4**	**50.5**	**41.0**	**34.0**
Tax	(7.6)	(11.2)	(11.1)	(1.5)	(8.1)
Minority Interest	(8.7)	(6.8)	(16.3)	(19.4)	(2.1)
Net Profit	**23.3**	**19.3**	**23.0**	**20.1**	**23.8**
Net profit bef Except.	23.3	19.3	23.0	20.1	23.8
EBITDA	59.7	56.4	65.9	62.9	36.5
Growth					
Revenue Gth (%)	(20.4)	13.0	(4.1)	9.7	11.6
EBITDA Gth (%)	(12.3)	(5.6)	16.8	(4.6)	(42.0)
Opg Profit Gth (%)	(19.3)	22.5	22.8	(26.6)	(37.5)
Net Profit Gth (Pre-ex) (%)	15.3	(17.3)	19.4	(12.8)	18.3
Margins					
Opg Profit Margins (%)	7.2	7.8	10.0	6.7	3.8
Net Profit Margins (%)	6.4	4.7	5.8	4.6	4.9

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	725	785	819	798	776
Invts in Associates & JVs	236	257	318	386	461
Other LT Assets	31.0	52.8	52.8	52.8	52.8
Cash & ST Invts	601	578	522	583	681
Inventory	226	301	250	250	257
Debtors	1,334	1,601	1,441	1,464	1,403
Other Current Assets	12.5	18.1	18.1	18.1	18.1
Total Assets	**3,165**	**3,594**	**3,421**	**3,553**	**3,649**
ST Debt	1,168	1,221	1,146	1,146	1,146
Creditor	966	1,136	876	876	829
Other Current Liab	38.8	33.6	33.6	33.6	33.6
LT Debt	69.3	48.9	48.9	48.9	48.9
Other LT Liabilities	61.9	64.2	64.2	64.2	64.2
Shareholder's Equity	644	826	960	1,056	1,161
Minority Interests	217	265	293	328	366
Total Cap. & Liab.	**3,165**	**3,594**	**3,421**	**3,553**	**3,649**
Non-Cash Wkg. Capital	567	751	800	823	815
Net Cash/(Debt)	(636)	(692)	(673)	(612)	(514)
Debtors Turn (avg days)	253.7	333.8	316.6	297.7	306.5
Creditors Turn (avg days)	245.4	300.2	251.7	219.4	226.6
Inventory Turn (avg days)	55.5	75.3	69.0	62.7	67.4
Asset Turnover (x)	0.6	0.5	0.5	0.5	0.5
Current Ratio (x)	1.0	1.0	1.1	1.1	1.2
Quick Ratio (x)	0.9	0.9	1.0	1.0	1.0
Net Debt/Equity (X)	0.7	0.6	0.5	0.4	0.3
Net Debt/Equity ex MI (X)	1.0	0.8	0.7	0.6	0.4
Capex to Debt (%)	4.6	4.3	3.3	3.3	3.3
Z-Score (X)	1.2	1.1	1.2	1.3	1.4

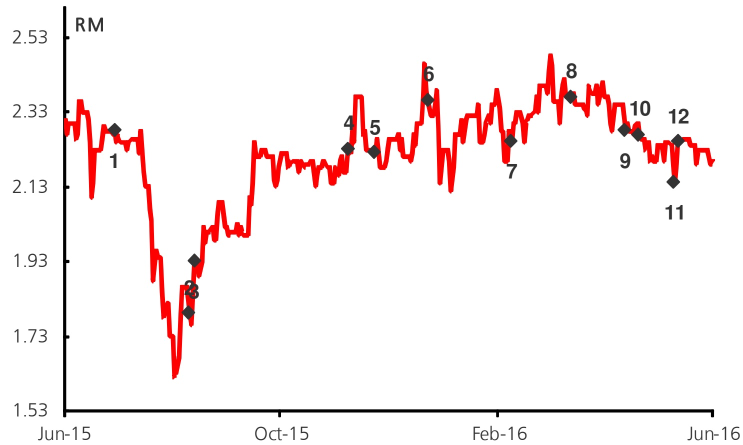
Source: Company, AllianceDBS Research

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	144	165	149	177	195
Dep. & Amort.	55.8	65.2	63.7	65.5	67.3
Tax Paid	(24.8)	(27.8)	(20.9)	(26.0)	(28.9)
Assoc. & JV Inc/(loss)	(49.2)	(62.2)	(65.3)	(73.1)	(79.7)
Chg in Wkg.Cap.	(258)	(174)	(48.8)	(22.5)	7.35
Other Operating CF	59.9	64.1	0.0	0.0	0.0
Net Operating CF	**(72.9)**	**30.8**	**77.7**	**121**	**161**
Capital Exp.(net)	(56.6)	(54.1)	(40.0)	(40.0)	(40.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(45.6)	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	66.6	60.7	0.0	0.0	0.0
Net Investing CF	**(35.6)**	**6.56**	**(40.0)**	**(40.0)**	**(40.0)**
Div Paid	(18.9)	(19.1)	(18.7)	(20.0)	(23.4)
Chg in Gross Debt	362	32.9	(75.0)	0.0	0.0
Capital Issues	(13.7)	19.6	0.0	0.0	0.0
Other Financing CF	(46.4)	(93.5)	0.0	0.0	0.0
Net Financing CF	**283**	**(60.2)**	**(93.7)**	**(20.0)**	**(23.4)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	175	(22.8)	(56.1)	61.2	97.9
Opg CFPS (sen)	39.3	43.4	26.2	27.7	29.7
Free CFPS (sen)	(27.5)	(5.0)	7.80	15.7	23.4

Source: Company, AllianceDBS Research

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	21 Jul 15	2.28	3.40	BUY
2:	01 Sep 15	1.79	2.90	BUY
3:	04 Sep 15	1.93	2.90	BUY
4:	30 Nov 15	2.23	2.90	BUY
5:	15 Dec 15	2.22	2.90	BUY
6:	14 Jan 16	2.36	2.90	BUY
7:	01 Mar 16	2.25	2.90	BUY
8:	04 Apr 16	2.37	2.90	BUY
9:	04 May 16	2.28	2.90	BUY
10:	12 May 16	2.27	3.10	BUY
11:	01 Jun 16	2.14	3.10	BUY
12:	03 Jun 16	2.25	3.10	BUY

Source: AllianceDBS Research

Malaysia Company Guide
Kimlun Corp

Version 5 | Bloomberg: KICB MK | Reuters: KICB.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jun 2016

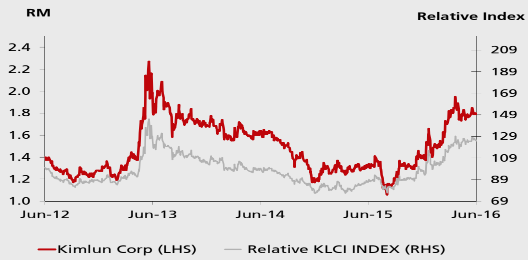
BUY

Last Traded Price: RM1.79 (**KLCI :** 1,639.98)
Price Target : RM2.38 (33% upside) (Prev RM2.38)

Potential Catalyst: Higher proportion if infra-related projects
Where we differ: We are more optimistic premised on better orderbook replenishment and execution

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

Price Relative



Forecasts and Valuation

FY Dec (RMm)	2015A	2016F	2017F	2018F
Revenue	1,054	1,105	1,130	1,068
EBITDA	124	116	130	139
Pre-tax Profit	86.4	85.7	98.9	107
Net Profit	63.8	65.2	75.2	81.2
Net Pft (Pre Ex.)	70.7	65.2	75.2	81.2
Net Pft Gth (Pre-ex) (%)	56.8	(7.9)	15.4	7.9
EPS (sen)	21.2	21.7	25.0	27.0
EPS Pre Ex. (sen)	23.5	21.7	25.0	27.0
EPS Gth Pre Ex (%)	57	(8)	15	8
Diluted EPS (sen)	17.7	18.1	20.8	22.5
Net DPS (sen)	3.80	3.47	4.00	4.32
BV Per Share (sen)	153	171	192	215
PE (X)	8.4	8.3	7.2	6.6
PE Pre Ex. (X)	7.6	8.3	7.2	6.6
P/Cash Flow (X)	17.2	20.9	6.1	4.5
EV/EBITDA (X)	4.9	5.3	4.3	3.5
Net Div Yield (%)	2.1	1.9	2.2	2.4
P/Book Value (X)	1.2	1.0	0.9	0.8
Net Debt/Equity (X)	0.1	0.2	0.0	CASH
ROAE (%)	14.8	13.4	13.8	13.3
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		20.4	22.7	21.0
Other Broker Recs:		B: 6	S: 0	H: 1

Source of all data: Company, AllianceDBS Research, Bloomberg Finance L.P

Gunning for more infra projects

Cheapest infra stock to buy. Within our construction universe, Kimlun stands out as the most direct small cap proxy to MRT projects. Despite the strong earnings delivery and decent yields of c.1.9-2.4% with stronger order replenishment ahead, Kimlun is currently trading at a bargain valuation of 8.3x FY16F EPS.

Pan Borneo Highway contract award. We estimate its construction orderbook stands at RM1.48bn, inclusive of YTD wins of c.RM972m and the recent Pan Borneo Highway (PBH) contract. Its total orderbook including manufacturing is RM1.8bn. Of the RM1.48bn construction orderbook, we estimate about one-third is infra-related. We believe its exposure to the property market in Johor will be partially offset by more infra-related contract wins. Moreover, clinching the PBH contract worth RM1.46bn further validates its ability to potentially win more infra-related jobs. The contract was awarded for the development and upgrading work of the Serian to Pantu Junction roundabout, slated to complete by year 2020. Together with its JV partner Zecon Bhd, Kimlun will hold a 30% stake, implying its share is worth RM438m.

Most direct proxy to MRT. Kimlun has won a RM199m Segmental Box Girder (SBG) for MRT Line 2. We remain confident that it will clinch the Tunnel Lining Segment (TLS) works for MRT Line 2 whose contract value would be higher than those for MRT Line 1 of RM49m, as the tunnel is longer. MRT Line 1 is 51km long, of which 9.5km will be underground, while MRT Line 2 is 52.2km in length, of which 10.2km will be underground.

Valuation:

We maintain our target price of RM2.38, based on 11x FY16F PE. This is a tad below +1SD of its historical mean of 11.5x and 15% discount to the sector average. We think this is justified given its impeccable earnings delivery and its positioning as a direct MRT proxy.

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	301
Mkt. Cap (RMm/US$m)	538 / 136
Major Shareholders (%)	
Phin Sdn Bhd	29.1
Tin Pang	6.3
Free Float (%)	64.6
3m Avg. Daily Val (US$m)	0.23
ICB Industry : Industrials / Construction & Materials	

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

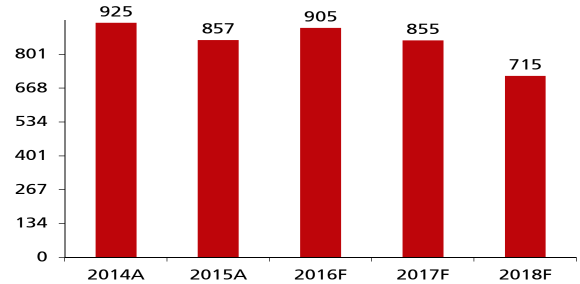
Construction segment remains a key earnings driver. Kimlun's construction arm made up 80-92% of revenue in FY07-FY15. It was the largest earnings contributor in FY11, peaking at 85% of the group's gross profit. Group GP margins, however, hit a low of 9.5% in FY14 as margins had been declining over the years due to a larger share of Johor high-rise residential projects in the orderbook. Note that these projects have higher M&E portion, on which Kimlun only earns minimal margins.

More selective on jobs. Kimlun will be more selective on jobs in order to be less reliant on high-rise developments in Johor, which is currently seeing a surplus. The group is raising its exposure to the non-residential projects and will be bidding aggressively for more infrastructure projects. Given that it has a strong niche in TLS and SBG works in MRT projects, the group has won the SBG works for MRT2 and should win its portion of the TLS soon. Previously, for MRT1, it had secured c.50% market share based on overall contracts of RM272m (RM223: SBG and RM49m: TLS).

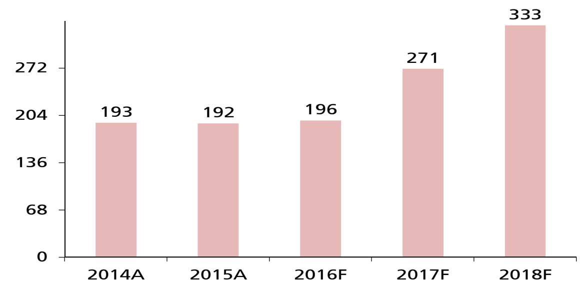
Manufacturing generates higher margins. Kimlun operates two manufacturing plants – in Ulu Choh in Johor, and a newer plant in Senawang, Seremban. It manufactures concrete products such as segmental box girders and other reinforced precast concrete products for the infrastructure and building sectors in Malaysia and Singapore. FY15 manufacturing segment margins recorded strong margins of 26%, buoyed by larger sales orders for jacking pipes and better TLS margins.

Property launches on the back burner. Kimlun launched a small property project in Pontian (GDV RM50m) comprising 131 units. Sales at its maiden property project called the Hyve in Cyberjaya (SOHO and offices; GDV RM235m) have achieved 82% take-up rate with RM6.7m worth of unbilled sales. The softening property market has prompted the group to defer the launch of its residential projects in Iskandar Medini (GDV RM447m) comprising 865 SOHO and retail units. It has also expanded its land bank with the recent purchase being Kota Tinggi Land (currently registered as agriculture land). This was purchased at just RM5psf before land conversion and spans some 141 acres.

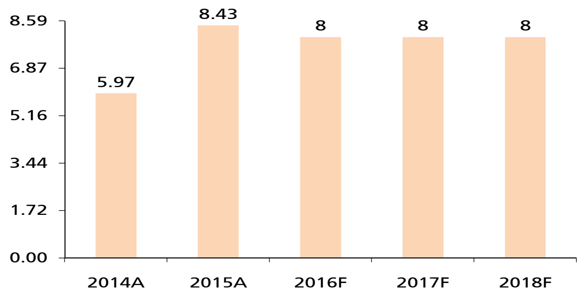
Construction revenue



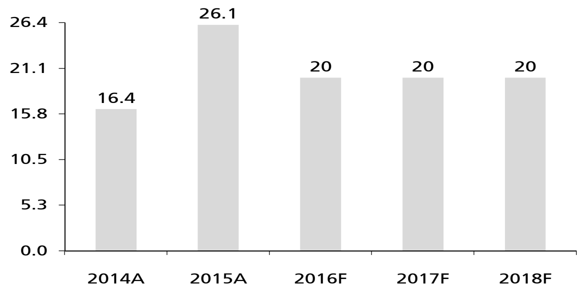
Concrete products revenue



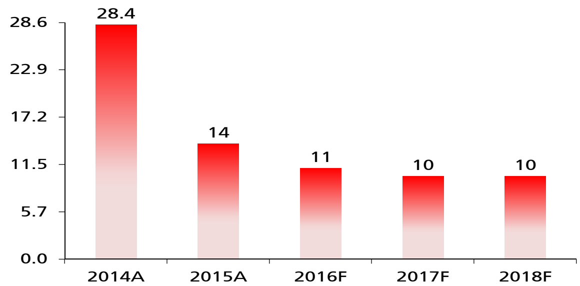
Construction margins



Concrete products margins



Property margins



Source: Company, AllianceDBS Research

Balance Sheet:

As at 31 March 2016, the company had RM76m net debt, translating into 0.2x net gearing. There is minimal capex requirement going forward, with the completion of the Senawang plant. We estimate annual capex requirement at RM25m over the next few years. The company completed a one-for-four rights issue in March 2014.

Share Price Drivers:

MRT Line 2. Kimlun has already won a RM199m contract for SBG for MRT Line 2. It is expected to clinch its fair share of TLS where the contract value could be higher than that for MRT Line 1 as the rail is longer. MRT Line 1 is 51km long, of which 9.5km is underground, while MRT Line 2 is 52.2km in length, of which 10.2km will be underground. Kimlun has an outstanding order book of c.RM1.8bn (RM1.48bn construction, RM0.34bn manufacturing).

Capitalising on other infra-related projects. Its ability to win the PBH contract validates its potential to clinch more infra projects going forward. It has submitted the tender bid for Central Spine Road, both as a main and sub-contractor thus far. Apart from that, it is also tendering for DASH and SUKE highways for eight work packages in total. Kimlun is also raising its exposure to bid for non-residential projects, potentially venturing into the affordable residential jobs segment to ride on government initiatives to construct 1m units of affordable houses in the next five years.

Key Risks:

Rising material prices. A surge in raw material prices like cement and steel would potentially lead to margin erosion.

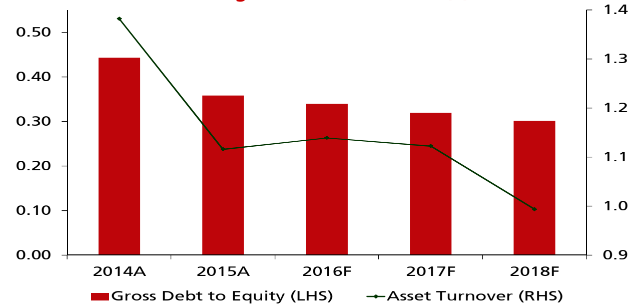
Delays in the award of contract. Any delay of government projects under the 11MP would possibly have an adverse impact on the group's earnings performance.

Softening property market. A softening property market in Johor would slow down contract awards.

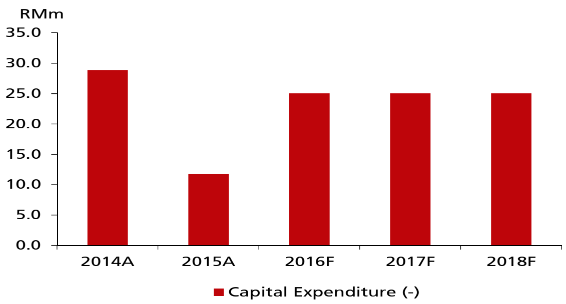
Company Background

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

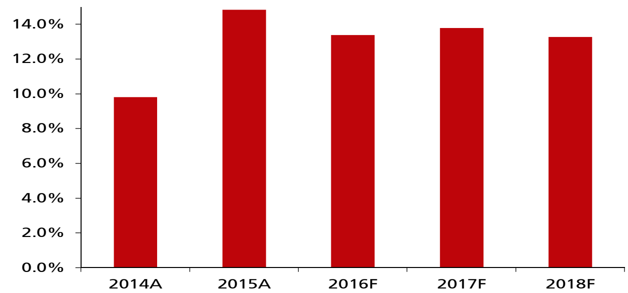
Leverage & Asset Turnover (x)



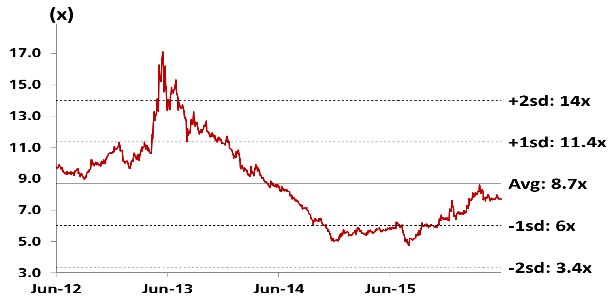
Capital Expenditure



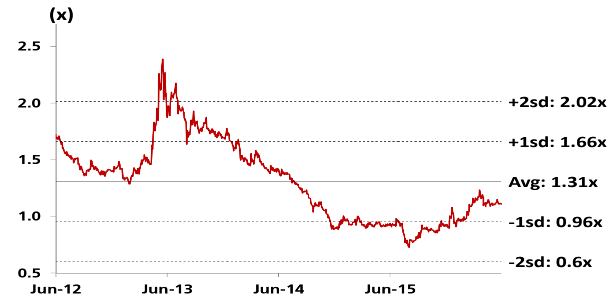
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, AllianceDBS Research

Key Assumptions

FY Dec	2014A	2015A	2016F	2017F	2018F
Construction revenue	925	857	905	855	715
Concrete products revenue	193	192	196	271	333
Construction margins	5.97	8.43	8.00	8.00	8.00
Concrete products margins	16.4	26.1	20.0	20.0	20.0
Property margins	28.4	14.0	11.0	10.0	10.0

Segmental Breakdown

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenues (RMm)					
Construction	925	857	905	855	715
Concrete products	193	192	196	271	333
Property	101	4.67	4.00	4.00	20.0
Investment	0.27	0.25	0.0	0.0	0.0
Total	**1,220**	**1,054**	**1,105**	**1,130**	**1,068**
Operating profit (RMm)					
Construction	55.2	72.2	72.4	68.4	57.2
Concrete products	31.6	50.1	39.3	54.1	66.6
Property	28.7	0.65	0.44	0.40	2.00
Investment	0.27	0.25	0.0	0.0	0.0
Total	**116**	**123**	**112**	**123**	**126**
Operating profit Margins					
Construction	6.0	8.4	8.0	8.0	8.0
Concrete products	16.4	26.1	20.0	20.0	20.0
Property	28.4	14.0	11.0	10.0	10.0
Investment	100.0	100.0	N/A	N/A	N/A
Total	**9.5**	**11.7**	**10.1**	**10.9**	**11.8**

Income Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Revenue	1,220	1,054	1,105	1,130	1,068
Cost of Goods Sold	(1,104)	(931)	(993)	(1,007)	(942)
Gross Profit	**115**	**123**	**112**	**123**	**126**
Other Opng (Exp)/Inc	(37.6)	(20.1)	(20.9)	(21.7)	(22.5)
Operating Profit	**77.8**	**103**	**91.3**	**101**	**103**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	3.78	7.56	13.9
Net Interest (Exp)/Inc	(12.6)	(9.5)	(9.3)	(9.9)	(10.4)
Exceptional Gain/(Loss)	(10.8)	(6.9)	0.0	0.0	0.0
Pre-tax Profit	**54.4**	**86.4**	**85.7**	**98.9**	**107**
Tax	(16.1)	(22.7)	(20.6)	(23.7)	(25.6)
Minority Interest	(4.1)	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**34.3**	**63.8**	**65.2**	**75.2**	**81.2**
Net Profit before Except.	45.1	70.7	65.2	75.2	81.2
EBITDA	102	124	116	130	139
Growth					
Revenue Gth (%)	28.8	(13.6)	4.9	2.2	(5.5)
EBITDA Gth (%)	49.3	20.7	(6.0)	12.2	6.7
Opg Profit Gth (%)	56.7	32.1	(11.2)	10.9	2.1
Net Profit Gth (Pre-ex) (%)	26.3	56.8	(7.9)	15.4	7.9
Margins & Ratio					
Gross Margins (%)	9.5	11.7	10.1	10.9	11.8
Opg Profit Margin (%)	6.4	9.8	8.3	9.0	9.7
Net Profit Margin (%)	2.8	6.1	5.9	6.7	7.6
ROAE (%)	9.8	14.8	13.4	13.8	13.3
ROA (%)	3.9	6.8	6.7	7.5	7.5
ROCE (%)	5.8	10.1	8.5	9.0	8.8
Div Payout Ratio (%)	26.3	17.9	16.0	16.0	16.0
Net Interest Cover (x)	6.2	10.9	9.8	10.3	9.9

Source: Company, AllianceDBS Research

Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	322	258	241	232	235
Cost of Goods Sold	(292)	(231)	(210)	(197)	(199)
Gross Profit	**30.2**	**27.5**	**30.8**	**34.5**	**35.9**
Other Oper. (Exp)/Inc	(8.5)	(4.4)	(1.7)	(5.5)	(11.0)
Operating Profit	**21.7**	**23.1**	**29.1**	**29.0**	**24.9**
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(2.5)	(2.3)	(2.5)	(2.3)	(2.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**19.3**	**20.8**	**26.6**	**26.7**	**22.7**
Tax	(5.1)	(5.2)	(7.0)	(5.3)	(5.6)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Profit	**14.1**	**15.6**	**19.6**	**21.4**	**17.1**
Net profit bef Except.	14.1	15.6	19.6	21.4	17.1
EBITDA	27.7	28.2	39.9	39.0	29.8
Growth					
Revenue Gth (%)	14.9	(19.8)	(6.7)	(3.8)	1.2
EBITDA Gth (%)	18.9	1.9	41.5	(2.1)	(23.7)
Opg Profit Gth (%)	27.9	6.1	26.1	(0.3)	(14.1)
Net Profit Gth (Pre-ex) (%)	54.2	10.5	25.8	9.2	(20.1)
Margins					
Gross Margins (%)	9.4	10.6	12.8	14.9	15.3
Opg Profit Margins (%)	6.7	8.9	12.1	12.5	10.6
Net Profit Margins (%)	4.4	6.0	8.1	9.2	7.3

Balance Sheet (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Net Fixed Assets	161	152	156	159	162
Invts in Associates & JVs	0.0	10.1	10.1	10.1	10.1
Other LT Assets	6.36	2.95	2.95	2.95	2.95
Cash & ST Invts	86.1	96.8	97.1	158	249
Inventory	21.1	21.5	21.8	22.1	20.7
Debtors	596	585	575	588	556
Other Current Assets	44.2	105	105	105	105
Total Assets	**915**	**973**	**968**	**1,045**	**1,106**
ST Debt	111	102	105	111	117
Creditor	325	342	272	276	258
Other Current Liab	6.75	7.05	7.05	7.05	7.05
LT Debt	67.8	62.7	69.8	73.8	77.8
Other LT Liabilities	0.0	0.0	0.0	0.0	0.0
Shareholder's Equity	400	460	514	578	646
Minority Interests	4.19	0.0	0.0	0.0	0.0
Total Cap. & Liab.	**915**	**973**	**968**	**1,045**	**1,106**
Non-Cash Wkg. Capital	330	362	423	432	416
Net Cash/(Debt)	(93.0)	(67.7)	(77.4)	(26.8)	54.2
Debtors Turn (avg days)	175.8	204.6	191.6	188.0	195.5
Creditors Turn (avg days)	108.3	133.8	115.3	101.5	105.9
Inventory Turn (avg days)	6.4	8.5	8.1	8.1	8.5
Asset Turnover (x)	1.4	1.1	1.1	1.1	1.0
Current Ratio (x)	1.7	1.8	2.1	2.2	2.4
Quick Ratio (x)	1.5	1.5	1.8	1.9	2.1
Net Debt/Equity (X)	0.2	0.1	0.2	0.0	CASH
Net Debt/Equity ex MI (X)	0.2	0.1	0.2	0.0	CASH
Capex to Debt (%)	16.1	7.1	14.3	13.6	12.9
Z-Score (X)	2.9	2.8	3.1	3.1	3.1

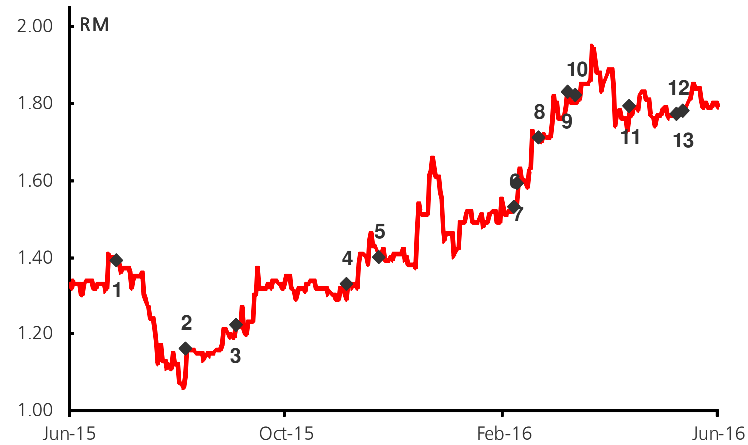
Source: Company, AllianceDBS Research

Cash Flow Statement (RMm)

FY Dec	2014A	2015A	2016F	2017F	2018F
Pre-Tax Profit	65.2	93.4	85.7	98.9	107
Dep. & Amort.	24.7	20.9	21.2	21.7	22.1
Tax Paid	(16.1)	(22.7)	(20.6)	(23.7)	(25.6)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(12.2)	27.8	(60.7)	(9.3)	15.8
Other Operating CF	21.1	(88.0)	0.0	0.0	0.0
Net Operating CF	**82.7**	**31.4**	**25.7**	**87.6**	**119**
Capital Exp.(net)	(28.9)	(11.7)	(25.0)	(25.0)	(25.0)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	10.7	0.03	0.0	0.0	0.0
Net Investing CF	**(18.1)**	**(11.7)**	**(25.0)**	**(25.0)**	**(25.0)**
Div Paid	(9.0)	(11.4)	(10.4)	(12.0)	(13.0)
Chg in Gross Debt	(56.1)	(14.6)	10.0	10.0	10.0
Capital Issues	30.1	0.0	0.0	0.0	0.0
Other Financing CF	24.4	17.1	0.0	0.0	0.0
Net Financing CF	**(10.6)**	**(8.9)**	**(0.4)**	**(2.0)**	**(3.0)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	54.0	10.8	0.28	60.6	91.1
Opg CFPS (sen)	31.6	1.17	28.7	32.2	34.3
Free CFPS (sen)	17.9	6.53	0.23	20.8	31.3

Source: Company, AllianceDBS Research

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	20 Jul 15	1.39	2.05	BUY
2:	28 Aug 15	1.16	2.05	BUY
3:	25 Sep 15	1.22	2.05	BUY
4:	27 Nov 15	1.33	2.05	BUY
5:	15 Dec 15	1.40	2.05	BUY
6:	29 Feb 16	1.53	2.26	BUY
7:	02 Mar 16	1.59	2.26	BUY
8:	14 Mar 16	1.71	2.38	BUY
9:	30 Mar 16	1.83	2.38	BUY
10:	04 Apr 16	1.82	2.38	BUY
11:	04 May 16	1.79	2.38	BUY
12:	31 May 16	1.77	2.38	BUY
13:	03 Jun 16	1.78	2.38	BUY

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

Source: AllianceDBS Research

AllianceDBS Research recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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AllianceDBS Research Sdn Bhd
(128540 U)
19th Floor, Menara Multi-Purpose, Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com