AFFIN HWANG CAPITAL

Outthink. Outperform.

Rebound lag

Benalec's 1QFY17 result was below our expectation. We were surprised by the high tax rate (48% in 1QFY17). Net profit increased RM4.4m yoy to RM5.6m in 1QFY17, driven by higher revenue from the sale of reclaimed land. Delays in obtaining land titles for its Melaka project remain a concern. We cut our earnings forecasts by 22-25% for FY17-18E to reflect higher operating cost and tax rate. Maintain HOLD call with lower target price of RM0.40, based on a lower target FY17E Price/book of 0.5x due to delays in monetisation of its land.

Disappointing result

Benalec's net profit of RM5.4m in 1QFY17 was only 19% of our previous full-year forecast of RM28.8m. Revenue increased 126% yoy and 3% qoq to RM100m in 1QFY17, driven by higher reclaimed land sales recognised. Core increased 33% yoy to RM6.9m in 1QFY17 in tandem with the higher revenue. But was down 54% qoq due to EBITDA margin contracting 8.4ppt qoq. Forex loss of RM1.6m was recognised in 1QFY16.

Potential land sale gains

Benalec has unrecognized revenue of RM103m for its RM204m contract to reclaim 415 acres of land for Boon Siew. Furthermore, 115.8-acre reclaimed land sales in Melaka worth RM212m is yet to be recognized as revenue. Total revenue of RM315m will be recognized in FY17-18. Delays in obtaining land titles from the Melaka authorities remain a key concern.

New project will only contribute in 2018

We understand that Benalec has reclaimed about 120 acres of land in Tanjung Piai to date and is proceeding with the oil storage terminal project while finalising a deal with a strategic partner. The Tanjung Piai Maritime Industrial Park and Pengerang Maritime Industrial Park projects in Johor will only start contributing to earnings in FY18 at the earliest. It is financing the reclamation works with the proceeds from the RM150m redeemable convertible bonds issued last year.

High execution risk

Execution risk remains high for its reclamation projects given the current weak property and oil and gas markets. We maintain our HOLD call on Benalec. We reduce our target FY17E Price/book to 0.7x from 0.5x, given the earnings forecast risk. We cut our target price to RM0.40 from RM0.53.

Earnings & Valuation Summary

FYE 30 Jun	2014	2015	2016E	2017E	2018E
Revenue (RMm)	180.5	323.1	260.0	280.0	300.0
EBITDA (RMm)	41.8	71.9	69.5	75.5	81.5
Pretax profit (RMm)	19.9	32.0	37.5	43.5	49.5
Net profit (RMm)	16.3	17.1	22.4	28.2	34.6
EPS (sen)	2.0	2.1	2.8	3.5	4.3
PER (x)	18.3	17.5	13.3	10.6	8.6
Core net profit (RMm)	16.3	17.1	22.4	28.2	34.6
Core EPS (sen)	2.0	2.1	2.8	3.5	4.3
Core EPS growth (%)	(22.5)	5.0	31.0	25.8	22.6
Core PER (x)	18.3	17.5	13.3	10.6	8.6
Net DPS (sen)	0.3	0.0	3.0	3.0	3.0
Dividend Yield (%)	0.8	0.0	8.1	8.1	8.1
EV/EBITDA (x)	9.1	4.5	6.8	6.4	5.6
Chg in EPS (%)			(22.1)	(25.3)	New
Affin/Consensus (x)			NA	NA	NA

Source: Company, Affin Hwang estimates, Bloomberg

Results Note

Benalec Hldgs

BHB MK
Sector: Construction & Infra

RM0.37 @ 29 November 2016

HOLD (maintain)

Upside: 8%

Price Target: RM0.40

Previous Target: RM0.53

Price Performance

	1M	3M	12M
Absolute	-2.6%	-12.9%	-33.3%
Rel to KLCI	0.0%	-10.0%	-31.1%

Stock Data

Issued shares (m)	799.1
Mkt cap	295.7/66.2
Avg daily vol - 6mth (m)	0.7
52-wk range (RM)	0.36-0.62
Est free float	44.7%
BV per share (RM)	0.77
P/BV (x)	0.48
Net cash/(debt) (RMm) (1Q17)	7.4
ROE (FY17E)	3.4%
Derivatives	No
Shariah Compliant	Yes

Key Shareholders

Oceancove Sdn Bhd	47.8%
Lim Kean Tin	2.6%
Dimensional Fund Adv	2.7%

Source: Affin Hwang, Bloomberg

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Figure 1: Result comparison

FYE 30 Jun (RMm)	4QFY15	1QFY15	4QFY16	1QFY17	% QoQ	% YoY	1Q17 Comment
Revenue	59.4	44.0	97.2	99.7	*2.6*	*126.3*	Higher reclaimed land disposal recognition lifted revenue.
Op costs	(38.5)	(31.3)	(69.3)	(79.5)	*14.7*	*153.7*	Higher cost of sales and administrative costs.
EBITDA	**21.0**	**12.7**	**27.8**	**20.2**	***(27.6)***	***58.6***	
EBITDA margin (%)	*35.3*	*28.9*	*28.7*	*20.2*	*-8.4ppt*	*-8.6ppt*	
Depn and amort	(3.3)	(3.6)	(3.5)	(3.5)	*(0.7)*	*(3.0)*	
EBIT	**17.7**	**9.1**	**24.4**	**16.7**	***(31.5)***	***82.8***	
Int expense	(4.4)	(4.3)	(5.6)	(4.5)	*(20.2)*	*3.6*	Higher interest expense due to issuance of RM150m redeemable convertible secured bonds.
Int and other inc	8.8	1.1	3.4	1.0	*(70.9)*	*(11.3)*	
Forex gain (losses)	(2.6)	(4.2)	(0.8)	(1.6)	*>100*	*(61.9)*	
Exceptional items	(16.5)	0.2	(9.7)	0.3	*NA*	*43.7*	Gain on disposal of fixed assets, partly offset by impairment losses.
Pretax profit	**2.9**	**2.0**	**11.6**	**12.0**	***2.7***	***>100***	Below expectation due to low land disposal recognised.
Core pretax	**22.0**	**5.9**	**22.2**	**13.2**	***(40.4)***	***>100***	
Tax	(0.8)	(0.1)	(6.6)	(5.8)	*(12.3)*	***>100***	
Tax rate (%)	*28.1*	*7.0*	*56.5*	*48.3*	*-8.2ppt*	*41.3ppt*	High tax rate due to losses for certain subsidiaries and certain expenses not deductible for tax purposes.
Minority interests	(0.1)	(0.6)	(0.5)	(0.6)	*5.4*	*(10.5)*	
Net profit	**2.0**	**1.2**	**4.5**	**5.6**	***24.1***	***>100***	Below expectation.
EPS (sen)	0.2	0.2	0.6	0.9	*50.0*	*>100*	
Core net profit	**21.1**	**5.2**	**15.1**	**6.9**	***(54.4)***	***33.0***	After adjusting for forex and exceptional losses.

Source: Affin Hwang estimates, company

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

The Company, is a participant of the Capital Market Development Fund-Bursa Research Scheme, and will receive compensation for the participation.

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
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