



13 March 2013

Benalec Holdings

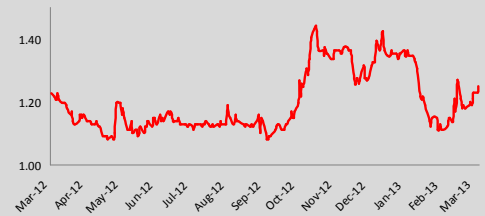
Kicking off Johor land development

OUTPERFORM ↔

Price: RM1.25
Target Price: RM1.71 ↔

- News**
- Benalec announced that it had signed a term sheet with the State Secretary, Johor (Incorporated) and 1My Strategic Oil Terminal Sdn. Bhd for the reclamation works and sale of approximately 1,000 acres of land off the coast of Tanjung Piai, Johor for the purpose of constructing and operating a crude oil and petroleum storage facility together with a private jetty, which has long been anticipated.
- Comments**
- We are positive on the announcement as it finally showed some progress on its Johor land development, which has been long overdue since its initial approval in principle form UPEN, Johor back in Nov-11 due to the prolonged EIA studies here. Details are still lacking at this juncture.
 - Assuming a market price of RM80psf with an operating margin of 30% over 4 years, we are likely to raise our FY14E EPS by 104% to 33.5sen.
 - Our SOP of RM1.71/share has already factored the 1,000ac land deal although we conservatively assumed a land valuation of RM45.00psf on the back of lower land cost assumption of RM31.50psf previously. Johor has experienced a sharp re-rating in capital values over the last 12 months due to growing G2G agreements between Singapore and Malaysia. Based on our understanding, the asking price of lands in the area is now at around RM80.00psf. At this valuation with a land cost assumption of RM56.00psf, it will increase our SOP valuation by 27% to RM2.17.
 - Given the massive project size of 1,000 acres and an assumed reclamation cost of RM2.4b over 4 years, we believe that Benalec will need to gear up further by at least another RM180m per annum to execute the project assuming that the project is based on a progressive payment basis rather than on a build- than-sell basis. This will bring up its net gearing from 0.03x to 0.36x for the first year, which is still at a comfortable level.
- Outlook**
- We believe Benalec would be the key beneficiary from Abu Dhabi's partnership with Malaysia, which potentially includes development of the RM21b strategic petroleum reserve facility in Johor, Malaysia. The facility is likely to have a storage capacity of 60m barrels of crude oil and petroleum storage facility, which will be used exclusively by Abu Dhabi.
 - Note that this 1,000ac land development forms part of (19%) the total 5245ac Johor land development (Tanjung Piai; 3,485ac and Teluk Penggerang; 1,760ac), which was granted the approval in principle previously. So, over the next 12-18 months, we expect the group to firm up more of such similar contracts, which has yet to be reflected in our estimates or SoP.
- Forecast**
- We look to reflect the new earnings contributions, pending the land price details. So for now, we maintain our estimates.
- Rating**
- Maintain OUTPERFORM**
- We are maintaining our OUTPERFORM call on Benalec given the ample capital upside of 37% and the likely future boost from the development of its Johor land, which is already benefiting from the sharp increase in land prices in the area.
- Valuation**
- We are keeping our TP unchanged at RM1.71 based on a SOP valuation at this juncture.
- Risks**
- (1) A sharp increase in material prices and (2) a slowdown in its land sales.

Share Price Performance



KLCI	1656.54
YTD KLCI chg	-1.9%
YTD stock price chg	-10.1%

Stock Information

Bloomberg Ticker	BHB MK Equity
Market Cap (RM m)	1,005.2
Issued shares	804.2
52-week range (H)	1.49
52-week range (L)	1.09
3-mth avg daily vol:	2,648,142
Free Float	39%
Beta	1.4

Major Shareholders

OCEANCOVE	53.1%
KWAP	6.8%
SENG HAI LEAW	1.4%

Summary Earnings Table

FYE Dec (RM m)	2012A	2013E	2014E
Turnover	155.3	291.5	356.5
EBITDA	61.8	136.3	175.1
PBT	100.3	150.9	177.6
Net Profit (NP)	82.7	111.7	131.4
Consensus (NP)		99.4	113.5
Earnings Revision		0%	0%
EPS (sen)	11.3	15.3	18.0
NDPS (sen)	3.1	4.6	5.4
NTA/Share (RM)	0.54	0.67	0.84
BVPS	0.66	0.68	0.84
PER	11.0	8.2	6.9
Price/NTA (x)	2.3	1.9	1.5
Gearing (x)	0.1	0.1	0.1
Dividend Yield (%)	2%	4%	4%

The Research Team
research@kenanga.com.my
+603 2713 2292

Earnings Estimates

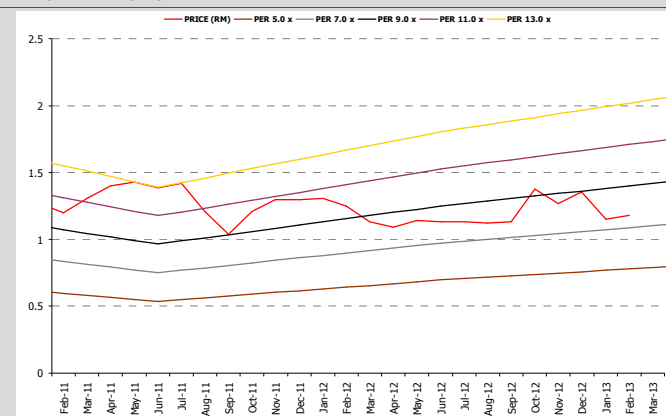
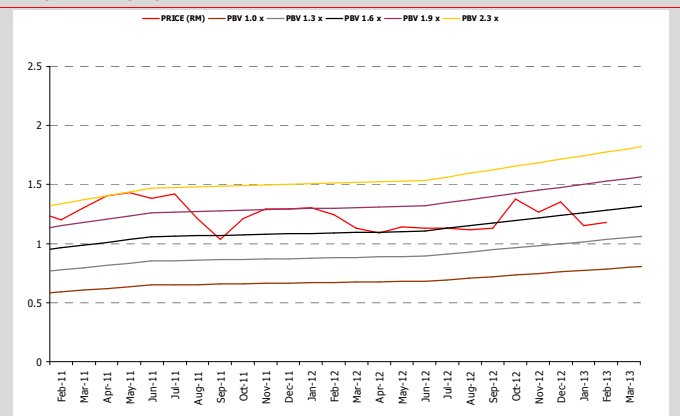
FYE 30 June (RMm)	2008	2009	2010	2011	2012	2013E	2014E
Revenue	74.0	120.9	116.5	214.5	155.3	291.5	356.5
Pretax profit	16.9	23.9	68.6	129.5	100.3	150.9	177.6
Net profit	13.4	17.3	58.3	95.7	82.7	111.7	131.4
EPS (sen)	1.8	2.4	8.0	13.1	11.3	13.9	16.4
EPS growth (%)	n.a	28.4%	237.8%	64.1%	-22.5%	35.0%	17.7%
DPS (sen)	-	-	-	3.9	3.1	4.6	5.4
NTA/ share (RM)	-	-	0.2	0.5	0.5	0.7	0.8
Net gearing (x)	-	-	0.3	Net cash	Net cash	Net cash	Net cash
PER (x)	64	50	15	9	11	8	7
P/NTA (x)	-	-	5.7	2.5	2.2	1.7	1.4
Net div. yield (%)	n.m	n.m	n.m	3%	3%	4%	5%
EV/ EBITDA (x)	35.6	25.9	15.3	7.4	8.9	6.1	5.5
ROE (%)	9.0%	11.5%	38.8%	27.6%	19.7%	20.5%	19.5%

Source: Company, Kenanga Research

Sum-of-parts valuation

Segment	RMm	WACC	PE(x)	RM/share
A Construction	83.8		9	0.94
B Vessel chartering	4.7		7	0.04
C Sale of reclaimed land in Melaka (average selling price at RM30 per sqf)	72.5	10%		0.09
D Johor land development (70% stake)	474.1	10%		0.59
E Net cash / (Net debt)	29.5			0.05
Target price				1.71

Source: Kenanga Research

Fwd PER Band**Fwd PBV Band**

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM: A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com



Chan Ken Yew
Head of Research