

# Benalec Hldgs

Sector: Construction & Infra

BHB MK

RM0.925 @ 12 September 2014

TR BUY (maintain)

Price Target: RM1.98 (↔)

## Convertible bond issue proposed

### Proposed issuance of up to RM200m 7-year RCSB

The board of BHB announced the proposed issuance of up to RM200m nominal value of 7-year Redeemable Convertible Secured Bonds (RCSB), at a fixed interest rate to be determined prior to issuance, on a direct/private placement or a bought deal basis or book running on a best effort basis without prospectus to investors who fall under Schedule 6 (or Section 229(1)(b)) or Schedule 7 (or Section 230(1)(b)), which are to be read together with Schedule 9 (or Section 257(3)) of the Capital Markets and Services Act, 2007.

### Bulk of proceeds to be used for land reclamation projects

The gross proceeds of up to RM200m will be utilised for the group's land reclamation projects (up to RM146.5m), working capital and reserve requirement for a debt service reserve account (up to RM50m) and defray estimated expenses (up to RM3.5m). The sale and purchase agreement(s) or contracts or letter of award for to the lands to be reclaimed will be identified and assigned as collateral for the proposed RCSB Issue.

### RCSB convertible into ordinary shares at a 15%-20% premium to VWAP

The RCSB will be convertible any time from the date of issue at a premium of 15%-20% to the 5-day value-weighted average market price (VWAMP) on a price fixing date to be determined later. On the 5<sup>th</sup> anniversary of the issue date, the bondholders will have the option to require BHB to redeem all outstanding RCSB at 100% of nominal value with accrued interests.

### Borrowings of BHB is low

As at end-Jun14, BHB had unaudited shareholders' funds of RM543m, cash equivalents of RM41m and total borrowings of RM32m. A maximum RCSB issue of RM200m would only raise the group's gross gearing to 0.4x, which will decline when some or all of the RCSB are converted.

### However, future RCSB conversion will be EPS-dilutive

Assuming a conversion price of RM1.07 (15.7% above last Friday's closing price), a maximum RCSB issuance of RM200m is convertible to into approximately 187m new BHB shares, thereby raising BHB's total issued share capital by 23% to 995m shares. The potential EPS dilution upon full conversion of the RCSB is of similar quantum, unless negated by sharply higher profit growth as a result of utilisation of the RCSB issue proceeds.

## Earnings & Valuation Summary

FYE 30 June	2012	2013	2014E	2015E	2016E
Revenue (RMm)	265.8	211.0	250.0	250.0	251.0
EBITDA (RMm)	80.3	31.6	87.2	101.9	102.4
Pretax profit (RMm)	65.6	18.3	71.2	85.9	88.4
Net profit (RMm)	56.6	7.2	54.7	66.1	67.9
EPS (sen)	7.0	0.9	6.8	8.2	8.4
PER (x)	13.9	109.4	14.4	11.9	11.6
Core net profit (RMm)	56.6	20.9	54.7	66.1	68.9
Core EPS (sen)	7.0	2.6	6.8	8.2	8.6
Core EPS growth (%)	(31.6)	(63.0)	161.4	20.7	4.4
Core PER (x)	13.9	37.6	14.4	11.9	11.4
Net DPS (sen)	3.0	3.0	3.0	3.0	3.0
Dividend Yield (%)	3.1	3.1	3.1	3.1	3.1
EV/EBITDA (x)	11.6	27.9	9.5	8.0	7.8
Consensus profit (RMm)			65.8	87.0	88.0
Affin Core/Consensus (x)			1.0	1.0	0.8

Source: Company data, Affin estimates, Bloomberg

Ong Keng Wee  
(603) 2142 2910  
kengwee.ong@affininvestmentbank.com.my

**Maintain price target and TRADING BUY rating on Johor land concessions**

We are neutral on the proposed RCSB issue, which BHB's board expects to complete by 1H15, as potential earnings enhancement will have to be weighed against EPS dilution. We maintain our target price of RM1.98 (20% discount to RNAV) and **TRADING BUY** rating, both of which are hinged on BHB being given the go-ahead to commence the massive land reclamation concessions in Tanjung Piai (3,485 acres) and Pengerang (1,760 acres). Without the two concessions, the target price of BHB would have been RM1.00 based on a CY15 PE target of 12x, which is what we applied for mid-cap construction stocks, such as Eversendai.

**Key risks**

Downside risks to our rating include: (i) a negative outcome from the EIA study on its Johor concessions; (ii) further delays in the sale of 1,000 acres of reclaimed land in Tanjung Piai to 1MY Strategic Oil Terminal; (iii) global economic slowdown and weak petroleum demand affecting demand for reclaimed land; and (iv) shortage and/or spike in prices of raw materials, especially sand.

**Equity Rating Structure and Definitions**

<b>BUY</b>	Total return is expected to exceed +15% over a 12-month period
<b>TRADING BUY (TR BUY)</b>	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
<b>ADD</b>	Total return is expected to be between 0% to +15% over a 12-month period
<b>REDUCE</b>	Total return is expected to be between 0% to -15% over a 12-month period
<b>TRADING SELL (TR SELL)</b>	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
<b>SELL</b>	Total return is expected to be below -15% over a 12-month period
<b>NOT RATED</b>	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
<b>OVERWEIGHT</b>	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
<b>NEUTRAL</b>	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
<b>UNDERWEIGHT</b>	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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 Chulan Tower Branch,  
 3rd Floor, Chulan Tower,  
 No 3, Jalan Conlay,  
 50450 Kuala Lumpur.

[www.affininvestmentbank.com.my](http://www.affininvestmentbank.com.my)

Email: [research@affininvestmentbank.com.my](mailto:research@affininvestmentbank.com.my)

Tel : + 603 2143 8668

Fax : + 603 2145 3005