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BENALEC HOLDINGS

(BHB MK, BENAL.KL)

21 March 2014

*Sizeable land sale in Malacca at RM42psf***BUY**

(Maintained)

Rationale for report: Company Update

Price	RM0.91
Fair Value	RM1.31
52-week High/Low	RM1.55/RM0.85

Key Changes

Fair value	unchanged
EPS	unchanged

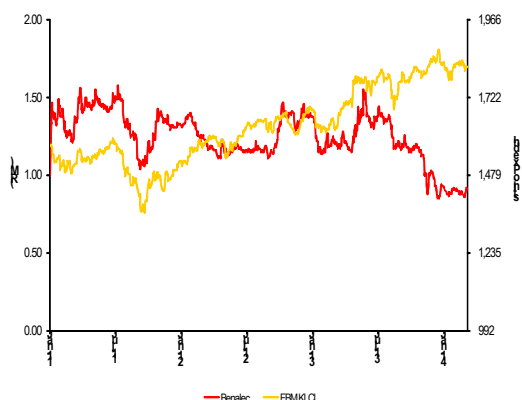
YE to Jun	FY13	FY14F	FY15F	FY16F
Revenue (RMmil)	265.8	205.2	595.1	1,104.3
Core net profit (RMmil)	56.0	35.0	67.5	120.0
Core FD EPS (Sen)	7.0	4.4	8.4	14.9
Core FD EPS growth (%)	(32.2)	(37.5)	92.6	77.9
Consensus EPS (Sen)		5.2	8.5	12.0
DPS (Sen)	2.5	1.5	2.5	4.5
Core FD PE (x)	17.9	20.9	10.8	6.1
EV/EBITDA (x)	13.1	9.8	5.6	3.2
Div yield (%)	2.0	1.6	2.7	4.9
ROE (%)	10.1	6.2	10.8	16.6
Net Gearing (%)	1.5	net cash	35.5	23.0

Stock and Financial Data

Shares Outstanding (million)	803.0
Market Cap (RMmil)	730.7
Book value (RM/share)	0.69
P/BV (x)	1.3
ROE (%)	10.1
Net Gearing (%)	1.5
Major Shareholders	OceanCove Sdn Bhd (52.9%) KWAP (5.8%)

Free Float (%)	41.2
Avg Daily Value (RMmil)	n/a

Price performance	3mth	6mth	12mth
Absolute (%)	(1.6)	(23.5)	(24.8)
Relative (%)	(0.5)	(24.4)	(36.2)

**Investment Highlights**

- We maintain our BUY recommendation on Benalec Holdings with an unchanged fair value of RM1.31/share. This pegs the stock at a 45% discount to its estimated Sum-Of -Parts (SOP) value of RM2.39/share.
- Benalec announced on Bursa Malaysia that it has entered into a conditional SPA with Ultra Harmoni Development Sdn Bhd for the disposal of land in Malacca for RM235mil.
- The leasehold land (99 years) comes in 22 pieces, and has been designated for commercial use when fully reclaimed. As part of the DMDI concession, the said land is located in Kota Laksamana, close to the Malacca city centre. We expect Benalec to reap RM58mil as net gain on disposal.
- From a cash flow standpoint, Ultra Harmoni has paid as deposit, the first 10% of the purchase consideration. The balance would likely be paid in four tranches over the next two financial years.
- The latest transaction is one of Benalec's largest land deals ever in Malacca to-date. Despite its large size (128 acres), the implied land price was concluded at RM42psf. This compares with an average of RM48psf for the proposed sale of a smaller piece of land, also in Malacca for RM48mil (net gain: RM15mil).
- More importantly, the two land sales within a week apart are further proof of Benalec's valuable land concessions in Malacca. We understand that demand for its prime and mostly sea-fronting concession land is underpinned by Malacca's growing appeal as a tourism hotspot.
- We maintain our net profit forecast of RM35mil for FY14F (FY15F: RM67mil), as the land sales already form part of our existing assumptions.
- Over in Johor, Benalec also said two days ago that it is in the midst of finalising the SPA with 1MY Strategic Oil Terminal Sdn Bhd for the development of 1,000 acres at its Tg. Piai concession. The term sheet, which had earlier been extended for six months, is to expire on 11 June 2014.
- We see this as another positive step towards realizing Tg. Piai's early promise as a future oil hub, with its close proximity to Singapore's Jurong petrochemical hub.
- Any concrete development will likely narrow the deep discount that Benalec is trading vis-a-vis its SOP value. Note that we have only assigned values to 3,000 acres from Tg.Piai concession out of a total 5,245 acres of its original concession (the balance comes from its remaining Tg.Piai land and another 1,760 acres from Pengerang).

TABLE 1 : DERIVATION OF FAIR VALUE

Division	Value (RM)		% of SOP	Details
	mil	/share		
Marine construction	807.7	1.01	42.1	10x 3-year average construction profits
Vessel chartering & transportaton	3.8	0.00	0.2	8x 3-year average construction profits
Market value of Malacca landbank	289.6	0.36	15.1	Based on average selling price of RM28 psf
NPV of undeveloped Johor landbank @ 8%	626.2	0.78	32.7	Based on only 3,000 acres at Tg.Piai
Net cash	46.2	0.06	2.4	FY13F
Land sales in Malacca (targeted in FY14F)	143.7	0.18	7.5	Transacted at RM28psf-RM30psf
Sum-Of-Parts value	1,917.1	2.39	100.0	
No. of shares	803.0			
SOP/share	2.39			
Fair Value (RM/share) - less 45% discount	1.31			
Capital gain (%)	44.3			
FY14F dividend yield (%)	1.6			
Total return (%)	45.9			
Discount to SOP (%)	61.9			

Source: Benalec, AmResearch

CHART 1 : PB BAND CHART

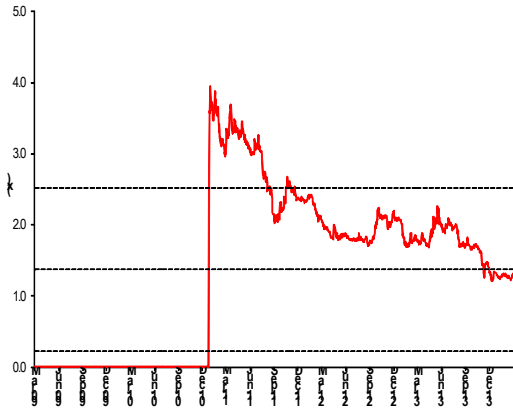


CHART 2 : PE BAND CHART

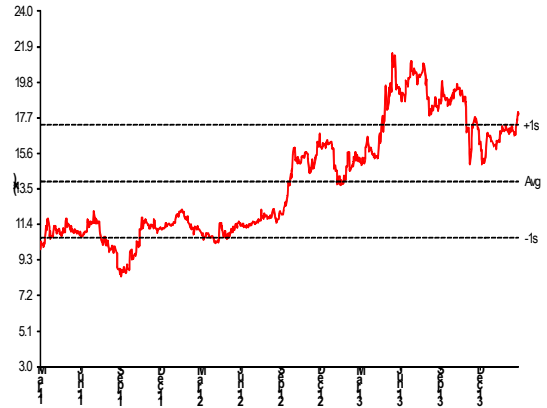


TABLE 1 : FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2012	2013	2014F	2015F	2016F
Revenue	289.0	265.8	205.2	595.1	1,104.3
EBITDA	115.3	77.8	69.9	172.0	279.0
Depreciation	(10.8)	(10.9)	(16.3)	(17.7)	(19.9)
Operating income (EBIT)	104.5	66.9	53.6	154	259.1
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(4.2)	(2.0)	(1.5)	(8.4)	(14.5)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	100.2	64.9	52.1	145.9	244.6
Taxation	(17.6)	(9.0)	(16.3)	(38.2)	(62.1)
Minorities/pref dividends	0.0	0.1	(0.8)	(40.3)	(62.6)
Net profit	82.7	56.0	35.0	67.5	120.0
Core net profit	82.7	56.0	35.0	67.5	120.0
Balance Sheet (RMmil, YE 30 Jun)	2012	2013	2014F	2015F	2016F
Fixed assets	240.1	214.1	217.8	230.1	260.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.0	0.0	0.0	0.0	0.0
Total non-current assets	240.1	214.1	217.8	230.1	260.2
Cash & equivalent	130.5	39.3	104.0	36.3	71.7
Stock	19.4	19.9	26.5	48.5	67.2
Trade debtors	238.0	503.9	413.3	896.8	1,301.0
Other current assets	183.5	187.1	195.7	318.8	435.3
Total current assets	571.4	750.2	739.5	1,300.4	1,875.1
Trade creditors	141.8	163.2	130.5	408.1	870.5
Short-term borrowings	18.9	18.7	8.1	48.1	44.1
Other current liabilities	39.5	152.7	152.7	152.7	152.7
Total current liabilities	200.2	334.5	291.3	608.8	1,067.3
Long-term borrowings	29.3	11.7	32.3	192.3	176.3
Other long-term liabilities	65.6	61.9	61.9	61.9	61.9
Total long-term liabilities	94.9	73.6	94.2	254.2	238.2
Shareholders' funds	516.4	553.3	568.1	623.5	723.3
Minority interests	0.0	2.9	3.7	44.0	106.5
BV/share (RM)	0.64	0.69	0.71	0.78	0.90
Cash Flow (RMmil, YE 30 Jun)	2012	2013	2014F	2015F	2016F
Pretax profit	100.2	64.9	52.1	145.9	244.6
Depreciation	33.1	58.6	94.8	(218.7)	139.0
Net change in working capital	(142.4)	(248.7)	42.8	(351.0)	(76.9)
Others	15.8	106.7	(15.5)	(30.6)	(48.1)
Cash flow from operations	(15.5)	(66.2)	95.6	(217.9)	139.5
Capital expenditure	(10.2)	(1.1)	(20.0)	(30.0)	(50.0)
Net investments & sale of fixed assets	11.0	10.5	0.0	0.0	0.0
Others	6.5	2.3	0.8	0.8	0.5
Cash flow from investing	7.3	11.7	(19.2)	(29.2)	(49.5)
Debt raised/(repaid)	(14.7)	(17.8)	10.0	200.0	(20.0)
Equity raised/(repaid)	95.8	0.0	0.0	0.0	0.0
Dividends paid	(16.1)	(24.1)	(20.2)	(12.1)	(20.2)
Others	(0.6)	8.5	(1.5)	(8.4)	(14.5)
Cash flow from financing	64.4	(33.4)	(11.7)	179.5	(54.7)
Net cash flow	56.3	(87.9)	64.7	(67.7)	35.4
Net cash/(debt) b/f	54.3	110.8	21.9	86.6	18.9
Exchange rate effects	0.2	(0.9)	0.0	0.0	0.0
Net cash/(debt) c/f	110.8	21.9	86.6	18.9	54.3
Key Ratios (YE 30 Jun)	2012	2013	2014F	2015F	2016F
Revenue growth (%)	37.0	n/a	n/a	190.0	85.6
EBITDA growth (%)	n/a	n/a	n/a	146.0	62.2
Pretax margins (%)	34.7	24.4	25.4	24.5	22.2
Net profit margins (%)	28.6	21.1	17.1	11.3	10.9
Interest cover (x)	18.0	17.3	22.7	16.8	17.2
Effective tax rate (%)	17.5	13.9	31.2	26.2	25.4
Net dividend payout (%)	29.1	35.8	34.4	29.8	30.1
Debtors turnover (days)	281	509	816	402	363
Stock turnover (days)	20	27	41	23	19
Creditors turnover (days)	197	209	261	165	211

Source: Benalec, AmResearch

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