

**AmResearch****Company report****Hoy Ken Mak**

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BENALEC HOLDINGS

(BHB MK, BENAL.KL)

6 May 2014

*Secures more work in Malacca***BUY**

(Maintained)

Rationale for report: Company Update

Price	RM0.90
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	20.5	10.7	6.0
EV/EBITDA (x)	13.1	9.7	5.5	3.2
Div yield (%)	2.0	1.7	2.8	5.0
ROE (%)	10.1	6.2	10.8	16.6
Net Gearing (%)	1.5	net cash	35.5	23.0

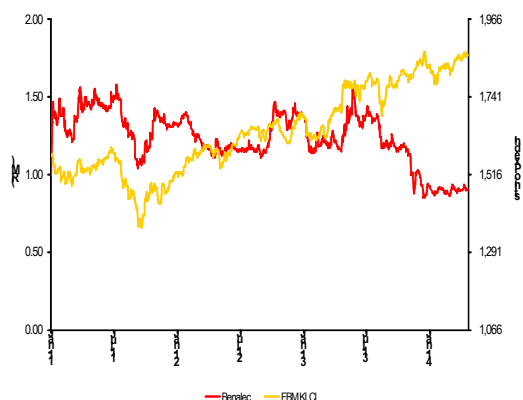
Stock and Financial Data

Shares Outstanding (million)	803.0
Market Cap (RMmil)	718.7
Book value (RM/share)	0.69
P/BV (x)	1.3
ROE (%)	10.5
Net Gearing (%)	n/a

Major Shareholders OceanCove Sdn Bhd (47.3%)

Free Float (%)	52.7
Avg Daily Value (RMmil)	n/a

Price performance	3mth	6mth	12mth
Absolute (%)	1.1	(24.2)	(22.8)
Relative (%)	(3.1)	(27.1)	(32.6)

**Investment Highlights**

- We maintain our BUY rating on Benalec Holdings with a fair value of RM1.31/share. This pegs the stock at a 45% discount to its estimated sum-of-parts (SOP) value.
- Benalec announced on Bursa Malaysia yesterday evening that the group's wholly-owned unit, Benalec Sdn Bhd, has secured a RM204mil contract (excluding rock revetment works) from the Oriental group in Malacca.
- Benalec received a letter of award from Oriental Boon Siew (M) Sdn Bhd to undertake the construction, completion & maintenance of coastal reclamation as well as associated works for Ultra Green under Phase 2A, Phase 3A and Phase 4 in Malacca.
- The project would be executed in two stages covering 415 acres. Each stage would be completed within 30 months from the date of site possession. Reclamation works are set to kick off by the third quarter of 2014 with 4Q 2016 being its targeted completion.
- This contract appears to be a repeat job from the Oriental group, and underscores Benalec's solid track record as an integrated marine engineering outfit.
- Prior to this, Benalec had previously undertaken previous reclamation works for the Oriental group in Malacca.
- More importantly, we believe that this cash job is timely as it beefs up Benalec's cash flow position ahead of its future prospects, notably in Johor.
- Based on a conservative margin of 15% and assuming equal contributions over the next two financial years, we estimate that this new contract would make up 23% and 13% of our FY15F and FY16F net profit forecast, respectively. We leave our earnings forecast unchanged for now.
- Beyond Malacca, Benalec is keeping a close eye on other prospective reclamation contracts to replenish its orderbook. Tenders for reclamation works under Phase 1 of Eastern & Oriental's STP2 project in Penang (384 acres) worth potentially over RM1bil could be called once regulatory approvals are received by 1H 2014.
- Be that as it may, Benalec's key re-rating projects still hinges on its ability to monetise the deep development potential of its concessions in Johor. We gather that efforts to obtain regulatory approvals are gaining traction, with tangible newsflow likely to come towards end-2H 2014.

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 ave.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 (%)	46.7			
FY14F dividend yield (%)	1.7			
Total return (%)	48.4			
Discount to SOP (%)	62.5			

Source: Benalec, AmResearch

CHART 1 : PB BAND CHART

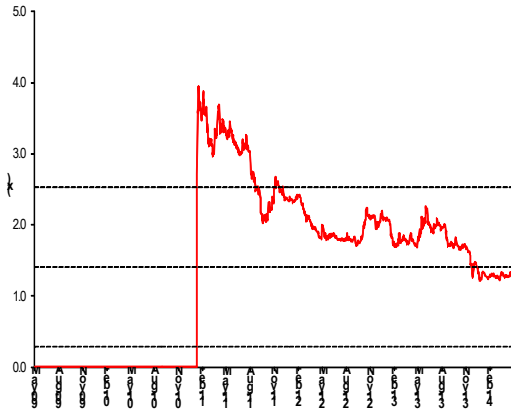


CHART 2 : PE BAND CHART



TABLE 2: 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: Company, AmResearch estimates

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