


AmResearch
Company report

BENALEC

(BHB MK EQUITY, BENL.KL)

12 Feb 2015

Has its work cut out
BUY

(Maintained)

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Rationale for report: Company result

Price	RM0.88
Fair Value	RM1.25
52-week High/Low	RM1.22/RM0.53

Key Changes

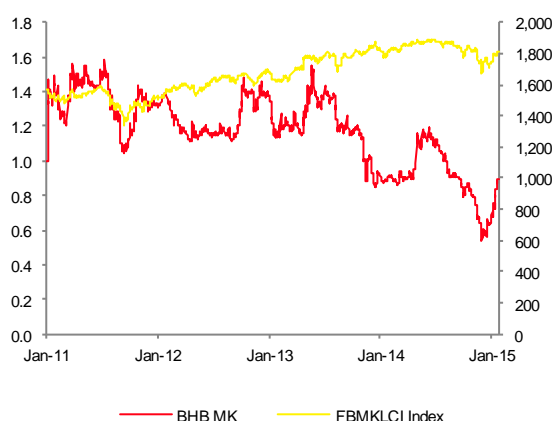
Fair value	↔
EPS	↔

YE to Jun	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	211.0	307.3	492.8	779.2
Core net profit (RM mil)	32.8	47.9	50.4	91.9
FD Core EPS (sen)	4.0	5.9	6.2	11.3
FD Core EPS growth (%)	(46.6)	46.2	5.3	82.2
Consensus Net Profit (RM mil)	-	56.1	65.0	80.2
DPS (sen)	-	2.5	4.5	4.5
PE (x)	21.8	14.9	14.2	7.8
EV/EBITDA (x)	13.1	9.2	6.3	3.5
Div yield (%)	-	3.2	5.7	5.7
ROE (%)	1.3	8.4	8.3	13.9
Net Gearing (%)	nm	20.8	20.9	4.6

Stock and Financial Data

Shares Outstanding (million)	811.4
Market Cap (RMmil)	714.0
Book Value (RM/share)	0.67
P/BV (x)	1.3
ROE (%)	1.3
Net Gearing (%)	-
Major Shareholders	(47.8%) OceanCove Sdn Bhd (5.9%) KWAP
Free Float	46.3
Avg Daily Value (RMmil)	3.6

Price performance	3mth	6mth	12mth
Absolute (%)	8.0	(13.7)	(4.3)
Relative (%)	9.5	(11.3)	(3.0)


Investment Highlights

- We maintain our BUY call on Benalec Holdings with an unchanged fair value of RM1.25/share, pegged at a 45% discount to its sum-of-parts value.
- Benalec recorded a net profit of RM3mil in 2QFY15, taking 1H earnings to RM15mil. While this represented only 32% of our FY15F forecast of RM48mil, we deem it to be in line on expectations of a stronger 2H.
- The lower earnings at half time (-10% YoY) was mainly attributable to:- (i) lower revenue from land disposals (RM73mil vs RM88mil a year ago); (ii) forfeited deposit from a cancelled land sale of RM5mil in 2QFY14; and (iii) discount received from subcontractors in 2QFY14 (RM4mil).
- Similarly the lower sequential earnings (-60% QoQ) were largely due to the absence of any gains from land sales during the quarter vs. the RM40mil booked in in 1QFY15. This more than offset a 12% YoY increase in revenue arising from better recognition from the TNB freight contract.
- That said, we expect a pick-up in earnings in the 2H to make up for the shortfall in 1H. This is premised on expectations of more land sales to be crystallised.
- To this end, Benalec has c.RM394mil (217 acres) worth of land sales with SPAs that are to be progressively recognised between FY15F and FY17F.
- Out of this total, we expect the next land deal to be worth RM51mil to be recognised in the upcoming quarter.
- Furthermore, we understand that the group has recently commenced work on the RM203mil reclamation contract in Malacca that was secured on a cash basis.
- Benalec's Detailed Environmental Impact Assessment (DEIA) for its Tg. Piai project was finally approved on 23 January – giving legitimacy to its aspirations to develop the area into a future oil hub.
- This comes after it submitted plans to raise RM200mil via convertible bonds. We expect initial works of between 100 acres to 200 acres at Tg. Piai to commence within the next one to two months.
- Benalec has its work cut out from now on. While the DEIA approval would certainly provide more assurance of the project's viability, the real challenge is to secure maiden off-takers during a period of declining oil prices.
- This comes at a time when negotiations with 1MY Strategic Oil Terminal Sdn Bhd (~1,000 acres) have been extended for a further six months until 11 June 2015.

EXHIBIT 1: PB BAND CHART



EXHIBIT 2: PE BAND CHART

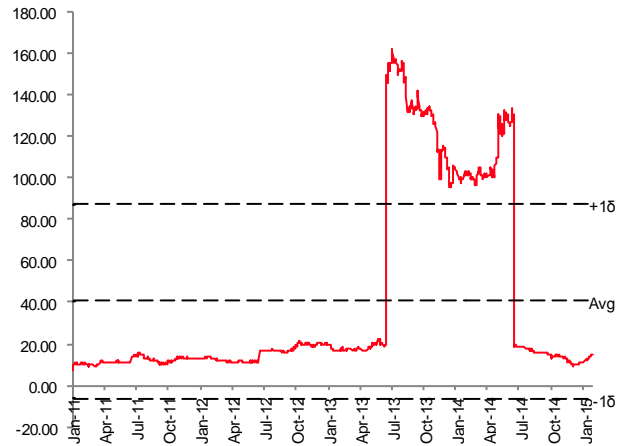


EXHIBIT 3: RESULTS TABLE

YE 30 June (RMmil)	1H14	1H15	% YoY	1Q15	2Q15	% QoQ
Turnover	109.5	108.2	(1.2)	47.9	60.2	25.7
EBIT	30.1	26.5	(12.0)	18.9	7.6	(59.7)
Interest Expense	(1.2)	(0.7)		(0.5)	(0.2)	
Interest Income	0.2	0.5		0.3	0.1	
Pre-Exceptionals Profit	29.1	26.2		18.7	7.5	
Exceptionals	0.0	0.0		0.0	0.0	
Pre-Associates/JV Profit	29.1	26.2		18.7	7.5	
Associates	0.0	0.0		0.0	0.0	
Pretax Profit	29.1	26.2	(9.9)	18.7	7.5	(59.7)
Taxation	(8.4)	(10.7)		(6.7)	(4.1)	
Minority Interest	0.0	0.0		0.0	0.0	
Net Profit	20.7	15.5	(25.1)	12.0	3.5	(71.2)
Core Net profit	20.7	15.5	(25.1)	12.0	3.5	(71.2)
Core EPS (sen)	2.6	1.9		1.5	0.4	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
NA/share (RM)	0.70	0.70		0.70	0.70	
EBIT Margin (%)	27.5	24.5		39.3	12.6	
Pretax Margin (%)	26.6	24.2		39.0	12.5	
Effective Tax (%)	28.9	40.9		35.7	54.0	
Segmental Breakdown						
Marine Construction/Land reclamation	110.6	173.7	57.0	72.8	100.9	38.6
Vessel Chartering	13.1	20.7	57.5	6.4	14.3	125.0
Ship maintenance/building	1.8	0.0	n/m	0.0	0.0	n/m
Investment holdings	0.0	0.0	n/m	0.0	0.0	n/m
Elimination	(16.0)	(86.2)	n/m	(31.2)	(55.0)	n/m
Total Turnover (RMmil)	109.5	108.2	(1.2)	47.9	60.2	25.7
Marine Construction/Land reclamation	37.1	30.9	(16.9)	21.6	9.3	(57.0)
Vessel Chartering	(6.3)	(2.6)	n/m	(1.7)	(0.9)	n/m
Ship maintenance/building	(1.3)	(1.1)	n/m	(0.7)	(0.4)	n/m
Investment holdings	(0.5)	(1.0)	n/m	(0.5)	(0.5)	n/m
Elimination	0.0	0.0	n/m	0.0	0.0	n/m
Total Pre-tax profit (RM mil)	29.1	26.2	(9.9)	18.7	7.5	(59.7)

Source: Benalec, AmResearch

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	265.8	211.0	307.3	492.8	779.2
EBITDA	82.5	53.7	91.3	135.0	213.4
Depreciation/Amortisation	(10.9)	(10.4)	(15.7)	(17.9)	(20.7)
Operating income (EBIT)	71.6	43.3	75.6	117.1	192.7
Other income & associates	-	-	-	-	-
Net interest	(2.0)	0.6	(7.5)	(13.1)	(11.1)
Exceptional items	(4.7)	(25.5)	-	-	-
Pretax profit	64.9	18.3	68.2	104.0	181.6
Taxation	(9.0)	(11.1)	(17.4)	(26.8)	(45.3)
Minorities/pref dividends	0.1	-	(2.9)	(26.8)	(44.3)
Net profit	56.0	7.2	47.9	50.4	91.9
Core net profit	60.7	32.8	47.9	50.4	91.9
Balance Sheet (RMmil, YE 30 Jun)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	214.1	187.6	201.9	234.0	263.3
Intangible assets	-	0.8	0.8	0.8	0.8
Other long-term assets	-	3.7	3.7	3.7	3.7
Total non-current assets	214.1	192.1	206.4	238.5	267.8
Cash & equivalent	21.9	40.8	109.2	81.0	149.9
Stock	190.1	204.0	4.3	6.2	9.8
Trade debtors	491.4	400.0	631.4	850.5	918.0
Other current assets	47.0	71.8	220.2	106.1	129.5
Total current assets	750.3	716.6	965.0	1,043.8	1,207.1
Trade creditors	162.6	94.6	106.5	176.4	279.1
Short-term borrowings	18.7	24.3	46.4	42.4	36.4
Other current liabilities	152.7	213.6	213.6	213.6	213.6
Total current liabilities	334.0	332.4	366.4	432.4	529.0
Long-term borrowings	11.7	7.6	185.5	169.5	145.5
Other long-term liabilities	61.8	22.3	22.3	22.3	22.3
Total long-term liabilities	73.5	29.9	207.8	191.8	167.8
Shareholders' funds	554.0	543.5	591.4	625.6	701.2
Minority interests	2.9	2.9	5.8	32.5	76.9
BV/share (RM)	0.69	0.67	0.73	0.77	0.86
Cash Flow (RMmil, YE 30 Jun)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	64.9	18.3	68.2	104.0	181.6
Depreciation/Amortisation	10.9	10.4	15.7	17.9	20.7
Net change in working capital	(249.4)	(14.9)	(168.1)	(37.0)	8.2
Others	108.3	91.5	(9.9)	(13.8)	(34.2)
Cash flow from operations	(65.2)	105.3	(94.2)	71.2	176.2
Capital expenditure	(1.1)	(2.8)	(30.0)	(50.0)	(50.0)
Net investments & sale of fixed assets	10.5	2.9	-	-	-
Others	6.1	(61.2)	1.1	1.4	1.7
Cash flow from investing	15.4	(61.1)	(28.9)	(48.6)	(48.3)
Debt raised/(repaid)	(17.8)	1.5	200.0	(20.0)	(30.0)
Equity raised/(repaid)	5.0	3.1	-	-	-
Dividends paid	(24.1)	(16.1)	-	(16.2)	(16.2)
Others	(2.2)	(12.5)	(8.6)	(14.5)	(12.9)
Cash flow from financing	(39.2)	(24.0)	191.4	(50.7)	(59.1)
Net cash flow	(89.0)	20.1	68.3	(28.1)	68.9
Net cash/(debt) b/f	110.8	21.9	40.8	109.2	81.0
Net cash/(debt) c/f	21.9	40.8	109.2	81.0	149.9
Key Ratios (YE 30 Jun)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	(8.0)	(20.6)	45.6	60.4	58.1
EBITDA growth (%)	(28.4)	(34.9)	70.1	47.8	58.0
Pretax margin (%)	24.4	8.7	22.2	21.1	23.3
Net profit margin (%)	21.1	3.4	15.6	10.2	11.8
Interest cover (x)	35.9	nm	10.1	9.0	17.3
Effective tax rate (%)	13.9	60.7	25.5	25.8	25.0
Dividend payout (%)	28.8	-	33.9	32.2	30.9
Debtors turnover (days)	675	692	750	630	430
Stock turnover (days)	439	517	8	7	7
Creditors turnover (days)	375	240	200	200	200

Source: Benalec, AmResearch

EXHIBIT 5: SUM-OF-PARTS

Division	Value (RM)		% of SOP	Details
	mil	/share		
Marine construction	351.4	0.43	19.1	8x 3-year average construction profits
Vessel chartering & transportaton	8.3	0.01	0.5	NPV@12%
Market value of Malacca landbank	487.9	0.60	26.5	Based on ave.selling price of RM28 psf
NPV of undeveloped Johor landbank @ 12%	651.8	0.80	35.4	Based on only 3,000 acres at Tg.Piai
Net cash	8.9	0.01	0.5	As at 30 June 2014
Est.land sale proceedw with SPA	334.7	0.41	18.2	Transacted at RM40psf-RM48psf
Sum-Of-Parts value	1,843.0	2.27	100.0	
No.of shares	811.4			
SOP/share	2.27			
Fair Value (RM/share) - less 45% discount	1.25			
Capital gain (%)	56.2			
FY14F dividend yield (%)	3.1			
Total return (%)	59.3			
Discount to SOP (%)	64.8			

Source: Benalec, AmResearch

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