



AmResearch

## Company report

## BENALEC

(BHB MK EQUITY, BENL.KL)

26 Aug 2014

## Persevering in tougher waters

BUY

(Maintained)

Mak Hoy Ken

mak-hoy-ken@ambankgroup.com

03-2036 2294

Rationale for report: Company update

Price	RM0.98
Fair Value	RM1.25
52-week High/Low	RM1.28/RM0.85

## Key Changes

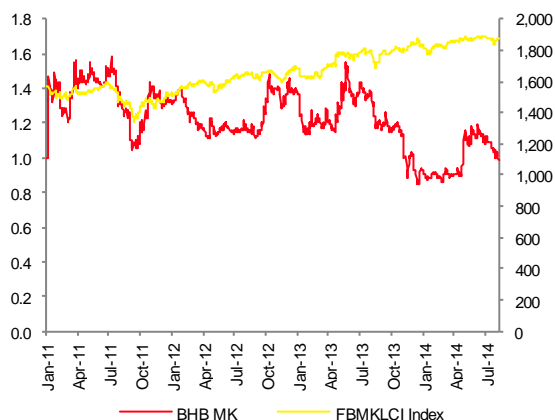
Fair value	⬇️
EPS	⬇️

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)		65.8	87.0	79.8
DPS (sen)	-	2.5	4.5	4.5
PE (x)	24.3	16.6	15.8	8.7
EV/EBITDA (x)	14.6	10.0	6.9	3.9
Div yield (%)	-	2.6	4.6	4.6
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)	786.9
Book Value (RM/share)	0.67
P/BV (x)	1.5
ROE (%)	1.3
Net Gearing (%)	nm
Major Shareholders	OceanCove Sdn Bhd (47.8%) KWAP (5.9%)
Free Float	46.3
Avg Daily Value (RMmil)	5.3

Price performance	3mth	6mth	12mth
Absolute (%)	(9.3)	10.7	(21.0)
Relative (%)	(8.9)	9.0	(27.0)



## Investment Highlights

- We maintain our BUY call on Benalec Holdings with a revised fair value of RM1.25/share (from RM1.31/share previously) with an unchanged discount of 45% to its revised sum-of-parts value on lowered earnings, as we roll-forward our valuation base to FY15F.
- Our lower fair value mainly incorporates:- (i) lower target PE multiple assigned to its construction earnings (from 12x to 8x); (ii) higher discount rate assigned to its vessel charter (from 8% to 12%); and (iii) more moderate margin assumptions. This reflects the continued delays in the commercialisation of its Johor land concession as the operating environment remains fairly challenging.
- Stripping off exceptional items, Benalec reported a core net profit of RM33mil (-46% YoY) on the back of RM211mil in revenue on slower construction progress and lack of new job flows for much of FY14. This was largely in line with our estimates. The one-off items relates to:- (i) impairment charge for its vessels (~RM16mil); and (ii) reversal of a RM9mil gain on land sale from an earlier related party transaction. To our surprise, the group has yet to declare any dividends for FY14.
- Positively, Benalec's contract momentum continues to be on an upturn. The group is set to receive c.RM360mil from three land sales with SPAs that will likely be recognised over the next three years.
- The three land sales from its Malacca concessions highlighted above were transacted at average land prices of c.RM40psf-RM48psf. This suggests some upside to our maintained average pricing of RM28psf for some 400 acres of land inventory that Benalec can sell.
- On top of that, Benalec managed to snag another repeat contract in Malacca worth c.RM204mil from the Oriental Group last May, where the payments are in cash. Similarly, the group appears to be ramping up efforts to secure more land sales in Malacca while eyeing more reclamation concessions within the state.
- All said, Benalec's key re-rating angle still largely hinges on its ability to monetise the deep development potential of its Johor concessions. All eyes will be on its protracted negotiations with 1MY Strategic Oil Terminal Sdn Bhd, which will lapse on 11 December following three rounds of extensions.
- We have conservatively shifted maiden contributions from its Johor concessions from FY15F to FY16F. But, our current assumptions only reflect 3,000 acres of its Tg.Piai concession. For the record, Benalec has development rights to reclaim sea-fronting land totalling 5,245 acres (Tg.Piai: 3,485 acres; Pengerang: 1,760 acres) in South Johor as a future oil hub.

**EXHIBIT 1: DERIVATION OF FAIR VALUE**

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
<b>Sum-Of-Parts value</b>	<b>1,843.0</b>	<b>2.27</b>	<b>100.0</b>	
No.of shares	811.4			
<b>SOP/share</b>	<b>2.27</b>			
<b>Fair Value (RM/share) - less 45% discount</b>	<b>1.25</b>			
<b>Capital gain (%)</b>	<b>27.5</b>			
<b>FY14F dividend yield (%)</b>	<b>2.6</b>			
<b>Total return (%)</b>	<b>30.0</b>			
<b>Discount to SOP (%)</b>	<b>56.9</b>			

Source: Benalec, AmResearch

EXHIBIT 2: PB BAND CHART

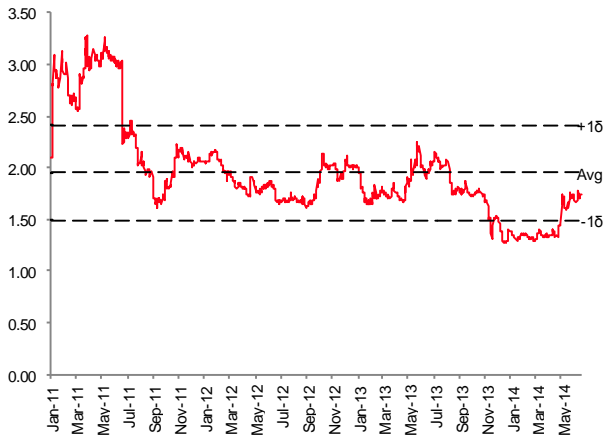
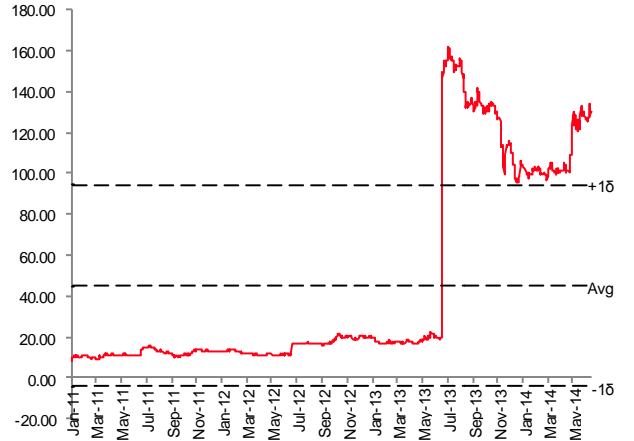


EXHIBIT 3: PE BAND CHART



## 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)	-	-	-
<b>Pretax profit</b>	<b>64.9</b>	<b>18.3</b>	<b>68.2</b>	<b>104.0</b>	<b>181.6</b>
Taxation	(9.0)	(11.1)	(17.4)	(26.8)	(45.3)
Minorities/pref dividends	0.1	-	(2.9)	(26.8)	(44.3)
<b>Net profit</b>	<b>56.0</b>	<b>7.2</b>	<b>47.9</b>	<b>50.4</b>	<b>91.9</b>
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
<b>Total non-current assets</b>	<b>214.1</b>	<b>192.1</b>	<b>206.4</b>	<b>238.5</b>	<b>267.8</b>
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
<b>Total current assets</b>	<b>750.3</b>	<b>716.6</b>	<b>965.0</b>	<b>1,043.8</b>	<b>1,207.1</b>
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
<b>Total current liabilities</b>	<b>334.0</b>	<b>332.4</b>	<b>366.4</b>	<b>432.4</b>	<b>529.0</b>
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
<b>Total long-term liabilities</b>	<b>73.5</b>	<b>29.9</b>	<b>207.8</b>	<b>191.8</b>	<b>167.8</b>
<b>Shareholders' funds</b>	<b>554.0</b>	<b>543.5</b>	<b>591.4</b>	<b>625.6</b>	<b>701.2</b>
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)
<b>Cash flow from operations</b>	<b>(65.2)</b>	<b>105.3</b>	<b>(94.2)</b>	<b>71.2</b>	<b>176.2</b>
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
<b>Cash flow from investing</b>	<b>15.4</b>	<b>(61.1)</b>	<b>(28.9)</b>	<b>(48.6)</b>	<b>(48.3)</b>
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)
<b>Cash flow from financing</b>	<b>(39.2)</b>	<b>(24.0)</b>	<b>191.4</b>	<b>(50.7)</b>	<b>(59.1)</b>
<b>Net cash flow</b>	<b>(89.0)</b>	<b>20.1</b>	<b>68.3</b>	<b>(28.1)</b>	<b>68.9</b>
<b>Net cash/(debt) b/f</b>	<b>110.8</b>	<b>21.9</b>	<b>40.8</b>	<b>109.2</b>	<b>81.0</b>
<b>Net cash/(debt) c/f</b>	<b>21.9</b>	<b>40.8</b>	<b>109.2</b>	<b>81.0</b>	<b>149.9</b>
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: RESULTS TABLE

YE 30 June (RMmil)	FY13	FY14	% YoY	3Q14	4Q14	% QoQ
<b>Turnover</b>	<b>265.8</b>	<b>211.0</b>	<b>(20.6)</b>	<b>70.0</b>	<b>31.5</b>	<b>(55.0)</b>
<b>EBIT</b>	<b>71.6</b>	<b>45.5</b>	<b>(36.5)</b>	<b>4.5</b>	<b>10.9</b>	<b>141.9</b>
Interest Expense	(3.9)	(2.9)		(0.5)	(1.2)	
Interest Income	1.9	1.2		0.2	0.8	
Pre-Exceptionals Profit	69.6	43.8		4.3	10.5	
Exceptionals	(4.7)	(25.5)		0.0	(25.5)	
Pre-Associates/JV Profit	64.9	18.3		4.3	(15.1)	
Associates	0.0	0.0		0.0	0.0	
<b>Pretax Profit</b>	<b>64.9</b>	<b>18.3</b>	<b>(71.8)</b>	<b>4.3</b>	<b>(15.1)</b>	<b>(453.3)</b>
Taxation	(9.0)	(11.1)		(2.1)	(0.6)	
Minority Interest	0.1	0.0		0.0	0.0	
<b>Net Profit</b>	<b>56.0</b>	<b>7.2</b>	<b>(87.1)</b>	<b>2.1</b>	<b>(15.6)</b>	<b>(828.5)</b>
<b>Core Net profit</b>	<b>60.7</b>	<b>32.8</b>	<b>(46.1)</b>	<b>2.1</b>	<b>9.9</b>	<b>362.5</b>
Core EPS (sen)	7.5	4.0		0.3	1.2	
Gross DPS (sen)	0.0	0.0		0.0	0.0	
NA/share (RM)	0.69	0.67		0.71	0.67	
EBIT Margin (%)	26.9	21.6		6.4	34.6	
Pretax Margin (%)	24.4	8.7		6.1	(47.8)	
Effective Tax (%)	13.9	60.7		49.7	(3.8)	
<b>Segmental Breakdown</b>						
Marine Construction/Land reclamation	332.3	222.8	(33.0)	62.2	49.9	(19.8)
Vessel Chartering	75.1	23.3	(68.9)	5.3	4.9	(7.2)
Ship maintenance/building	9.6	1.8	(81.8)	0.0	0.0	n/m
Investment holdings	0.0	25.0	n/m	0.0	25.0	n/m
Elimination	(151.1)	(61.8)	n/m	2.5	(48.3)	n/m
<b>Total Turnover (RMmil)</b>	<b>265.8</b>	<b>211.0</b>	<b>(20.6)</b>	<b>70.0</b>	<b>31.5</b>	<b>(55.0)</b>
Marine Construction/Land reclamation	93.4	44.3	(52.6)	7.0	0.2	(96.9)
Vessel Chartering	(19.2)	(23.2)	n/m	(1.6)	(15.3)	n/m
Ship maintenance/building	(7.6)	(3.3)	n/m	(0.3)	(1.8)	n/m
Investment holdings	(1.6)	0.5	n/m	(0.8)	1.8	n/m
Elimination	0.0	0.0	n/m	0.0	0.0	n/m
<b>Total Pre-tax profit (RM mil)</b>	<b>64.9</b>	<b>18.3</b>	<b>(71.8)</b>	<b>4.3</b>	<b>(15.1)</b>	<b>n/m</b>
<b>Pre-tax Margin (%)</b>						
Marine Construction	28.1	19.9		11.2	0.4	
Vessel Chartering	n/m	n/m		n/m	n/m	
Ship maintenance/building	n/m	n/m		n/m	n/m	
Investment holdings	n/m	2.1		n/m	n/m	
<b>Total</b>	<b>24.4</b>	<b>8.7</b>		<b>6.1</b>	<b>n/m</b>	

Source: Benalec, AmResearch

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*(A member of the AmInvestment Bank Group)*  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

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*(A member of the AmInvestment Bank Group)*  
15th Floor Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur  
Tel: (03)2070-2444 (research)  
Fax: (03)2078-3162

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**Benny Chew**  
Managing Director