

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

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CONSTRUCTION

BENALEC HOLDINGS

(BHB.MK, BENL.KL)

28 February 2011

*Cruising along***BUY**

Price: RM1.28

Fair Value: RM1.90

Rationale for report : Company Update

YE to June	FY10	FY11F	FY12F	FY13F
Core EPS (Sen)	8.0	12.7	16.3	19.3
PE (X)	15.9	10.1	7.9	6.6

Source : AmResearch

Quick Take

- **Benalec Holdings Bhd reported a 1HFY (ending 30 June 2011) net profit of RM49mil against turnover of RM97mil. No dividend was declared during this period, as expected.**
- **At half time, Benalec's results were within expectations, constituting ~53% of our FY11F net profit forecast of RM92mil. There were no comparisons made available on a YoY basis, as Benalec was only listed in January 2011.**
- **The core marine construction division contributed ~91% of group earnings against attractive pre-tax margins of 63%. We gather this was largely underpinned by (i) higher contributions from select reclamation jobs approaching its tail end; and (ii) efficient cost control.**
- **We expect its earnings momentum to be sustained moving into 2HFY11, where impact from a sizeable RM468mil reclamation contract in Klebang, Malacca begins to filter through with works expected to commence soon. For FY11F, we project Benalec's earnings to grow by a massive 83% YoY to RM92mil, rising further to RM118mil and RM141mil in FY12-FY13.**
- **Just a month ago, Benalec purchased two bulk carriers for a total cash consideration of RM21mil – increasing its fleet of vessels to 93 vessels. Funding is not an issue – with a projected net gearing of only 11% in FY11F. In addition, the group had managed to raise up to RM100mil from during its IPO in January this year.**
- **We maintain our BUY recommendation on Benalec with a fair value of RM1.90/share – based on the sum-of-parts methodology. We continue to like the group for its deepening progression as an integrated marine engineering specialist.**
- **As a testament to its growing prowess, we understand that its Singapore branch had recently secured a prestigious Building & Construction Authority (BCA) licence from the Singapore government. More importantly, the licence would allow Benalec to bid directly for construction jobs in Singapore.**
- **Benalec is trading at alluring CY11F-12F PEs of only 6x-7x – at a steep 31%-38% discount to closest peer, Hock Seng Lee Bhd. This is backed by a solid three-year earnings CAGR of 41% and ROEs of 26%-27% - solidified by multiple structural growth drivers from its unique business model.**

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For AmResearch Sdn Bhd

Benny Chew
Managing Director

TABLE 1 : VALUATION MATRIX

YE to Dec	FY09	FY10	FY11F	FY12F	FY13F
Revenue (RMmil)	120.9	116.5	250.6	345.7	406.1
Core net profit (RMmil)	11.9	50.6	92.6	118.8	141.1
EPS (Sen)	1.9	8.0	12.7	16.3	19.3
EPS growth (%)	0.1	n/m	57.9	28.3	18.7
Consensus EPS (Sen)			n/a	n/a	n/a
DPS (Sen)	0.0	0.0	2.5	6.5	8.0
PE (x)	69.1	16.3	10.3	8.0	6.8
EV/EBITDA (x)	1.6	12.3	7.6	5.8	4.9
Div yield (%)	0.0	0.0	1.9	5.0	6.1
ROE (%)	24.6	38.6	27.2	27.0	25.8
Net Gearing (%)	60.9	59.9	11.5	6.6	0.7

Source : Benalec, AmResearch

TABLE 1 : RESULTS SUMMARY

YE 30 June (RM mil)	1H10	1H11	% YoY	1Q11	2Q11	% QoQ
Turnover	n/a	97.4	n/m	52.2	45.2	(13.4)
EBIT	n/a	51.4	n/m	26.6	24.7	(7.2)
Interest Expense	n/a	(1.5)		(0.8)	(0.7)	
Interest Income	n/a	14.0		12.9	1.1	
Pre-Exceptionals Profit	n/a	63.9		38.7	25.1	
Exceptionals	n/a	0.0		0.0	0.0	
Pre-Associates/JV Profit	n/a	63.9		38.7	25.1	
Associates	n/a	0.0		0.0	0.0	
Pretax Profit	n/a	63.9	n/m	38.7	25.1	(35.1)
Taxation	n/a	(15.0)		(8.8)	(6.2)	
Minority Interest	n/a	0.0		0.0	0.0	
Net Profit	n/a	48.9	n/m	30.0	18.9	(36.9)
Core Net profit	n/a	48.9	n/m	30.0	18.9	(36.9)
Core EPS (sen)	n/a	7.8		0.0	7.8	
Gross DPS (sen)	n/a	6.0		0.0	6.0	
NTA/share (RM)	n/a	0.32		0.29	0.32	
EBIT Margin (%)	n/a	52.7		51.0	54.7	
Pretax Margin (%)	n/a	65.6		74.2	55.6	
Effective Tax (%)	n/a	23.5		22.6	24.8	
Segmental Breakdown						
Marine Construction	n/a	92.9	n/m	47.4	45.5	(4.0)
Vessel Chartering	n/a	13.3	n/m	7.1	6.2	(12.3)
Ship maintenance/ building	n/a	1.5	n/m	0.0	1.5	n/m
Investment holdings	n/a	0.0	n/m	0.0	0.0	n/m
Elimination	n/a	(10.3)	n/m	(2.3)	(8.0)	n/m
Total Turnover (RMmil)	n/a	97.4	n/m	52.2	45.2	(13.4)
Marine Construction	n/a	58.4	n/m	33.5	25.0	(25.3)
Vessel Chartering	n/a	11.7	n/m	11.5	0.2	(98.5)
Ship maintenance /building	n/a	(0.2)	n/m	(0.6)	0.4	n/m
Investment holdings	n/a	(0.0)	n/m	(0.1)	0.1	n/m
Elimination	n/a	(6.0)	n/m	(5.6)	(0.4)	(92.1)
Pre-tax profit (RM mil)	n/a	63.9	n/m	38.7	25.1	
Pre-tax Margin (%)						
Marine Construction	n/a	62.9		70.6	62.9	
Vessel Chartering	n/a	87.8		162.5	87.8	
Ship maintenance/ building	n/a	n/m		n/m	n/m	
Investment holdings	n/a	n/m		n/a	n/m	
Total Pre-tax margin	n/a	65.6		74.2	55.6	

Source : Bursa Malaysia