

A sea change – premium land creation

FAIR VALUE: RM1.90

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Rationale for report: Initial public offer

IPO Price	RM1.00
Fair Value	RM1.90
52-week High/Low	n/a

Key Changes

Fair value	n/a
EPS	n/a

YE to June	FY10	FY11F	FY12F	FY13F
Revenue (RMmil)	116.5	250.6	345.7	406.1
Core net profit (RMmil)	50.6	92.6	118.8	141.1
EPS (Sen)	8.0	12.7	16.3	19.3
EPS growth (%)	n/m	57.9	28.3	18.7
Consensus EPS (Sen)		n/a	n/a	n/a
DPS (Sen)	0.0	2.5	6.5	8.0
PE (x)*	12.4	7.9	6.1	5.2
EV/EBITDA (x)*	9.7	5.9	4.5	3.7
Div yield (%)*	0.0	2.5	6.5	8.0
ROE (%)	38.6	27.2	27.0	25.8
Net Gearing (%)	59.9	11.5	6.6	0.7

Stock and Financial Data

Shares Outstanding (million)	730.0
Market Cap (RMmil)*	730.0
Book value (RM/share)	0.24
P/BV (x)*	4.2
ROE (%)	38.6
Net Gearing (%)	59.9

Major Shareholders Leow family - 68.5%

Free Float (%)	31.5
Avg Daily Value (RMmil)	n/a

* Based on IPO price of RM1.00/share

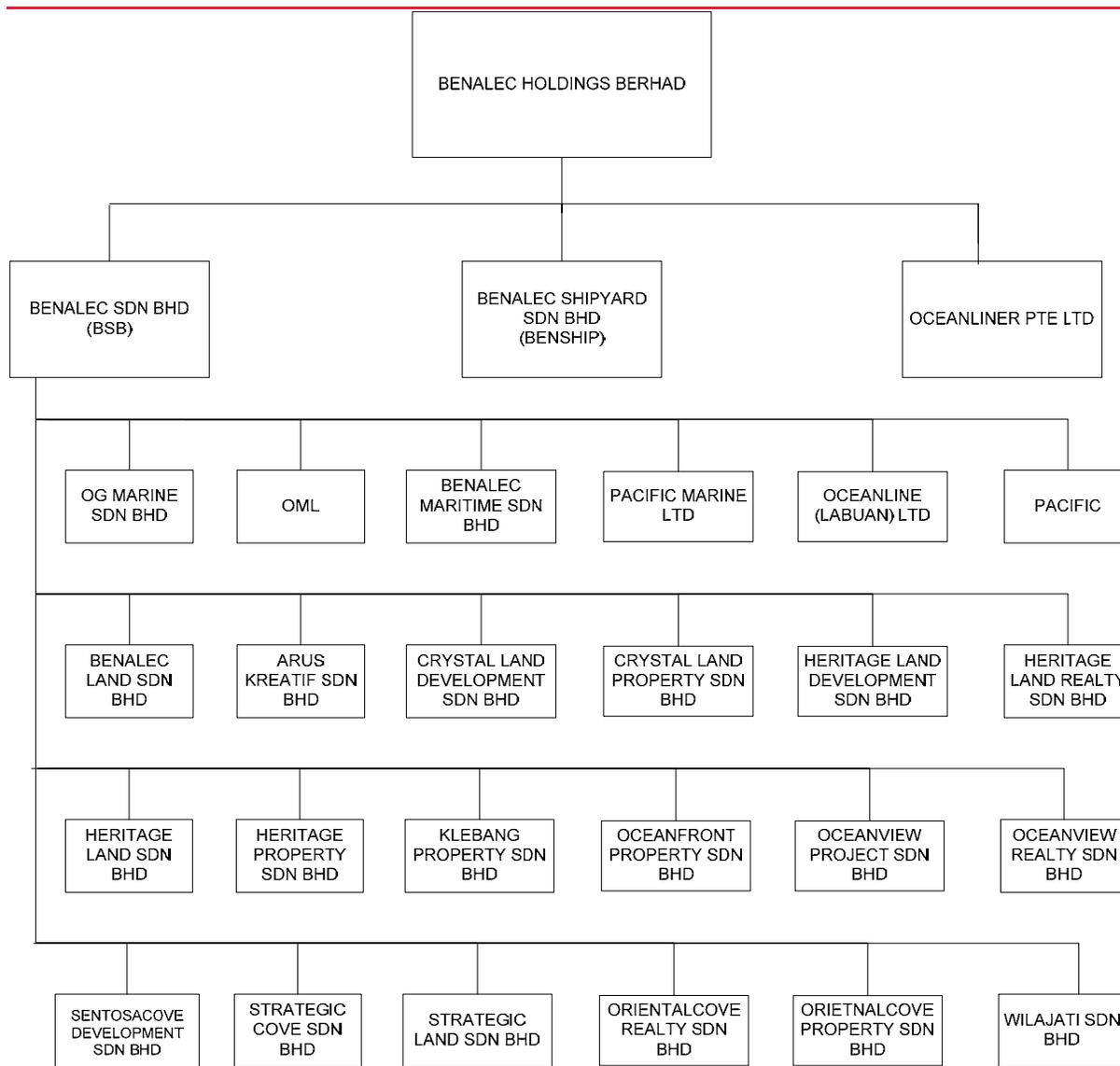
Price performance	3mth	6mth	12mth
Absolute (%)	n/a	n/a	n/a
Relative (%)	n/a	n/a	n/a

Investment Highlights

- We initiate coverage on Benalec Holdings Bhd with a BUY, and a sum of parts-derived fair value of RM1.90/share. Benalec is to be listed on Bursa Malaysia on 17 January 2011 with an initial public offer price of RM1.00/share.
- Benalec is a marine engineering specialist on the ascendancy. It enjoys an 18% share of the Malaysian marine construction market dominated by only five major active players. Hence, Benalec should trade at a scarcity premium – the closest peer Hock Seng Lee Bhd trades at FY11F-12F PEs of 8x-10x vs Benalec's 6x-8x (at IPO price of RM1.00).
- Benalec prides itself as an integrated marine engineering outfit operating in a niche market – including ownership of 91 vessels. Its construction margins averaged ~26% (ex-land sale gains from reclamation projects) over the past three years vs 3.2%-5.4% for IJM, Gamuda and WCT.
- A key value proposition is its unique business model – solidified by an ability to offer turnkey land reclamation proposals on a design & build basis. Leveraging on its success in Malacca, Benalec could gain unencumbered access to prime seafront land via strategic partnerships with state governments, notably in Penang and Johor.
- With a stronger balance sheet post-listing, we see significant scope for geographic expansion into regional markets – with ASEAN as the immediate focus. Certainly, sister company Oceanlec's success in landing a landmark contract to supply and deliver construction materials to the Singapore government back in 2008 is testament to Benalec's deepening executional capabilities.
- Benalec's highly scalable business model could also serve as a springboard to secure more value-accretive deals, including specialised industrial hubs.
- We project FY11F core earnings at RM93mil (+83%), accelerating by a further 19%-28% to RM119mil-RM141mil in FY12F-13F – translating into a solid earnings CAGR of 41% from an earnings base of just RM51mil in FY10.
- Benalec's prolific contract pipeline should help underpin share price performance in the coming months. Near-term, it is a frontrunner for at least three jobs worth a combined RM680mil – Glenmarie Cove, *The Lights* reclamation works and more construction materials (supply & delivery) contracts in Singapore. We have assumed new contracts of RM650mil-RM800mil for FY11F-13F (FY10: RM77mil).
- Valuations are a steal at FY11F-13F PEs of 5x-8x vs robust earnings CAGR of 41%, ROEs of 26%-27% and FY11F net gearing of only 11%. Further valuation support should come from its planned dividend policy of 30% – translating into attractive FY12F-13F yields of 6%-8% during this period.



TABLE 1: CORPORATE STRUCTURE



Source: BenaLEC, AmResearch

TABLE 2: UTILISATION OF PROCEEDS

No	Description	Estimated Timeframe for Utilisation Upon Listing	Amount (RM'000)	% of Total Gross Proceeds
1	Finance on-going projects	Within 24 months	90,000	90.00
2	Working capital	Within 24 months	3,500	3.50
3	Estimated listing expenses	Immediate	6,500	6.50
	Total proceeds		100,000	100.00

Source: BenaLEC, AmResearch

DETAILS OF THE INITIAL PUBLIC OFFER

❑ *IPO price at RM1.00/share*

Benalec Holdings Bhd is due to be listed on the Main Market of Bursa Malaysia on 17 January 2011 with an initial public offer (IPO) price of RM1.00/share.

Under the IPO, Benalec intends to issue 100mil new ordinary shares of RM0.25 each. Another 130 million shares will be allocated under an offer for share scheme. Breakdown of the public issue is as follow:

- Malaysian public (36.5 million)
- Eligible directors, employees and business associates (6.5 million)
- Private placement to selected investors (57 million)

Total proceeds to be raised are estimated at RM100mil. Out of this, the group plans to use RM90mil to finance working capital needs of its Malacca reclamation works.

Post-IPO, Benalec's issued and paid-up capital will expand from 630 million to 730 million shares. Based on its IPO price of RM1.00/share, Benalec will make its entry with a market cap of RM730mil.

In its shareholding structure, Benalec's main promoters – the Leow family – will retain a controlling 68.5% stake in the group (57.5% via the promoters' nominated investment vehicle – Oceancove Sdn Bhd). The four promoters are Leaw Seng Hai, Leaw Ah Chai, Leaw Tua Choon and Foo Polin

KEY VALUE PROPOSITIONS

We put forth four key catalysts underpinning our bullish conviction on Benalec.

❑ *Unencumbered access to prime seafront land via its unique business model*

Benalec's ability to offer compelling turnkey reclamation proposals on a design & build basis amid a low-cost base paves the way for unencumbered access to prime seafront land.

Under this attractive package, Benalec would take care of the funding and undertaking of reclaimed land on behalf of state governments, with the latter not having to contribute any capital. In return, Benalec would secure a portion of the land as consideration (payment-in-kind) for the capital works done.

Leveraging on its success in Malacca, Benalec intends to replicate its business model in other states with immediate potential for high-end waterfront developments, particularly in Penang and Johor.

❑ *Highly-scalable business model*

Going forward, management aims to expand Benalec's highly scalable business model into more value-accretive

ventures. This could involve investments that need to be developed off reclaimed land due to economic as well as strategic reasons: - e.g. ports, airports as well as specialised industrial hubs.

❑ *Geographic expansion within ASEAN*

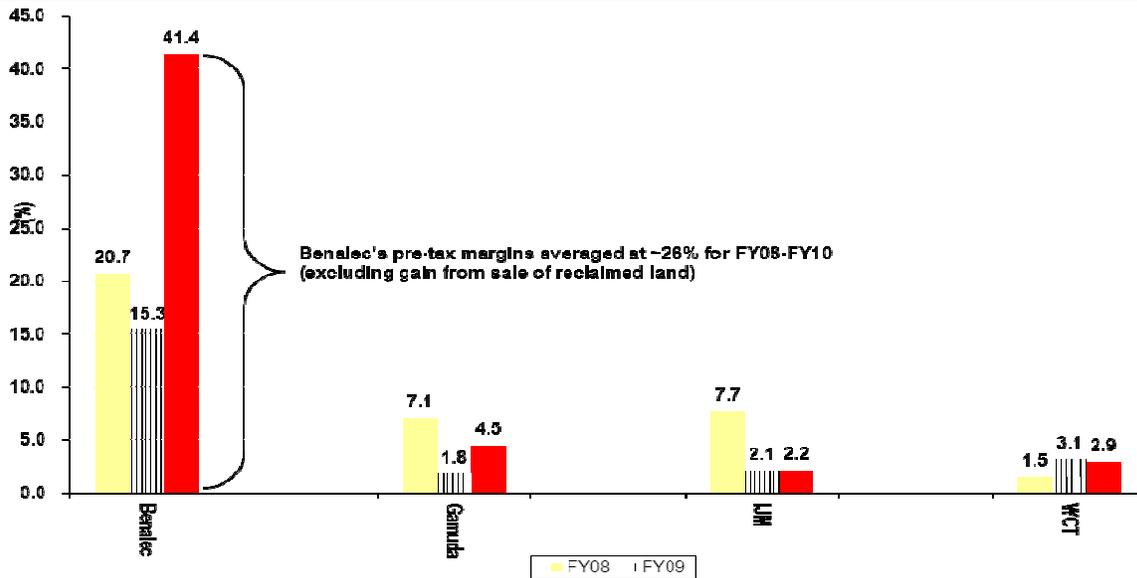
Benalec is fast evolving into an integrated marine engineering specialist – with the ASEAN region being its immediate focus. Armed with a stronger balance sheet post-listing, Benalec could potentially accentuate its geographic market expansion.

The success of its sister company, Oceanlec, in securing a landmark contract to supply and deliver construction materials to the Singapore government back in 2008 is testament to Benalec's deepening progression in the region, with more likely to come.

□ Above-industry margins

For the past three financial years, Benelac's construction pre-tax margins have averaged at ~26% (excluding any gains from the disposal of land from reclamation projects). This is comfortably above the average of 3.2%-5.4% for IJM Corp Bhd, Gamuda Bhd and WCT Bhd.

CHART 1: BENALEC'S SUPERIOR MARGIN



Source: Companies, AmResearch

Benelac's superior margins are underpinned by:

- (1) Its market leading position in a niche area** – where there are only five active marine engineering players in Malaysia and barriers to entry are relatively high. Benelac was ranked second among the active participants for marine-related construction works in the country between 2006 and 2009 – garnering ~18% of the total value of contracts;
- (2) Integrated provider of marine engineering solutions.** Benelac can virtually provide the whole set of marine engineering solutions. This ranges from dredging, reclamation, rock revetment to transportation of construction materials (e.g. sand, rocks) used in marine-related construction projects. The group also owns a large fleet of 91 vessels – backed by a shipyard that can undertake both shipbuilding as well as ship repair activities;
- (3) Efficient management of its resources from ground-up.** Benelac maintains a strong grip on most of its operating cost – bar sand supply and diesel. Over the last three financial years, only ~18% of the group's marine construction projects are outsourced; and
- (4) Innovative construction methods.** Management is constantly seeking solutions to minimise cost via value-engineering solutions, besides adopting an adaptive approach to resolving any problems faced during the course of any project.

BACKGROUND

□ Forty years on: Growing from strength to strength

Benelac's origins stretch back 40 years ago. Founded in 1960 by the late Leaw Eng Chang, Benelac commenced operations as an earthworks and general contractor. Based in Kedah, Benelac provided civil engineering services to a number of government agencies during its formative years. These included the Department of Irrigation and Drainage (JPS), Muda Agriculture

TABLE 3: KEY MILESTONES

Year	Milestones
1978	BSB was incorporated. Our main clients in our civil engineering business include JPS, MADA and JKR
1993	We expanded our capability to provide marine construction services by undertaking the coastal protection works project for JPS at Sungai Belukang, Bagan Datoh, Perak worth RM12 million
1995	BSB constructed its first vessel, an Anchor Handling Tug-Boat
1996	BSB changed its name from Leaw Eng Chang Construction Co. Sdn Bhd to Benalec Sdn Bhd.
1999	We commenced our first dredging project in Kuala Perlis
2000	We were engaged by JKR to construct a helipad and jetty on the remote island of Pulau Perak, Kedah, our first (1st) turnkey design and build contract.
2001	We commenced our first (1st) land reclamation project in Pantai Kok, Langkawi
2001	We received commendation by JKR for work done on the helipad and jetty in the remote island of Pulau Perak, Kedah
2002	OG Marine Sdn Bhd was incorporated to own, operate and charter vessels such as barges and sand pump barges for our land reclamation and marine works in Malaysia
2003	We carried out our first (1st) turnkey design and build project for beach nourishment works in Port Dickson, Negeri Sembilan
2005	BSB obtained ISO 9001:2000 for the provision of marine engineering and construction works as well as the provision of marine vessel and equipment chartering services
2007	We carried out our first (1st) turnkey design and build land reclamation project in Melaka
2008	We expanded our shipbuilding business activities through BenShip
2009	BSB's ISO upgraded to ISO 9001:2008 for the provision of marine engineering and construction works as well as the provision of marine vessel and equipment chartering services
2010	We acquired OML and Pacific (companies which own a fleet of 43 vessels) from OGSB and eleven (11) vessels (comprising eight (8) barges and three (3) tug-boats) from Oceanlec, pursuant to an internal restructuring exercise prior to our Proposed Listing

Source: Benalec, AmResearch

Development Authority (MADA) and Public Works Department Malaysia (JKR).

The Leaw siblings – Datuk Leaw Tua Choon, Leaw Ah Chye, Leaw Seng Hai and the late Madam Leaw Guat Hua - subsequently came on board.

Since then, Benalec has grown from strength to strength to evolve into a fully-fledged marine engineering specialist. In 1993, its maiden foray into the marine construction business materialised through the award of two coastal protection work projects by JPS (Sg. Belukang and Sg. Tiang).

Other notable projects secured by the group included:

- Construction of an offshore beacon for Jabatan Laut Semanjung Malaysia (1998);
- Construction of a helipad/jetty off Pulau Perak, Kedah for the Royal Malaysian Navy (2000);
- Pantai Kok Wave Breaker project in Pulau Langkawi, Kedah for Langkawi Development Authority (LADA) in (2000); and
- Land reclamation works in Jelutong, Penang for Jabatan Perkhidmatan Pembetungan (Sewerage Services Department) in (2002).

In 2003, Benalec secured another first with the award of a large-scale reclamation project involving 180 acres of reclaimed land in Klebang, Malacca. This has since led the group to have a hand in several other reclamation jobs within the state.

It was also around this time when the group began to spread its wings from its base in the north to other parts of Peninsular Malaysia. Some of the identifiable jobs included:

- Land reclamation-related works at Glenmarie Cove in Port Klang;
- Benalec's first turnkey design & build beach nourishment works in Port Dickson, Negeri Sembilan; and
- Puteri Harbour land reclamation & dredging works at the waterfront precinct at Nusajaya, Johor.

The year 2008 marked another significant milestone within Benalec and its affiliates when its sister company, Oceanlec, secured a landmark contract to supply and deliver construction materials for the Singapore government.

As part of a strategic move to cement itself as an integrated marine services provider, Benalec established OG Marine Sdn Bhd in 2002 to own and operate its own fleet of vessels.

Further in 2005, Benalec set up its own shipyard in Sijangkang, Klang (under BenShip) to further expand its shipbuilding capabilities that would include in-house ship repair and maintenance services. To-date, Benalec has successfully constructed and commissioned four tugboats that have since been deployed to support its ongoing contract in Singapore.

TABLE 4: KEY COMPLETED PROJECTS

Projects	Value (RM mil)	Duration	Client	Location
Cadangan Projek Pemulihan Pantai Dan Penahan Ombak Di Pantai Kok, Langkawi	30	2000-2001	OGSB	Kedah
Construction and Completion of Land Reclamation Works for Jelutong Sewage Treatment	15.8	2002	Jabatan Perkhidmatan Pembetungan	Pulau Pinang
Cadangan Membina Dan Menyiapkan Perumahan Di Tapak Pembangunan Semula Penempatan Ikan Bilis Di Kisap, Langkawi	24.3	2001-2003	LADA	Kedah
Earthworks/Supply and Dredging of Sand From River Pahang (KUKTEM)	23.5	2003-2004	OGMSB	Pahang
Projek Merekabentuk, Membina Dan Menyiapkan Projek Pemulihan Pantai Pelancongan Dari Bagan Pinang Hingga Tanjung Lembah, Port Dickson	18.8	2003-2005	JPS	Negeri Sembilan
Maintenance Dredging of Seabed At Phase 1, 2 and 3, Circulating Water Pumphouse and Coal and Fuel Oil Unloading Jetty at Sultan Salahudin Abdul Aziz, Power Station, Kapar	15.5	2002-2004	Teminsri Sdn Bhd	Perak
Proposed Reclamation And Associated Works for 180 Acres at Kota Laksamana (Syit Piawai 43-B-11)	62.0	2003-2010	Pembinaan Kota Laksamana (Melaka) Sdn Bhd*	Melaka
Glenmarie Cove Project	32.6	2003-2010	Comtrac Sdn Bhd	Selangor
Ultra Green (Phase 1)	64.0	2005-2010	Ultra Green Sdn Bhd*	Melaka
Ultra Green (Phase 2)	80.7	2006-2010	Ultra Green Sdn Bhd*	Melaka
Yenzoon Project	13.4	2007-2010	Benalec Marine Sdn Bhd*	Melaka
Nusajaya Project	87.0	2008-2010	UEM Land Sdn Bhd	Johor
Total	467.6			

* The aforementioned engagements relate to land reclamation and related works granted by the State Government to the concessionaires who have then contracted our Group to undertake the said reclamation activities

Source: Benalec, AmResearch

KEY MANAGEMENT TEAM

□ *Strength in Unity*

The Leaw brothers have been the key drivers within Benalec – having been with the group for more than 20 years, adopting a hands-on approach.

Group managing director (MD) Mr Leaw Seng Hai joined the group way back in 1985. Apart from overseeing the overall co-ordination and execution of all projects, he has been the driving force behind the group's rapid expansion, with a penchant for business development.

Datuk Leaw Tua Choon is the group's executive director – and is armed with over 25 years of civil and marine construction experience under his belt. He is presently overseeing the group's extensive reclamation project in Malacca.

The third sibling, Mr Leaw Ah Chye, was re-designated as an executive director on 5 October 2010. Within the group, he oversees the shipbuilding and maintenance units as part of the overall support team to its core marine construction activities.

CORE ACTIVITIES

Benalec carves a niche as an integrated marine engineering specialist. Via its subsidiaries, Benalec's two principal activities are:

□ *Marine construction services*

Over the years, Benalec has added to its repertoire various skill-sets that have elevated the group into a fully-integrated provider of marine engineering services. In short, Benalec is involved in the entire value chain that ranges from:

- Land reclamation, dredging & beach nourishment;
- Rock revetment works, shore protection works & breakwater construction;
- Pre-bore & marine piling; and
- Construction of marine structures, bridges, jetties, ports as well as other offshore/ancillary services.

As part of Benalec's aggressive expansion programme, the group has earned the distinction as one of the few local construction outfits that can boast of being a one-stop

TABLE 5: BENALEC'S FLEET OF VESSELS

	Registered Owner	Name of Vessel	Category of Vessel	Year Built	Gross Tonnage (tonne)	Proforma NBV as at 30 June 2010 (RM)
1	BSB	BENALEC GD 2	Clamshell Dredger	1983	476	1,278,333
2	BSB	CATHAY 233	Barge	2002	1,343	1,303,044
3	BSB	CATHAY 2701	Barge	2004	2,142	2,529,438
4	BSB	LABROY 182	Barge	2001	1,298	1,502,333
5	BSB	OCEANLINK 231	Barge	2007	1,424	1,688,845
6	BSB	OCEANLINK 232	Barge	2007	1,424	1,688,845
7	BSB	OCEANLINK 235	Barge	2007	1,424	1,738,856
8	BSB	OCEANLINK 253	Barge	2007	2,307	3,241,728
9	BSB	OCEANLINK 255	Barge	2007	2,290	3,370,778
10	BSB	OCEANLINK 257	Barge	2007	2,290	3,370,778
11	BSB	OCEANLEC 232	Barge	2008	1,424	2,891,093
12	BSB	OCEANLEC 181	Barge	2008	638	1,041,517
13	BSB	OCEANLEC 182	Barge	2008	638	1,041,517
14	BSB	OCEANLEC 205	Tug boat	1985	151	3,249,790
15	BSB	AREPO 18	Tug boat	2006	74	1,388,220
16	BSB	OCEANLINK GD 26 (formerly known as Tango 88)	Sand Pump Barge	1981	258	2,368,811
17	BSB	OCEANLEC 2310	Barge	2008	1,424	1,972,033
18	Oceanline (Labuan) Ltd	CATHAY 321	Tug boat	1999	247	6,291,028
19	OML	CATHAY SP 2	Sand Pump Barge	1996	611	495,473
20	OML	CATHAY PB 1	Piling Barge	1997	1,082	659,267
21	OG Marine Sdn Bhd	OCEANLINE 236	Barge	2007	1,424	1,939,497
22	OG Marine Sdn Bhd	OCEANLINE 237	Barge	2007	1,424	1,931,798
23	OG Marine Sdn Bhd	OCEANLINE 186	Barge	2007	636	840,556
24	OG Marine Sdn Bhd	OCEANLINE 187	Barge	2007	636	848,256
25	OG Marine Sdn Bhd	OCEANLINE SPS 1 (formerly known as YAMANIJU)	Sand Pump Barge	1989	1,431	3,257,385
26	OG Marine Sdn Bhd	OCEANLINE SP 12 (formerly known as FUJIMARU)	Sand Pump Barge	1981	231	3,165,969
27	OG Marine Sdn Bhd	OCEANLINE SP 18 (formerly known as SHINKAMARU)	Sand Pump Barge	1975	177	2,224,735
28	OG Marine Sdn Bhd	OCEANLINE CSD 6 (formerly known as TAKAMARU)	Cutter Suction Dredger	1982	177	3,567,531
29	Oceanliner	OCEANLEC 303	Barge	2008	3,231	5,200,000 #
30	Oceanliner	OCEANLEC 305	Barge	2008	3,231	5,200,000 #
31	Oceanliner	OCEANLINE 301	Barge	2008	3,231	5,200,000 #
32	Oceanliner	OCEANLINE 302	Barge	2008	3,231	5,200,000 #
33	Oceanliner	OCEANLINK 331	Barge	2008	4,149	6,231,000 #
34	Oceanliner	OCEANLINK 332	Barge	2008	4,149	6,231,000 #
35	Oceanliner	OCEANLEC 306	Barge	2008	3,231	5,200,000 #
36	Oceanliner	OCEANLEC 307	Barge	2008	3,231	5,200,000 #
37	Oceanliner	OCEANLEC 262	Tug boat	2007	295	6,200,000 #
38	Oceanliner	OCEANLEC 263	Tug boat	2008	232	6,300,000 #
39	Oceanliner	OCEANLEC 322	Tug boat	2008	317	9,000,000 #
40	Pacific Marine Ltd	PACIFIC SP 11 (formerly known as Yoolim 4)	Sand Pump Ship	1995	469	1,583,252
41	Pacific Marine Ltd	CATHAY SP 3	Sand Pump Ship	1988	320	374,667
42	Pacific Marine Ltd	CATHAY SP 1	Sand Pump Barge	1992	457	201,468
43	Oceanline (Labuan) Ltd	CATHAY 3001	Barge	2001	3,117	3,422,580
44	Oceanline (Labuan) Ltd	OCEANLINE 281	Tug boat	2008	287	2,642,836
45	Oceanline (Labuan) Ltd	OCEANLINE 282	Tug boat	2008	287	1,517,473
46	Oceanline (Labuan) Ltd	OCEANLINE 283	Tug boat	2009	287	1,767,049
47	Oceanline (Labuan) Ltd	OCEANLINE 285	Tug boat	2009	287	1,674,492
48	OML	CATHAY 123 (formerly known as MERLIN 123)	Sand Pump Barge	1996	259	893,494
49	OML	CATHAY CD 3	Clamshell Dredger	1996	447	1,000,000 #
50	OML	CATHAY CD 5	Clamshell Dredger	1988	476	1,000,000 #
51	OML	CATHAY CD 6	Clamshell Dredger	1996	437	1,900,000 #
52	OML	CATHAY GD 1	Clamshell Dredger	1989	195	200,000 #
53	Pacific	HIKARIGO	Sand Pump Barge	1995	2,112	3,400,000 #
54	Pacific	CATHAY 8	Tug boat	1997	59.91	1,160,000 #
55	Pacific	CATHAY 28	Tug boat	1995	43.18	1,150,000 #
56	Pacific	CATHAY 38	Tug boat	1998	59.91	1,180,000 #
57	Pacific	CATHAY 68	Tug boat	1982	48.99	900,000 #
58	Pacific	CATHAY 58	Tug boat	1987	36.11	600,000 #
59	Pacific	CATHAY 78	Tug boat	2000	40.57	1,260,000 #
60	Pacific	CATHAY 88	Tug boat	1994	111.11	1,880,000 #
61	Pacific	CATHAY 98	Tug boat	1978	89.93	600,000 #
62	Pacific	CATHAY 68	Tug boat	1991	90.4	1,100,000 #
63	Pacific	CATHAY 16	Tug boat	1988	93.15	1,100,000 #
64	Pacific	CATHAY 17	Tug boat	1991	89.78	1,300,000 #
65	Pacific	CATHAY 26	Tug boat	1996	66.39	1,450,000 #
66	Pacific	CATHAY 36	Tug boat	1998	66.39	1,470,000 #
67	Pacific	CATHAY 56	Tug boat	2002	145.07	1,840,000 #
68	Pacific	CATHAY 76	Tug boat	1992	78.46	1,100,000 #
69	Pacific	OCEANLINE 153	Barge	1993	593	580,000 #
70	Pacific	CATHAY 187	Barge	1994	616	1,000,000 #
71	Pacific	CATHAY 188	Barge	1989	625	1,000,000 #
72	Pacific	CATHAY SP 7 (formerly known as CATHAY 180)	Sand Pump Barge	1993	639	1,200,000 #
73	Pacific	CATHAY 212	Barge	1998	1,277	1,570,000 #
74	Pacific	CERGAS 22	Barge	1997	1,273	1,700,000 #
75	Pacific	CERGAS 231	Barge	1996	1,368	2,590,000 #
76	Pacific	CERGAS 232	Barge	1996	1,413	2,640,000 #
77	Pacific	CERGAS 223	Barge	1996	1,273	1,670,000 #
78	Pacific	CERGAS 251	Barge	1997	1,972	3,450,000 #
79	Pacific	CATHAY SHB 1013 (formerly known as CATHAY SHB 1003)	Split Hopper Barge	1993	741	1,750,000 #
80	Pacific	CATHAY SHB 1005	Split Hopper Barge	1993	835	1,260,000 #
81	Pacific	CATHAY SHB 1006	Split Hopper Barge	1993	835	970,000 #
82	Pacific	CATHAY SHB 1019 (formerly known as CATHAY SHB 1009)	Split Hopper Barge	1993	741	1,750,000 #
83	Pacific	CATHAY 1811 (formerly known as AREPO 118)	Barge	1995	630	1,000,000 #
84	Pacific	CATHAY 1813 (formerly known as AREPO 318)	Barge	1993	634	970,000 #
85	Pacific	OCEANLINE 2322 (formerly known as AREPO 322)	Barge	1995	1,171	1,630,000 #
86	Pacific	OCEANLINK 2306 (formerly known as AREPO 236)	Barge	1996	1,425	2,590,000 #
87	Pacific	PIONEER 6	Tug boat	1963 (rebuilt in 1993)	99.55	1,100,000 #
88	Pacific	OCEANLINE 11 (formerly known as JUMEIRAH)	Tug boat	1981	89	1,280,000 #
89	Pacific	OCEANLINK 2301 (formerly known as SMS 2301)	Barge	1996	1,362	2,760,000 #
90	Pacific	OCEANLINK 2302 (formerly known as ELINK 1)	Barge	1998	1,408	2,670,000 #
91	Pacific	OCEANLINE 21 (formerly known as ELINE 4)	Tug boat	1998	181	2,280,000 #
	Total					205,176,765

#

The vessels are held by Benalec pursuant to the Acquisition of BSB and Acquisition of Oceanliner based on the respective net assets as at 30 June 2010 and after taking into consideration the Internal Restructuring. For purposes of the Internal Restructuring, the said vessels were acquired by subsidiaries of BSB and Oceanliner after taking into consideration the market value as appraised by Raine & Horne. The Valuation Certificate as set out in Section 15 of this Prospectus is for disclosure purposes and does not require the approval of the SC.

provider of marine construction and civil engineering services via vertical integration. Benalec's value propositions are further enhanced by its design & build capabilities for large-scale land reclamation jobs.

Underlying its leading status, Benalec is one of the top two most active contractors in Malaysia for marine construction projects from 2006-2009 – garnering 17.9% out of the estimated RM2.9bil worth of related works during this period.

Apart from Benalec, the four other active local marine contractors are unlisted – Inai Kiara Sdn Bhd, See Song & Sons Sdn Bhd, See Yong & Sons Sdn Bhd and Tidalmarine Dredging Sdn Bhd.

PICTURE 1: LAND RECLAMATION



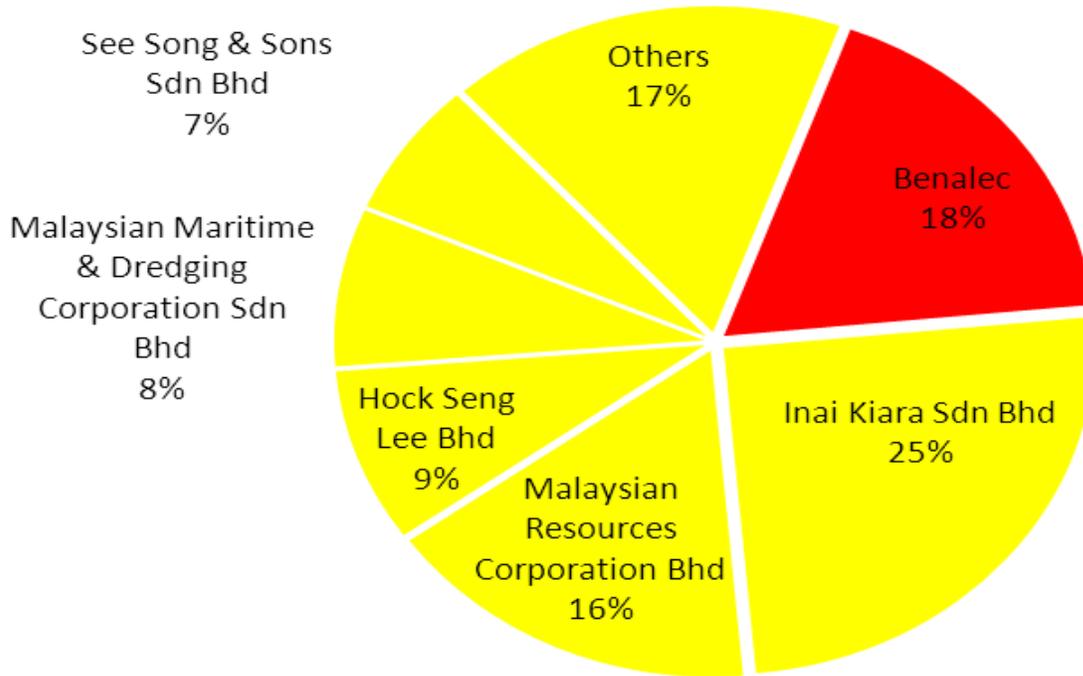
Source: Benalec

PICTURE 2: ROCK REVETMENT



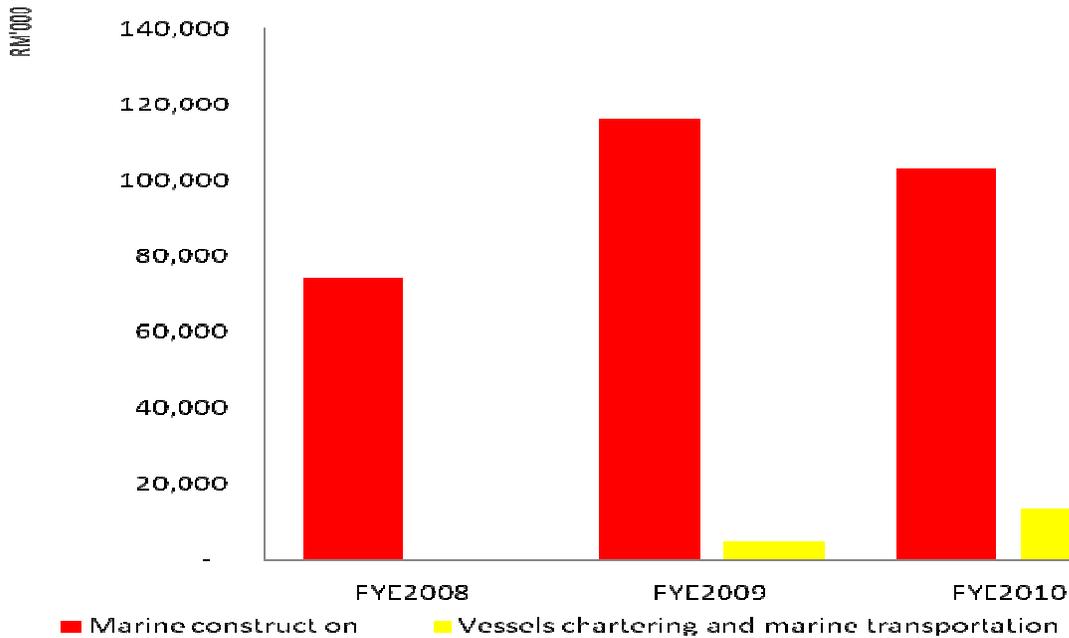
Source: Benalec

CHART 2: MARKET LEADER IN MARINE CONSTRUCTION WORKS IN MALAYSIA



Source: Benalec, AmResearch

CHART 3: REVENUE BREAKDOWN BY SEGMENT



Source: Benalec, AmResearch

❑ *Vessel chartering and marine transportation*

At present, Benalec owns a total fleet size of 91 vessels, which are mainly used to support its core marine construction business. Vessels that are not used in-house are deployed for third party charter in the form of (1) spot charter arrangement; (2) time charter/voyage charter; and (3) contract for freight arrangement.

Between FY06-FY09, third party charters contributed between 4% and 13% of the group's revenue.

PICTURE 3: CLAMSHELL DREDGER (5 NOS)



Source: Benalec

PICTURE 4: TUGBOAT 800HP – 3200 HP (19NOS)



Source: Benalec

❑ *Ancillary support from shipbuilding/maintenance unit*

In order to support its core marine construction activities, management acquired 20 acres of land in Sijangkang, Klang, in 2007, for a shipyard.

Sijangkang is located in close proximity to Port Klang – along the coastline of Selangor. The shipyard enables Benalec to carry out the maintenance of vessels, thus saving on dry-docking cost.

Complementing this division is the group's strategic move to expand into shipbuilding to support its core marine construction activities.

These are undertaken by 100%-owned subsidiary, Banship. The Sijangkang shipyard provides ship refurbishment, ship conversion and steel fabrication activities.

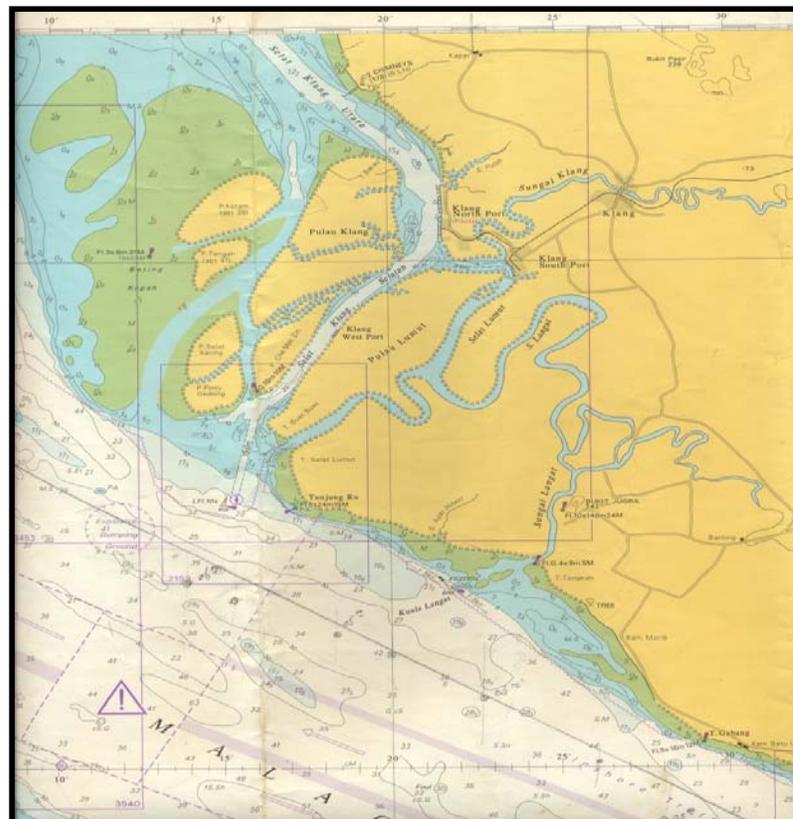
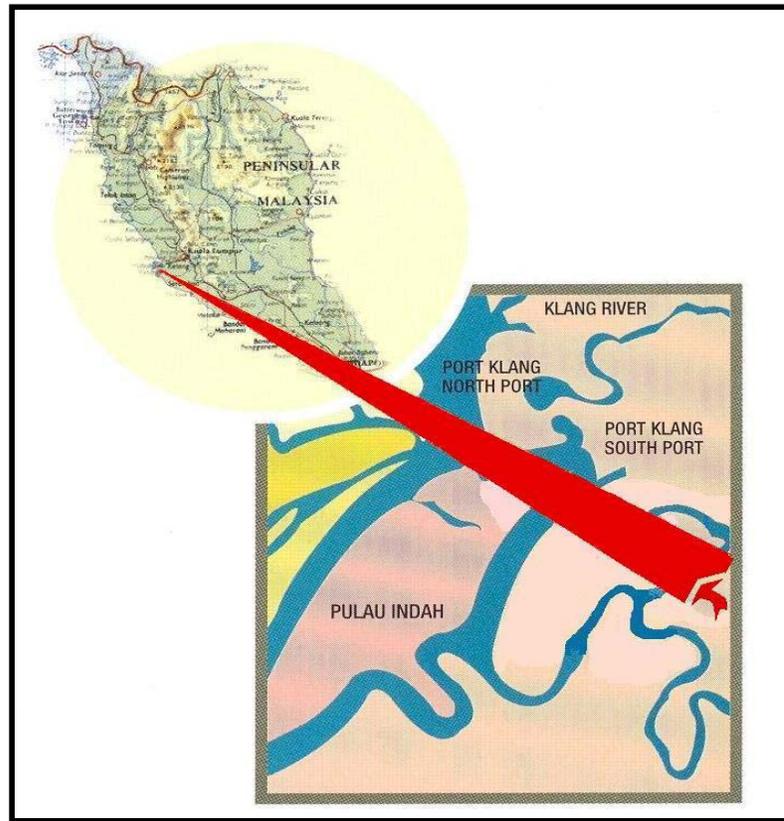
Having its own shipbuilding capabilities is crucial for Benalec to steal a march on its peers. Apart from enjoying cost-savings by constructing its vessels in-house, such a move allows Benalec more room to ensure the availability of vessels at its disposal.

For instance, the group decided to construct four units of tugboats on its own for its Singapore contract secured in 2008 – as the delivery of the vessels from a shipyard in Sibul was delayed for 10 months.

Using in-house resources, Benalec has since successfully custom-built five anchor handling tugs, four-twin screw tugboats, two barges as well as one cutter suction dredger. Two additional units of anchor handling tugboats and one unit of 2,400HP twin-screw tugs are currently being built.

Plans are afoot to venture into the offshore supply vessels market (e.g. Anchor Handling Tug Supply or AHTS), which can subsequently be chartered out to major oil & gas players within the next two years.

PICTURE 5: SIJANGKANG SHIPYARD



Source: Benalec, AmResearch

PICTURE 6: SHIP REPAIR



Dry dock repair



Onshore repair for Hopper Barge

Source: Benalec

PICTURE 7: SHIPBUILDING



Building of 800HP Anchor Handling Tug
'CATHAY 8' - Year Built 1997



Building of 2400 HP Twin Screw Steel Tug
Boat – OCEANLINE 281, 282, 283 and 285



Building of 2400 HP Twin Screw Steel Tug
Boat – OCEANLINE 281, 282, 283 and 285

Source: Benalec

COMPELLING ABOVE-INDUSTRY MARGINS

□ *Ahead of its larger peers*

One of the Benalec's key strengths lies with its above-industry margins.

For the past three financial years, Benalec's construction pre-tax margins have averaged at ~26% (excluding any gains from the disposal of land from reclamation projects). This is comfortably above the average of 3.2%-5.4% for the 'big three' contractors in Malaysia – i.e. IJM, Gamuda and WCT.

(1) Integrated provider of marine engineering solutions. Benalec is involved in virtually every spectrum of the marine engineering supply chain – i.e. from upstream (e.g. vessel ownership, equipment), midstream (e.g. dredging, marine piling) to downstream (e.g. land reclamation, shore/beach protection works as well as construction of on/off coast structure).

Benalec's management – led by its Group MD Mr Leaw Seng Hai – is very-much hands on. This effectively helps the group to better manage its resources from ground-up.

Over the past three financial years, the group had on average outsourced only 18% of the total value of marine construction projects at its disposal.

Having its own fleet of vessels translates into lower asset cost (e.g. lower depreciation/finance charges) for the group. Its in-house ship repair and maintenance facilities also caps vessel downtime, and reduce the dependence on third party facilities.

The introduction of a mobile airbag system enables the up-slip and down-slip of vessels in a quick and efficient manner – enabling the group to carry out ship repairs and maintenance anywhere.

(2) Multiple layers of margins via payment-in-kind contracts. Benalec has over the years constantly reinvented itself towards providing innovative value propositions that are attractive to its clients.

These included the introduction of land reclamation contracts – where the settlement is negotiated via payment-in-kind (i.e. land portion). Under this deal, its clients have the added flexibility of dispensing with the need to incur cash payments upfront – especially during an economic downturn.

From Benalec's standpoint, the group is able to reap multiple layers of margins. The first is through the recognition of progress billings from civil works and chartering income.

Another layer comes from the potential gain on sale for land that is obtained as settlement in-kind (once the land title is alienated) – implying further upside for its margins. This concept has been introduced for a portion of its projects in Malacca.

(3) 'Exclusive club'- operating within a niche market. Benalec operates in a niche area where competition is less-strive. Unlike building contracts, bidding margins for marine construction works are generally more lucrative due to the higher-degree of skill-sets required.

The pre-requisite of having a strong foundation in civil/building expertise in marine-based projects is one thing. Managing the logistical aspects and having hundreds of seafarers under its payroll amid choppy weather conditions at times represents another challenge altogether.

Barriers to entry are also high. Amid rising raw material prices (e.g. steel plates), the maintenance cost of dredging equipment is on the rise. Dredging equipment is mostly imported from Europe, the United States, Japan and China.

The capital investment for leasing/owning marine vessels are even steeper – a set of marine construction fleet can range anywhere between RM15mil and RM310mil.

Most Malaysian companies that own vessels normally purchase used ones. Even so, the price of a second-hand clamshell dredger may still fetch RM6mil to RM9mil, whereas a brand new unit would cost RM16mil-RM22mil.

Furthermore, the cost of a newly-build Dutch-made TSHD cutter suction dredger – larger and more sophisticated compared to the standard variants – can fetch approximately Euro 100mil (or RM420mil).

Flipside, Benalec is among only five active local players within the marine engineering industry. The group owns an integrated fleet of 91 vessels (including dredging plant/equipment) that can support the entire marine construction value chain, hence enabling it to have better cost-control.

(4) Lean cost structure. Due to its vertically integrated operations, Benalec has direct control over the bulk of its cost structure – bar the supply of sea sand/rocks and diesel. These items collectively accounted for RM20mil or ~43% of the group's total purchases of raw materials and services in FY10 – all sourced locally. In terms of overall cost of sales, both diesel and raw materials account for ~35% .

Even so, over the years, Benalec has not encountered major difficulties in sourcing sea sand that is usually located close to the land reclamation site. The group normally secures its sand ex-seabed either by purchasing the rights or negotiating for a sand concession contract from the relevant state/federal authorities.

The only exception is for the Singapore contract currently being executed under Oceanlec. Due to the ongoing sand ban by Malaysia and Indonesia, Oceanlec has to source its sand supplies from Myanmar, Vietnam and Cambodia. These sand

sources are more than 100 nautical miles away from the project site.

The market price of sea sand within the Southeast Asian region ranges from US\$3 to US\$6 per cu m. In Malaysia, local sand sea price for reclamation use has historically been stable at approximately RM0.60 to RM1.80 per cu m.

Likewise, the supply of rocks – used for revetment works, shore protection works and breakwater construction – is normally secured from local quarries located close to the project site (e.g. Tampin for its projects in Malacca).

- (5) **Innovative offering.** Benalec's adaptability in dealing with various situations – coupled with its astute value-engineering propositions – helps the group reap significant cost savings beyond its original budgeting even after a particular project has been carried out.

Examples include the timely switch from land-based method to sea-based method when implementing coastal protection works in Bagan Datoh, Perak for JPS, resulting in significant cost savings (*Please refer to later sections for more details*).

- (5) **High utilisation rate for vessels.** Benalec's fleet of 91 vessels enjoys a high utilisation rate of over 80% due to its relatively low idle time (including downtime due to regular/periodic maintenance). Most of its vessels are busy supporting the group's marine construction projects at any given time.

INNOVATIVE CONSTRUCTION METHODS

Over the years, Benalec has always prided itself for its innovative approaches in tackling various challenges that gives the group an edge over its rivals.

For instance, one of its earlier projects secured in 1993 involved coastal protection work in Sg. Belukang and Sg. Tiang in Bagan Datoh, Perak. Back then, the group made a calculated move to switch from using land-based equipment to transport sand and armour rock to utilising a tug-and-barge method.

This resulted in substantial savings in project time and cost – and subsequently turned out to be a significant turning point for the group’s gradual penetration into the marine construction industry.

Another commendable achievement was the reconstruction of the Sg. Belukang bund in 1994. The project involved erosion protection works after the affected area was severely damaged by a lethal combination of strong tidal waves and soft soil conditions.

PICTURE 8: BAGAN DATOH PROJECT



Source: Benalec

Worse still, the access road to the site was cut off due to a breach of the coastal bund. Upon taking hold of the project, the group successfully switched from land-based to sea-based method of execution by constructing a temporary jetty - and transporting sand together with armour rock using the tug-and-barge method.

The delivery of a helipad in Pulau Perak (2000) marked another significant milestone for the group. Scope of works included the construction of a helipad and jetty off the remote island of Pulau Perak.

PICTURE 9: PULAU PERAK PROJECT

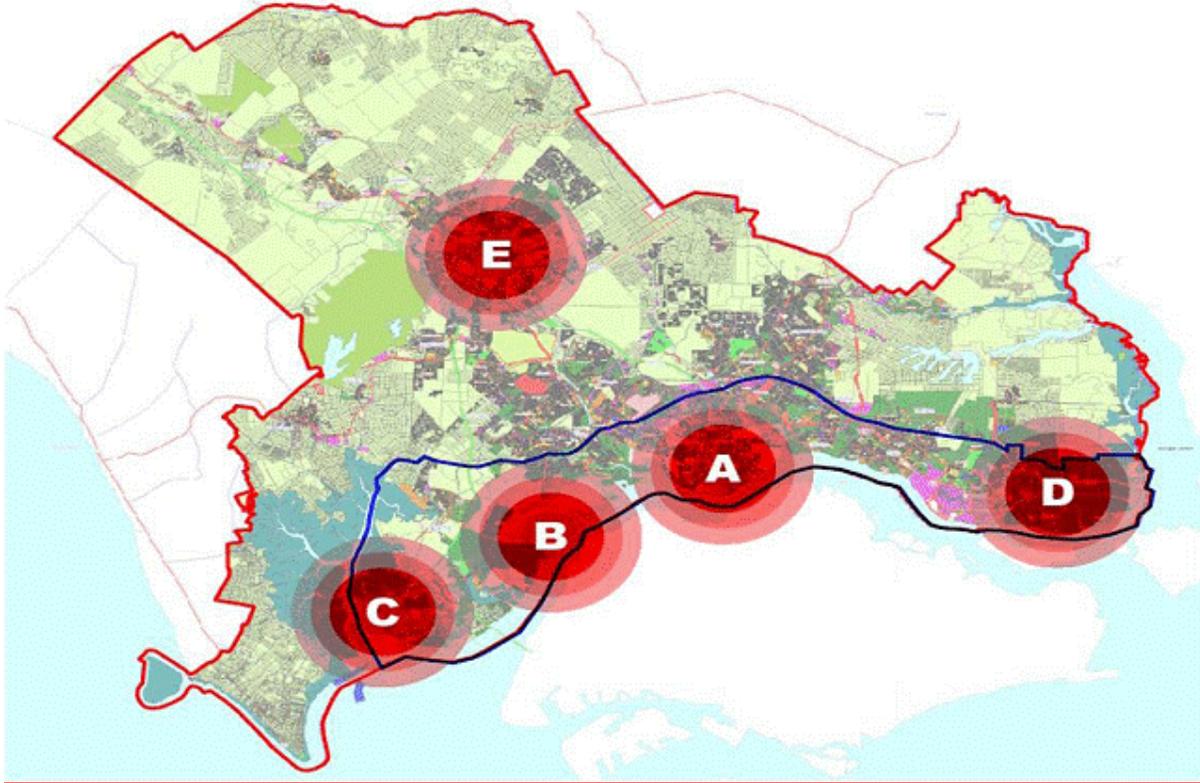


Source: Benalec

Due to the challenging conditions (e.g. distance between the island and the mainland of Kedah), the group had employed several innovative solutions to complete the project within the stipulated time and project cost – receiving a letter of commendation from JKR Malaysia for this feat.

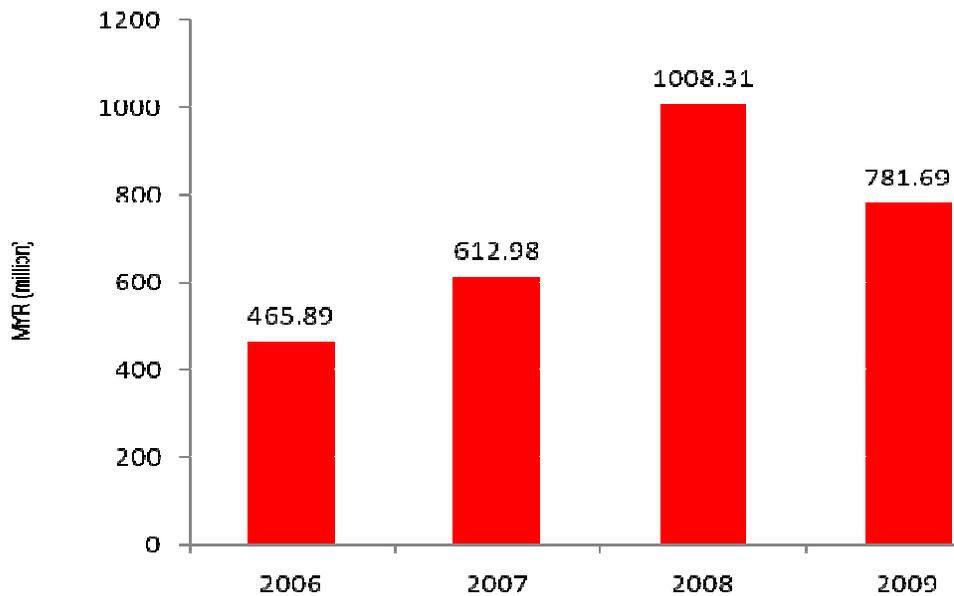
These included using a winch system to transport construction materials to the hilltop – where the helipad is to be constructed. What’s more admirable was that the cost of project, which Benalec successfully bid and won at ~RM4mil, was only about one-fifth the average of competing bids put in by rivals.

PICTURE 10: ISKANDAR MALAYSIA'S FIVE FLAGSHIP ZONES



Source: AmResearch

CHART 5: TOTAL VALUE OF MARINE CONSTRUCTION CONTRACTS IN MALAYSIA (2006 -2009)



Source: Benalec, AmResearch

RM60BIL INDUSTRY OVER THE NEXT 10 YEARS

❑ *Malaysian construction industry expanded 18.8% between 2006-2009*

According to a report by Frost & Sullivan, total contract value for marine construction-related works in Malaysia had risen by an impressive CAGR of 18.8% between 2006-2009. The industry has expanded by 68% since 2006 – with the total value of contracts reaching RM782mil in 2009.

Based on contract values at RM100mil or above derived from the Construction Industry Development Board (CIDB), the total value of major marine construction projects tallied at RM2.9bil. Key projects during this period were:

- (i) Reclamation projects in Malacca (RM396mil);
- (ii) Kuala Terengganu Airport upgrade, land reclamation and beach erosion protection; and
- (iii) Dredging & rehabilitation works for Sg. Pahang.

Out of these three projects, Benalec was involved in the reclamation works in Klebang, Malacca.

We reckon that Benalec's orderbook visibility is set to accentuate moving into 2011. This is further augmented by an expected uptick in marine construction jobs with the imminent rollout of the 10th Malaysia Plan (10MP) and government's Economic Transformation Programme (ETP).

TABLE 6: MAJOR MARINE CONSTRUCTION PROJECTS IN MALAYSIA

Location	Projects	Type of Development	Value (RM mil)
Melaka	Melaka reclamation projects*	Mixed	395.6
	Nusajaya Waterfront development*	Mixed	159.3
Iskandar Economic Region	Tanjung Bin Port upgrade	Ports Infrastructure	161.0
	Tanjung Langsat Port upgrade*	Ports Infrastructure	121.4
SCORE	Tanjung Manis development*	Infrastructure & industrial zone	216.3
Kuala Terengganu	Lapangan Terbang Kuala Terengganu upgrade, land reclamation and beach erosion protection	Airport Infrastructure	264.0
Sungai Pahang	Dredging and rehabilitation	Navigational Waterway	258.2
Port Klang	Capital dredging for the expansion of the Southern navigational channel	Navigational Waterway	100.0
Pulau Tioman	Tekek beach rehabilitation	Beach rehabilitation, tourism	132.2
Batu Maung, Penang	Construction of MITP International Fisheries Port	Ports Infrastructure	168.9

* Consolidated over the period 2006-2009

Source: Benalec, AmResearch

This bodes well for the group, given its proven track record as an integrated marine engineering outfit with a highly scalable business model.

Benalec's current orderbook stands at RM664mil, providing earnings visibility over the next six years (approximately 6.5x its FY10 construction revenue of RM103mil). The group has a latent mix of private as well as public contracts. To date, it has completed turnkey reclamation projects on a design-and-build basis – with

TABLE 7: BENALEC'S OUTSTANDING ORDERBOOK

No	Projects	State	Client	Value (RM mil)	Unbilled Amount (RM mil)	Commencement Date	Completion Date
1	Proposed Construction, Completion and Maintenance of Reclamation and Shore Protection Works for 180 acres at Klebang Besar	Melaka	Haruman Utama Sdn Bhd*	71.3	15.6	2007	2011
2	Proposed Construction, Completion and Maintenance of Reclamation and Shore Protection Works for 204 acres (Phase 3) BETWEEN Kuala Sungai Melaka and Kuala Sungai Seri Melaka	Melaka	Oriental Boon Siew (M) Sdn Bhd*	123.2	20.7	2008	2011
3	Penambakan Laut Seluas 8.6 acres di Pekan Klebang, Seksyen II, Daerah Melaka Tengah	Melaka	Benalec Marine Sdn Bhd*	3.9	0.6	2008	2010
4	Proposed Construction, Completion and Maintenance of Reclamation and Shore Protection Works for 180 acres at Pantai Limbongan Daerah Melaka Tengah	Melaka	Strategic Oscar Sdn Bhd*	77.2	47.1	2009	2011
5	Maintenance Dredging of Seabed at Phase 2 & 3 Circulating Water Pumphouse and Coal and Fuel Oil Unloading Jetty at Stesen Janaelektrik Sultan Salahuddin Abdul Aziz, Kapar	Selangor	Kapar Energy Ventures Sdn Bhd	9.5	9.5	2010	2010
6	Proposed Construction, Completion and Maintenance of Reclamation and Shore Protection Works for 144.25 acres at Pulau Indah Industrial Park, Klang	Selangor	Oceanfront Land Sdn Bhd, Atlantic Property Sdn Bhd, Oceanview Property Sdn Bhd, Oceanic Sdn Bhd	75.0	75.0	2011	2013
7	Proposed Construction, Completion and Maintenance of Reclamation and Shore Protection Works for 61.33 acres at Kuala Sungai Melaka (Phase 1A)	Melaka	Ultra Green Sdn Bhd*	27.6	27.6	2010	2011
8	Proposed Construction, Completion and Maintenance of Reclamation and Shore Protection Works for 720 acres at Mukim Klebang, Melaka Tengah	Melaka	Sentosacove Sdn Bhd*	468.0	468.0	2011	2016
	Total			855.7	664.1		

* The aforementioned engagements relate to land reclamation and related works granted by the State Government to the concessionaires who have then contracted our Group to undertake the said reclamation activities

Source: Benalec, AmResearch

total value of works in excess of RM500mil.

From a strategic standpoint, the group's core focus would centre on Penang, Johor and Selangor – apart from its ongoing reclamation project in Malacca.

We acknowledge that these states are witnessing a rising proliferation of dredging/reclamation activities.

Penang and Malacca in particular – where Benalec already has a strong presence - have been expanding seaward due to the scarcity of land.

Also, the port sector – a vital source of potential job flows for marine-related activities – received a RM1bil boost under the 10MP for additional dredging requirements at West Port as well as Pelabuhan Tanjung Pelepas (PTP).

A raft of coastal protection as well as flood mitigation and development works – under the auspices of the Drainage & Irrigation (DID) Department's Integrated Shore Management Plan (ISMP) – are also up for grabs. A sum of RM5bil has been budgeted for flood mitigation projects during the upcoming five-year plan.

Further out, the local marine construction industry is expected to receive a boost from resurgence in development activities within Malaysia's economic growth corridors – notably Iskandar Malaysia (Johor), Sarawak Corridor of Renewable Energy (SCORE) and Sabah Development Corridor (SDC).

What makes it more exciting is the fact that these growth corridors are only at the nascent stage of their development cycle – implying a significant scope for marine construction activities in the years to come.

Stacking it up, Frost & Sullivan estimates that total industry revenue for the marine construction industry in Malaysia may reach at least RM60bil over the next 10 years or circa RM6bil p.a.

IN A SWEET SPOT WITHIN A GROWTH INDUSTRY

We present below, forefront projects or areas that underpin our bullish outlook on Benalec's exciting orderbook pipeline.

□ Penang

Penang forms part of the Northern Corridor Economic Region (NCER). Interestingly, several coastal areas within the island state have been earmarked as primary as well as secondary development corridors under the Penang Structure Plan 2020:

Penang Island

- George Town – Bayan Baru – Bayan Lepas
- George Town – Tg. Tokong
- Batu Maung – Teluk Kumbar

Penang Mainland

- Butterworth- Bagan Ajam - Telok Air Tawar

- Butterworth- Seberang Jaya – Bukit Mertajam
- Juru – Bukit Minyak – Tasik Mutiara
- Batu Kawan – Valdor
- Sg. Bakap – Jawi – Nibong Tebal – Sri Ampangan
- Penaga – Kuala Muda

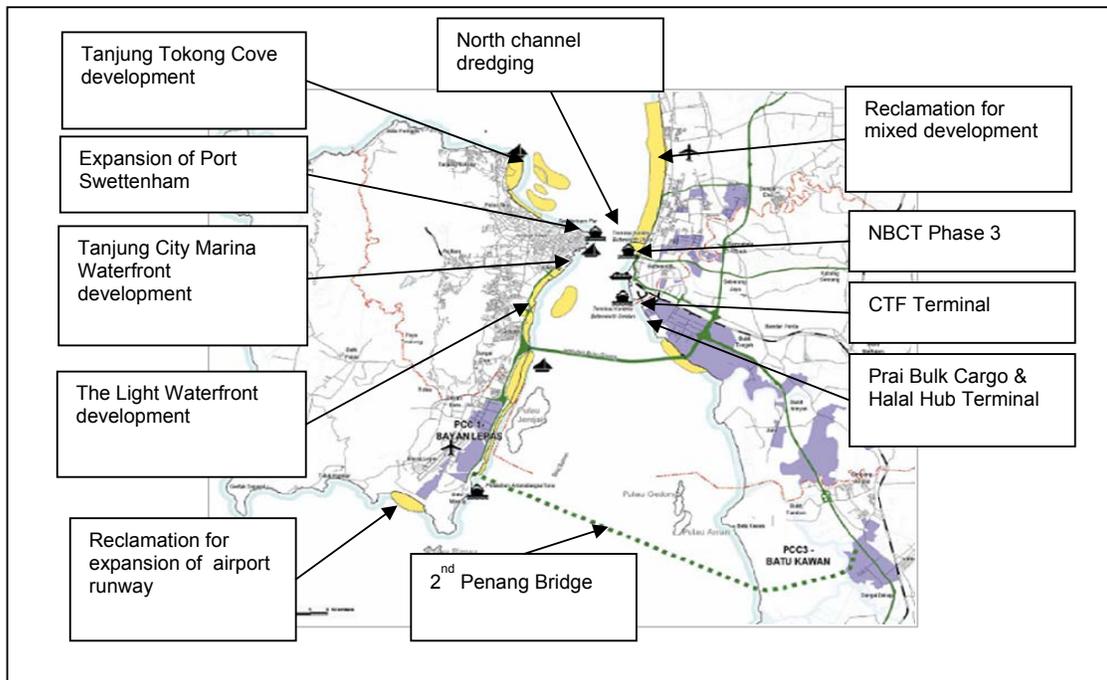
These developments involve the need to reclaim at least 1,500 hectares (~3,707 acres) of land around the Coast of Penang Island and its mainland. The total reclamation cost is estimated at RM6.5bil.

We also foresee an expected rise in the number of reclamation projects that are required to support Penang's economic growth. Prime Minister Datuk Seri Najib Tun Razak recently indicated that 10 major infrastructure projects would be carried out within the state under the 10MP.

These may include:

- **The Second Penang Bridge** (due for completion in 2013);
- **Bayan Lepas airport extension** - reclamation of land for the extension of its existing runway;
- **Coastal roads** from Teluk Air Tawar in Butterworth to Kuala Muda in Kepala Batas;
- **Coastal Jelutong expressway** on the island;
- **RM1.1bil investment for the development at and around the North Butterworth Container Terminal (NBCT) and South Butterworth Container Terminal (SBCT)**. The plan would involve land reclamation on approximately 1,000 hectares set aside for the development of container yards and other value-added activities:
 - * Free-Trade Zone areas
 - * Warehousing/CFS and Logistics services
 - * Distripark and Inland Clearance Depot (ICD)
 - * Cold storage and halal hub
 - * Centralised Tanker Facilities (CTF);
- **Penang Outer Ring Road (PORR)** – estimated at RM1bil. A stretch of the highway is being planned for construction on reclaimed land off the shore of Persiaran Gurney. Although the project was put on hold during the 9MP, it has recently been given the go-ahead again by the Economic Planning Unit (EPU); and
- **Several upcoming waterfront developments** at new designated areas. These would include *The Lights* waterfront development (IJM), Tg. Pinang reclamation and mixed development (E&O Group) as well as Penang Cyber City 3 (PCC3) along Batu Kawan in mainland, Penang.

CHART 6: PENANG ISLAND – ONGOING AND FUTURE RECLAMATION WORKS



Source: Benalec, AmResearch

TABLE 8: CURRENT AND FUTURE MARINE CONSTRUCTION PROJECTS IN PENANG (2010 – 2020)

Project	Developer	Details	End Use of Marine Construction	Project Value/Estimate (RM)
North Butterworth Container Terminal (NBCT) Phase 3	Penang Port Sdn. Bhd.	Phase 3A is expected to be completed in 2011.	Reclamation to build Container Terminal	672 million
North Channel Dredging	Penang Port Sdn. Bhd.	Dredging of the 11.5m ACD North Channel to 13.5m ACD to serve mother vessels calling at the port. Requesting for allocation under the 10 Malaysia Plan. Expected to commence in 2010 to 2012.	Dredging to upgrade navigational waterway	1 billion
Redevelopment of Swettenham Pier	Penang Port Sdn. Bhd.	Commenced in 2006 and completed in 2009.	Dredging & reclamation for waterfront development	65 million
Dangerous Goods Terminal	Penang Port Sdn. Bhd.	Relocation and construction of a new Dangerous Goods (DG) Terminal to the south of PBCT by 64 meters.	Reclamation to build bulk terminal	250 million
Proposed petroleum tank farm and Halal Hub Terminal south of the Butterworth Port	Penang Port Sdn. Bhd.	Reclamation of 400 hectares of land.	Reclamation to build Petrochemicals and Cargo Terminal	1.5 billion
Centralised Tankage Facilities (CTF) at Bagan Ajam Toll on 40 hectares of site	Penang Port Sdn. Bhd.	This project will form a hub for moving liquid cargoes in and out within Malaysia water and International water. The water draft will be approximately 13.0m as to accommodate expected size of up to 50,000 DWT vessels. To be operational by 2013.	Reclamation to build Tankage facilities	1.2 billion
Development of the 400m stretch from the pier to Tanjung City Marina	Penang Port Sdn. Bhd.	n/a	Dredging & reclamation for waterfront development	n/a
2nd Penang Bridge	Jambatan Kedua Sdn. Bhd.	Expected to complete in 2013.	Dredging & reclamation to build bridge	4.5 billion
Tanjung Pinang reclamation and mixed development	E&O Group	Expected to fully complete by 2012.	Dredging & reclamation for waterfront development	5 billion
Jelutong "The Lights" waterfront development	IJM Land Berhad	Land reclamation of 210 acres currently being conducted. Construction work expected to start in 2012. (Phase 2)	Reclamation & waterfront development	6.5 billion
Penang Outer Ring Road	n/a	Project currently on hold.	Reclamation for building coastal highway	1.02 billion
Proposed development at Batu Kawan for Penang Cyber City 3	n/a	n/a	Reclamation for waterfront development	n/a

❑ Malacca

The Malacca Structure Plan 2020 has designated the coastal areas of this historic state as priority development areas for massive land reclamation activities. Along with Georgetown (Penang), Malacca was in 2008 inducted among the world's heritage sites by UNESCO.

To this effect, the Malacca government has approved land reclamation activities between Kuala Sg. Linggi and Sg. Merlimau. The gazetted area measures 2,835 hectares (~7,005 acres), with an estimated cost of RM6.3bil.

Development within these areas is regulated by the state government. Among others, at least 10% of the reclaimed site must feature a waterfront park – with one-sixth of the total reclaimed area to be allocated to the state government.

Currently, projects within the Klebang area are already underway – where Benalec is involved in some of the ongoing projects. This puts the group in a strong position to bid for additional contracts – where at least 1,805 acres within this area are being reclaimed from the sea.

To date, the land portion secured by the group as payment-in-kind is ~296 acres against a total contract sum of RM176mil. This translates into an effective land cost of ~RM14/psf against the current market value of ~RM25/psf for comparable land within Malacca. Out of this total, the group has entered into agreements to dispose off ~59% acres for RM50mil – giving rise to an estimated gain on disposal of RM17mil.

However, we emphasise that land sales are only ancillary or a by-product of Benalec's operations. Its core operations very much remain entrenched in marine construction activities

❑ Johor

The Iskandar Malaysia region – located at the southern-most tip of Johor - covers an area of 2,217 sq km or approximately 3x the size of Singapore. Iskandar covers the logistics triangle of Senai Airport, PTP and Johor Port in Pasir Gudang.

A key driver of this master plan is to develop and transform Johor into an international transportation and distribution hub – making airports and seaports central to the development of this area.

The Iskandar Coastal flagship zones or Special Economic Zones (SEC) include the Johor Baru City Centre, Nusajaya, and the Eastern Gate as well as Western Gate developments.

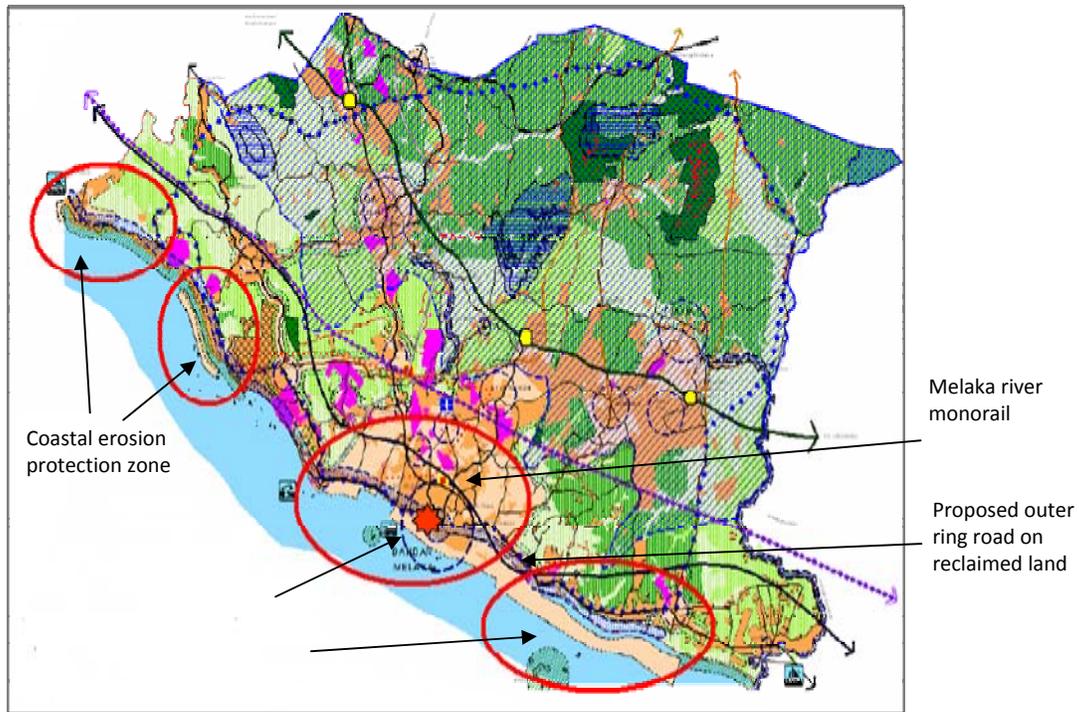
Several land reclamation activities within the SEC have been approved. These include:

- **The waterfront development in Johor Bahru at Danga Bay** – whereby 1.5km of coastline would be reclaimed to create a new shoreline.

- **Nusajaya.** Various catalytic developments are currently being mooted – e.g. waterfront beaches, golf courses and marina development.
- **Deepening of navigational waterways.** Proposals have been put in place to enhance the port facilities within Tg. Pelepas, Pasir Gudang and Tg. Langsat.
- **Eastern Gate.** The Tg. Langsat Industrial complex will be developed as a petrochemical terminal to handle bulk cargo such as liquefied natural gas (LNG). Over at the Lido Boulevard reclamation project – located along the Straits of Tebrau (2.4km) – over 48.2 hectares (121 acres) of land is to be reclaimed at a cost of RM240mil.

In our view, the successful completion of Puteri Harbour reclamation works at Nusajaya (RM87mil) would put the group in good stead to bid for repeat jobs within the Iskandar Corridor estimated to cost at least RM500mil.

CHART 7: MALACCA – ONGOING AND FUTURE RECLAMATION WORKS



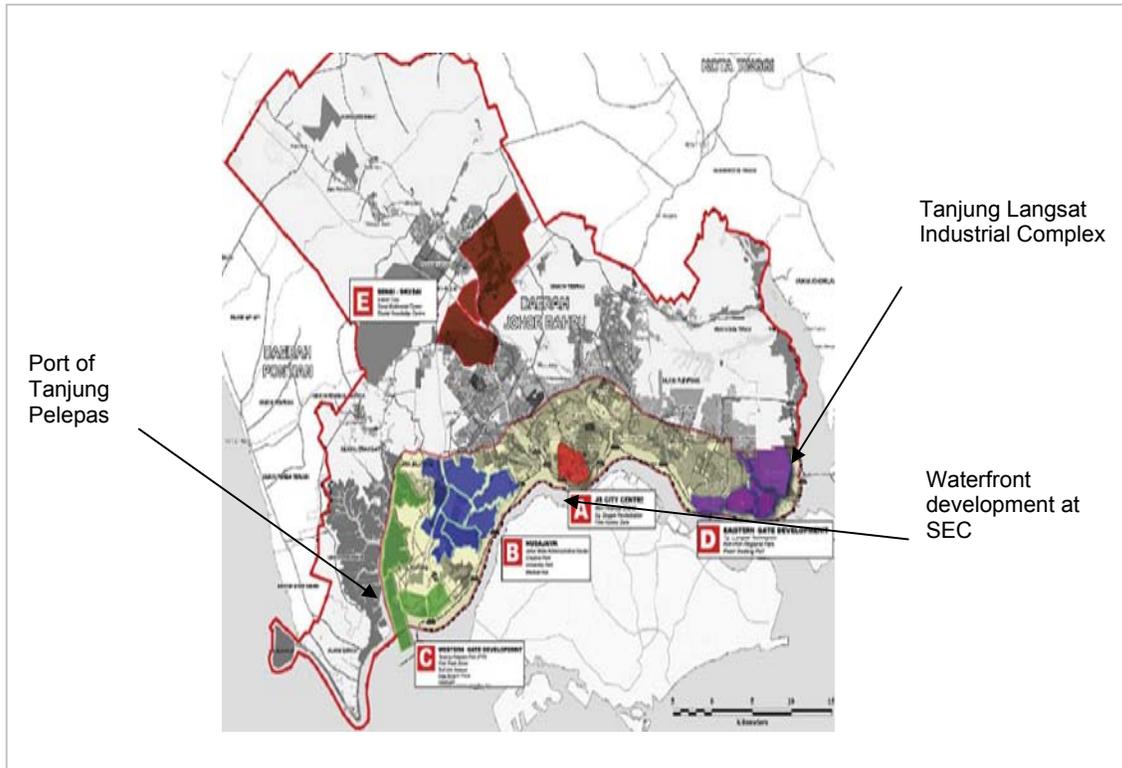
Source: Benalec, AmResearch

TABLE 9: CURRENT AND FUTURE MARINE CONSTRUCTION PROJECTS IN MALACCA (2010 – 2020)

Project	Developer	Details	End Use of Marine Construction	Project Value/Estimate (RM)
Land reclamation	n/a	Proposal for reclamation between Sungai Linggi and Kuala Sungai Merimau	Land reclamation for waterfront development	6.3 billion (reclamation cost)
Melaka river monorail	Jabatan Keretapi Malaysia	Commenced in 2008 and expected to launch to public end 2010	Monorail for tourism	15.9 million
Klebang land reclamation	State Government of Melaka	Commenced	Land reclamation for mixed development	n/a

Source: Benalec, AmResearch

CHART 8: ISKANDAR MALAYSIA, JOHOR – ONGOING AND FUTURE RECLAMATION WORKS



Source: Benalec, AmResearch

TABLE 10: CURRENT AND FUTURE MARINE CONSTRUCTION PROJECTS IN ISKANDAR MALAYSIA, JOHOR (2010 – 2020)

Project	Developer	Details	End Use of Marine Construction	Project Value/Estimate (RM)
Danga Bay reclamation	Danga Bay Sdn. Bhd.	1.5km of coastline to be reclaimed.	Waterfront development	20 billion
Lido Boulevard reclamation	Central Malaysia Properties Sdn. Bhd.	2.4km of coast, 94 acres area to be reclaimed. Commenced in Mar 2020 and expected to complete by 2011.	Land reclamation for waterfront development	240 million (land reclamation cost)
Nusajaya development	Bandar Nusajaya Development Sdn. Bhd.	Proposed mixed development includes golf course, resorts and marina.	Dredging & reclamation waterfront development	160 million (land reclamation cost)
Port of Tanjung Pelepas (PTP)	Pelabuhan Tanjung Pelepas Sdn. Bhd.	Proposed in the 10th Malaysia Plan to conduct capital dredging.	Capital dredging & reclamation for upgrading port	2 billion
Pasir Gudang Port	Johor Port Berhad	n/a	Capital dredging & reclamation for upgrading port	n/a
Tanjung Langsat Bulk Terminal	Tanjung Langsat Port Sdn. Bhd.	n/a	Dredging & reclamation for upgrading port	n/a

Source: Benalec, AmResearch

□ *Other window of opportunities*

(1) Ports

Under the 10MP, the government has placed added importance on the maritime industry as a catalyst to international trading activities.

Malaysia's strategic location as a gateway between Europe and Asia makes the Straits of Malacca one of the world's busiest waterways. In 2008, Port Klang was ranked the 15th in the world among ports with container traffic, with PTP coming in at 19th.

The Suez Canal recently completed an upgrade to allow larger cargo ships to pass through – resulting in a 20% jump in the route's freight weight in 1H 2010. This structural change is expected to prod the increasing proliferation of larger vessels to support the expanded canal – and by extension – the need for ports all around the world to increase their capacity.

In a similar vein, we reckon that Malaysian ports would have to upgrade and deepen their harbours in order to service the growing fleet of super-sized container ships that will likely ply through the Straits of Malacca in the Europe-Asia route.

In our view, some of the Malaysian ports that could potentially embark on an expansion programme include:

(A) PTP and Johor Port. Both PTP and Johor Port are controlled by Tan Sri Syed Mokhtar AlBukhary via the MMC group.

In October last year, PTP was reportedly looking at raising between RM1bil and RM2bil to fund its expansion plans that may see a quadrupling of throughput numbers at the port over the next 20 years.

This would include further reclamation and berth construction – in addition to an expansion of the free zone within PTP by up to 3.6 million sq m in anticipation of a pick-up in development potential within Iskandar Malaysia.

So far, PTP owns 12 berths and has already commenced dredging works for berths 13 and 14 as part of its moves to increase container capacity.

PTP recently secured another coup when it added CMA CGM SA (Compagnie Maritime D'Affretement-Compagnie Generale Maritime) to its stable. The Marseilles-based shipping giant would complement the other two incumbents at PTP – i.e. Maersk Line and Evergreen Marine Corp of Taiwan.

Added to the fact that with PTP's utilisation rate hovering close to the 80% mark, we reckon it is only a matter of time before the Johor-based port starts embarking on an expansion drive again.

Albeit on a smaller-scale, we also think there could be some capex to be spent on Johor Port (e.g. conversion of bulk berths to container berths) – given

the port's recent congestion problems. Designed to build and handle between 750,000 Twenty-Foot Equivalent Units (TEUs) and 800,000 TEUs, Johor Port has already reached saturation point.

(B) Penang port. The tussle to take control of Penang Port Sdn Bhd (PPSB) hogged the limelight recently – where Tan Sri Syed Mokhtar has apparently prevailed. An online news portal reported last week that the Cabinet had decided on Syed Mokhtar as the preferred candidate to take over the port and ferry service operator. The decision came about after a meeting which also included top businessmen and the Penang government.

Prior to that, a little-known consortium Oriental Pearl Harbour Sdn Bhd was believed to be the other serious contender. *The Edge Weekly* had reported that the consortium is led by Ancom Bhd major shareholder Datuk Siew Ka Wai in a partnership with China Shipping Group Co Ltd (COSCO).

The total bid was believed to be in the region of RM2.5bil to RM3bil – inclusive of RM500mil for PPSB, and the absorption of future capex as well as upgrading works for Penang port.

We believe a closure to the PPSB shareholding saga could eventually pave the way for a concrete plan that can revitalise Penang port's fortunes. Bugged down by financial constraints, the northern-based port has admittedly lagged behind PTP and Port Klang over the last few years.

While we gather that PPSB has already started some initial dredging works on the North Channel (estimated at RM300mil), further capital works could be needed to expand the NBCT. This project will involve the reclamation of 400 hectares of seabed (~988 acres). Bundled together with works on the SBCT, the entire expansion programme for Penang Port could reach RM1.1bil.

(C) Kuantan port. Along with Kemaman Port, Kuantan Port is the bedrock of seaborne trade within the East Coast of Peninsular Malaysia.

Kuantan Port is 100%-owned by IJM Corp Bhd. The port recorded a 24% YoY jump in pre-tax profit to RM41mil on the back of a 21% increase in cargo throughput (11 million freight weight tonnes against 9.1 million a year ago). The improvements largely came from liquid chemical exports, mineral oil & petroleum imports, iron ore exports and containers.

Kuantan Port's prospects have certainly perked up of late. Longer-term, we believe both the port – located within the gateways of the East Coast Economic Corridor (ECER) – would benefit from future developments within this growth corridor.

For instance, select Malaysian millers have already proposed to move upstream by developing their own mining facilities. Perwaja, for one, is planning a RM400mil iron ore concentration and pelletisation

plant in Terengganu – the first of its kind within ASEAN.

The DRB Hicom group has also recently inked an RM300mil deal with Volkswagen to assemble the Jetta and Passat marques in Pekan. The new models are expected to debut on Malaysian roads by the end of 2011.

These latest developments come on the heels of a larger agenda to reposition Kuantan Port as a major transhipment port in the East Coast under the 10MP.

The idea is to attract mainline or mother vessels to break-bulk at the port - transferring the cargo to feeder vessels before proceeding to other parts of Asia (e.g. China).

Most importantly, we gather that a lumpy budget worth a ‘couple billion ringgit’ is required for capital dredging improvements to deepen the port’s current depth from ~12 metres to 14 metres-15 metres.

(2) East Malaysia

The SCORE region in Sarawak is a major initiative being mapped out to develop the central region towards transforming it into a developed state by 2020 – with total planned investments of RM334bil.

The SCORE coastal growth nodes are located along 320km stretching from Tg. Manis, Mukah and Samalaju. It includes the parts of Rajang River

waterfront near the river delta.

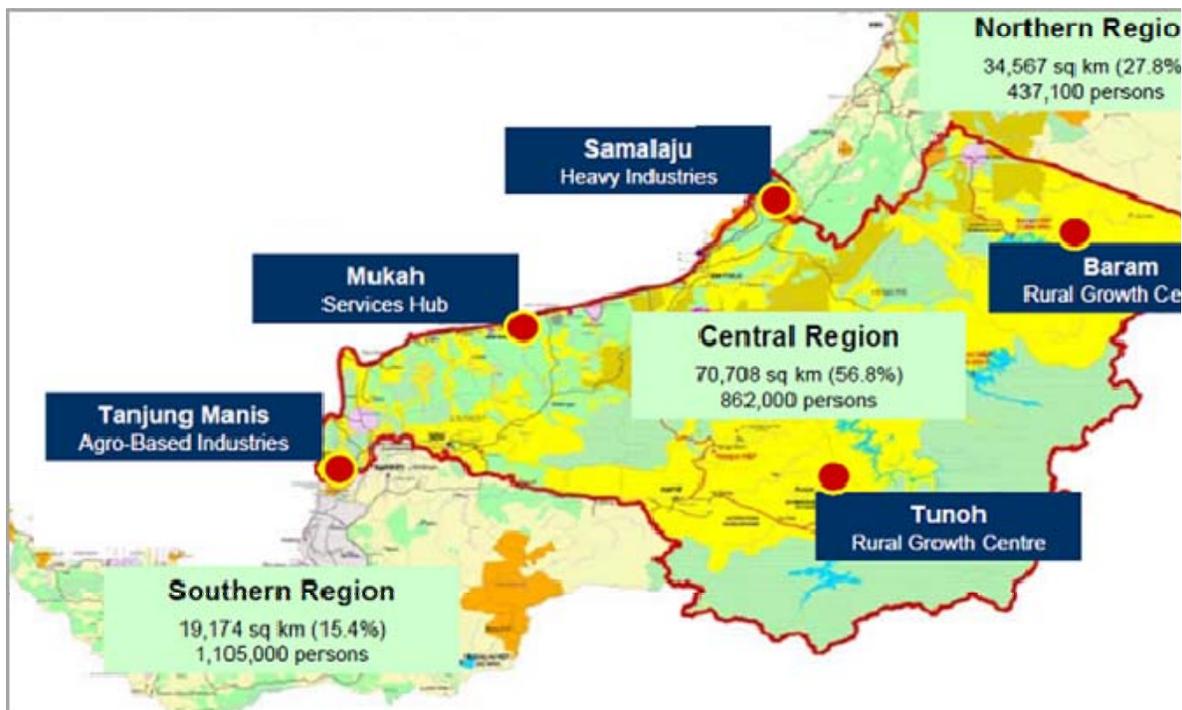
Tg. Manis – located at the Rajang River delta – will see 77,000 hectares (190,275 acres) of area to be developed within the next 20 years. The port city is designated as the ‘preferred halal hub cluster project’ in the region by the Halal Development Corporation. Other economic sectors targeted include a palm oil industry cluster, deep-sea fishing, timber-based industry and shipbuilding.

The waterfront development plan includes the construction of dry bulk and cargo terminals, palm oil processing plants and refineries, recreational facilities (e.g. golf courses), residential development, resorts and government facilities.

The Samalaju node – located at the coast of the Sarawak central region – will see the development of over 8,000 hectares (19,769 acres) of land for industrial development. The area is also designated as the centre for energy-intensive industries – with construction to be conducted in three phases ahead of its target completion in 2013.

The Mukah node is designated as a hub for ICT, education and R&D. It also serves as a base for industrial areas – i.e. steel, aluminium and the food processing industries.

CHART 9: SARAWAK CORRIDOR FOR RENEWABLE ENERGY (SCORE)



Source: Benalec, AmResearch

TABLE 11: CURRENT AND FUTURE MARINE CONSTRUCTION PROJECTS IN SCORE (2010 – 2030)

Project	Developer	Details	End Use of Marine Construction	Project Value/Estimate (RM)
Tanjung Manis new deep-sea port	Sarawak Timber Industry Development Corp (STIDC)	Not yet commence. Target to complete by 2013.	Dredging & reclamation to build new port	300 million
Upgrade of Tanjung Manis airport	Tanjung Manis Development Sdn. Bhd.	Not yet commence. Target to complete by 2013.	Dredging & reclamation to expand airport	500 million
Upgrade of Samalaju port	Naim Holdings Berhad, Cahya Mata Sarawak Berhad & Bintulu Development Authority	n/a	Dredging to upgrade port & deepen waterway	n/a
Samalaju Industrial Park	Naim Holdings Berhad, Cahya Mata Sarawak Berhad & Bintulu Development Authority	n/a	Reclamation or waterfront development	1.5 billion
Mukah Smart City	Regional Corridor Development Authority, Sarawak	n/a	Reclamation or waterfront development	n/a
New Mukah Airport	Malaysia Airports Holdings Berhad	Commenced	Dredging & reclamation to expand airport	600 million

Source: Benalec, AmResearch

The growth nodes would be connected by world-class facilities to augment its economic viability. While the Tg.Manis deep-sea fishing port (RM300mil) has been completed, other infrastructure works that have yet to kick off include the (i) Upgrading of Tg.Manis airport (~RM500mil); (ii) Construction of a new Mukah Airport (RM600mil); and (iii) Upgrading of Samalaju Port.

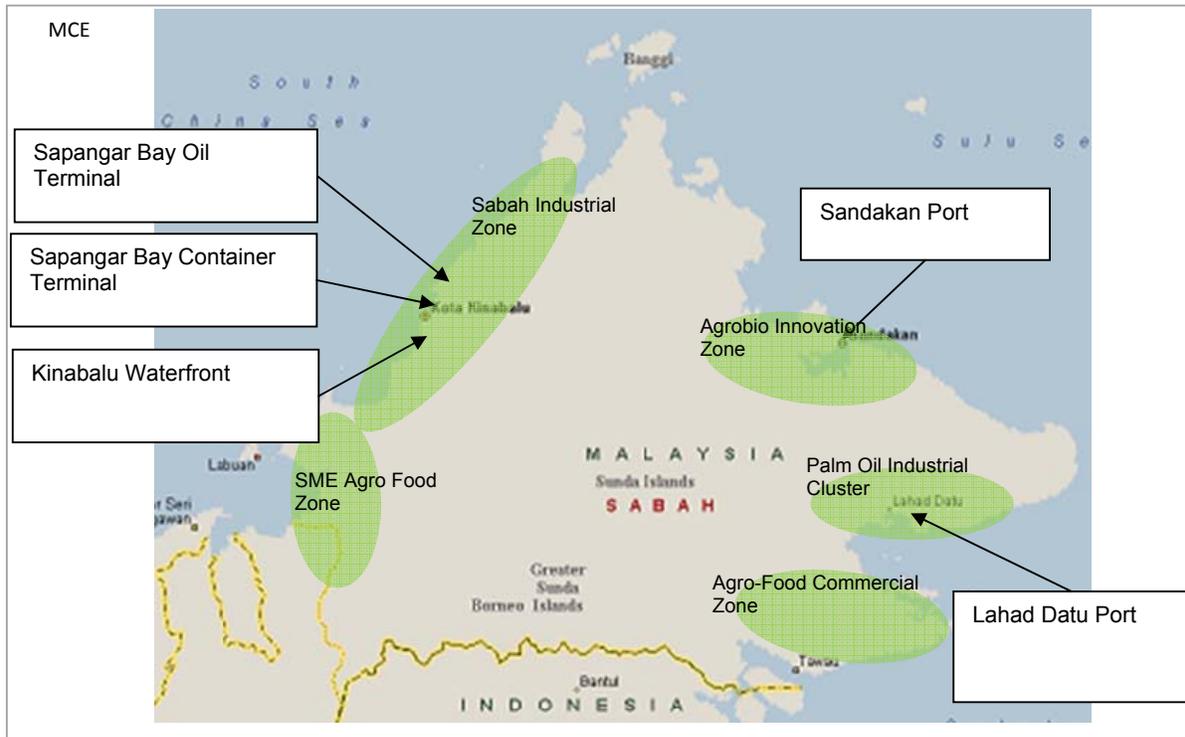
We expect a re-acceleration in basic infrastructure projects within the SCORE region ahead of the state's election – due by July 2011. In this regard, we expect demand for land reclamation services to be visibly high, given the hilly and swampy terrains that typify a bulk of Sarawak's topography (especially within the central and coastal regions).

By the same token, the potential for marine construction activities is apparent under the SDC blueprint. This falls under the Sabah industrial zone within the Western sub-region. It entails the proposed waterfront development and expansion of Kinabalu harbour – which is estimated to cost RM2bil over the next 15 years.

The state port authority also harbours ambitions to turn the ports in Sabah into key destinations for transshipment of bulk cargo as a leading gateway to the fast-growing Indo-China regions. These would include:

- Expansion of Sapangar, Sandakan and Lahad Datu ports storage;
- Expansion of Sapangar Oil Terminal; and
- Construction of a new Sapangar Bay Container Terminal.

CHART 10: SABAH DEVELOPMENT CORRIDOR (SDC)



Source: Benalec, AmResearch

TABLE 12: CURRENT AND FUTURE MARINE CONSTRUCTION PROJECTS IN SDC (2010 – 2025)

Project	Developer	Details	End Use of Marine Construction	Project Value/Estimate (RM)
Kinabalu Waterfront	Sabah Ports Sdn. Bhd.	n/a	Waterfront development	2 billion
Sapangar Bay Oil Terminal expansion	Sabah Ports Sdn. Bhd.	Port upgrade and expansion	Bulk Cargo terminal	n/a
New Sapangar Bay Container Terminal	Sabah Ports Sdn. Bhd.	New port	Container port	n/a
Expansion of Lahad Datu port	Sabah Ports Sdn. Bhd.	To expand storage	Container port	n/a
Expansion of Sandakan port	Sabah Ports Sdn. Bhd.	To expand storage	Container port	n/a

Source: Benalec, AmResearch

While East Malaysia represents an untested ground for Benalec, we do not discount the possibility of seeing the group forging partnerships with local East Malaysian companies - as part of its drive to deepen market penetration.

(3) Port Klang and its surroundings

With Klang selected as the Selangor Hahal Hub centre, the Selangor government had allocated 400 hectares (~988 acres) of land in Pulau Indah as the Industrial and Commercial Free Zone widely known as the Port Klang Free Zone (PKFZ).

Key developments within the Port Klang conurbation would include the North Port container terminal expansion project – which was postponed during the global financial crisis between 2008 and 2009. The RM585mil-project has since been revived – and is scheduled to be completed by 2012.

Over at Westport, the port operator has also announced plans to increase terminal capacity and upgrade its facilities. An allocation of RM3bil-RM4bil has been dished out for capital dredging for the upgrading of its waterways, massive land reclamation and construction of a new 2km berth.

While we understand that the initial dredging contract for the Westport expansion was dished out last month, we reckon that Benalec could still be in the running for the remaining works packages.

Apart from activities within the port, an RM800mil waterfront commercial project in Pulau Indah (by D'Tiara Corp) that will likely include the construction of a 3.5km shoreline development is currently being implemented (targeted completion: December 2011).

Apart from the expansion works within Port Klang, we gather Benalec is eyeing four other private

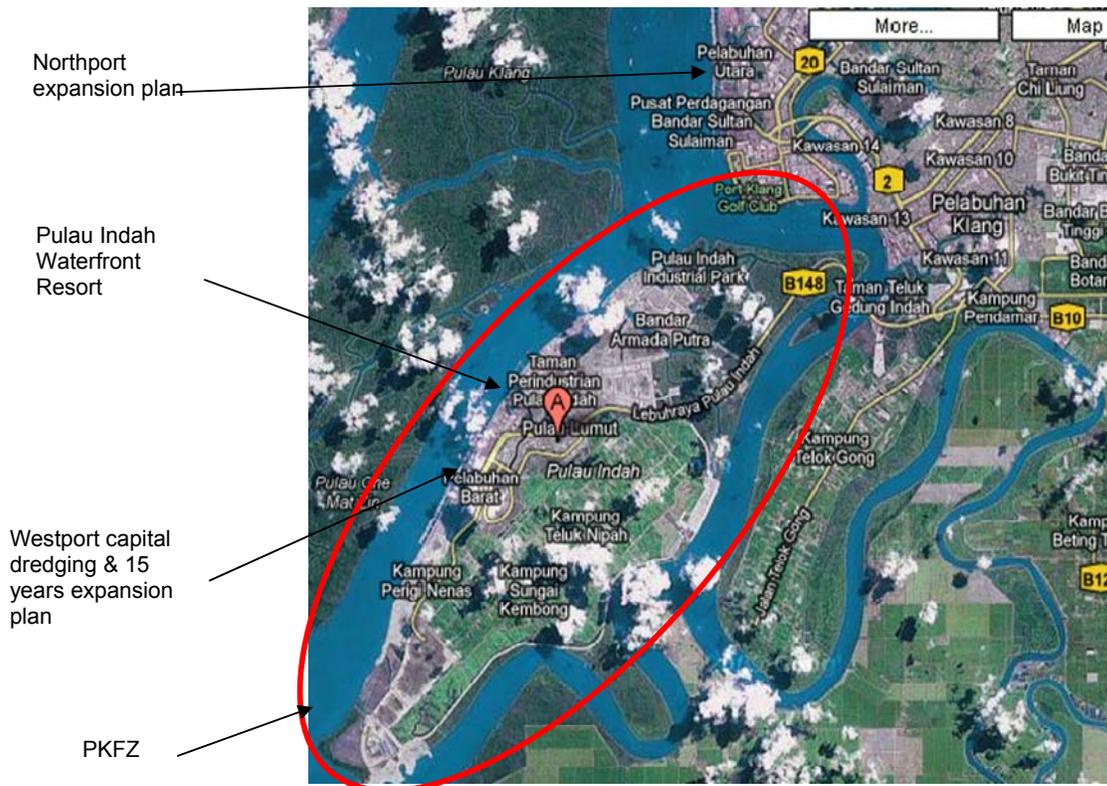
land reclamation projects in Selangor worth between RM250mil-RM300mil in total. These would include the Glenmarie Cove Phase 2 worth RM50mil.

(4) Sepang Gold Coast

Sepang is targeted as the next tourism belt in Malaysia – based on its close proximity to KLIA and the F1 race track. The Sepang Gold Coast project is estimated to cost at least RM3bil – and is envisaged to be the longest coastal tourist destination in Asia.

The area stretches 22km from Bagan Lanang to

CHART 11: CURRENT AND FUTURE RECLAMATION WORKS IN PORT KLANG



Source: Benalec, AmResearch

TABLE 13: CURRENT AND FUTURE MARINE CONSTRUCTION PROJECTS IN PORT KLANG (2010 – 2025)

Project	Developer	Details	End Use of Marine Construction	Project Value/Estimate (RM)
North Port expansion	NCB Holdings Berhad	Expected to complete in 2012	Dredging & reclamation to upgrade waterway and expand terminal	585 million
Westport land reclamation	Westport Malaysia	15 years port expansion project	Dredging & Reclamation to upgrade waterway and expand port facilities	3-4 billion
Pulau Indah Waterfront resort	D'Tiara Corp Sdn. Bhd.	Expected to complete in Dec 2011	3.5km shoreline development	800 million

Source: Benalec, AmResearch

Tg.Sepat – and encompasses over 500 acres of shorefront development that will showcase resorts, theme parks and marinas.

(5) Shoreline protection and flood mitigation

The Integrated Shoreline Management Plan (IMSP) is a long-term management plan by the DID for the implementation of strategies to mitigate coastline erosion within Malaysia's shorelines. This is due to the

rising threat of erosion and siltation problems plaguing its many river mouths.

The DID has identified over 93 shoreline locations (288km) and 26 river mouths that are placed under critical conditions (Category 1). Worst still, the category 2 shoreline erosion located at 57 shoreline locations (193km) and 40 river mouths are expected to enter a critical phase within the next five to 10 years – if no remedial works are undertaken to rehabilitate them.

As for flood mitigation works, a national study of river basins by the DID uncovered 29,799 acres across the country as flood-prone areas (affecting 5 million of Malaysia's population).

Between 2006 and 2009, the DID recorded 24 cases of

flood mitigation projects at Empangan Perlis, Sg. Muda (Kedah), Daerah Petaling (Selangor), Lembangan Sg. Kelantan, Sg. Gombak and Sg. Kerayong (Selangor).

Under the 10MP, RM5bil has been allocated for flood mitigation programmes throughout the country.

Taken together, this implies more upside potential for Benalec's future job flows – given that both the shoreline protection as well as flood mitigation works form part of the group's job repertoire. To be sure, the group had previously undertaken beach nourishment works in Port Dickson and Rebak Island.

EXPANDING ITS REGIONAL FOOTPRINT

❑ *RM170bil worth of marine construction jobs within APAC rim over the next 10 years*

The international landscape for dredging works has evolved over the last few years. The industry is mostly dominated by companies from Belgium and the Netherlands.

Other major international players come from Korea, Japan, Germany and Spain. However, most of these companies

TABLE 14: CURRENT AND FUTURE MARINE CONSTRUCTION PROJECTS IN SEPANG GOLD COAST

Project	Developer	Details	End Use of Marine Construction	Project Value/Estimate (RM)
Golden Palm Tree Villa (Phase 1)	Sepang Goldcoast Sdn. Bhd. & PNB	Completed	Resort	315 million
Escapade (Phase 2)	Sepang Goldcoast Sdn. Bhd. & PNB	Completed	Recreation	n/a
Sea Tropics Resort (Phase 3)	Sepang Goldcoast Sdn. Bhd. & PNB	Expected to complete in 2012	Resort	300 million

Source: Benalec, AmResearch

severe flooding episodes at 21 flood prone areas. During this period, the DID had spent approximately RM2bil for

rarely operate beyond their own borders.

Within the Asia Pacific (APAC) region, local outfits generally dominate the requirements for marine construction activities. The exception is for large scale or high-value projects – which are normally dominated by international players or joint partnerships between international and local incumbents.

Land reclamation activities are most prevalent in Singapore, Hong Kong, Macau and Japan. For these high-income nations, reclaiming land is necessary to drive the expansion of urban development, port facilities as well as to expand its infrastructure network (e.g. airports, bridges, coastal roads and power plants).

However, the bulk of projects for the remaining countries within this region involve dredging of rivers for flood mitigation as well as the maintenance of ports and navigational waterways such as in China, Bangladesh, Pakistan, Vietnam, Indonesia, Guam and South Korea.

With the exception of South Korea, the countries mentioned above are normally categorised as developing nations – where its communities are highly concentrated around deltas or river areas due to water sources and fertile land. Flood mitigation is a priority for these countries.

Most importantly, the total value of marine construction projects within the APAC rim is valued at a whopping RM170bil over the next 10 years.

TABLE 15: CURRENT AND FUTURE MARINE CONSTRUCTION PROJECTS WITHIN THE ASIA PACIFIC RIM (2010 – 2015)

Project	Country	Details	Notes	Project Value/Estimate	
				LC	(RM)
Reclamation of Jurong Island Phase 4	Singapore	Land reclamation for the purpose of mixed development and building of the Jurong Industrial Park	Commenced	SGD 3.5 billion	8 billion
Dredging and Massive Land Reclamation at Pasir Panjang	Singapore	Reclamation for building power plant	Continues until October 2010	SGD 1.92 billion	4.4 billion
Coastal protection & restoration works at Pulau Tekong	Singapore	Land reclamation to expand army base	Restoration in 1.65km of coast. Expected to complete in Dec 2010	n/a	n/a
Tuas reclamation project	Singapore	Reclamation to upgrade Port & Petrochemical Terminal	Expected to complete in Nov 2010	SGD 1.1 billion	2.5 billion
Dredging at East Keppel Fairway	Singapore	Dredging to upgrade port	Expected to complete in Jan 2011	n/a	n/a
Widening and deepening the Bukit Timah Canal - Upstream (Phase 1)	Singapore	Dredging for flood mitigation	Awarded and expected to complete in 2011	SGD 20 million	46 million
Widening and deepening the Bukit Timah Canal - Maple Ave to Sungei Ulu Pandan (Phase 2)	Singapore	Dredging for flood mitigation	Tender expected to be called in 2011	n/a	n/a
Marina Coastal Expressway	Singapore	Dredging f& reclamation for building highway	Ongoing and expected to complete in 2013	SGD 4 billion	9.2 billion
Reclamation for Hong Kong-Zhuhai-Macao Bridge (HZMB)	Hong Kong	Dredging & reclamation for building bridge	Reclaim 130 hectares of seabed and construction of 4.1km of seawall. Expected to complete in 2016.	n/a	n/a
Reclamation of the seabed in front of the Star Ferry Pier from Central reclamation phase 1 to Lung King Street including construction of seawalls	Hong Kong	Reclamation for waterfront mixed development	18 hectares to be reclaimed	HKD 5.8 billion	2.3 billion
Reclamation works for HK-Zhuhai-Macao Boundary Crossing Facilities including necessary reclamation works for the west landing point and toll plaza of HZMB Bridge	HK/Macau	Dredging & reclamation for building bridge	Hong Kong-Zhuhai-Macao Bridge. To be completed by 2016	RMB 73 billion (total project value)	33.7 billion
Land reclamation for new urban zone	Macau	Land reclamation for mixed development	Land reclamation of 361.65 hectares (3.6 sq km). To commence in 2011	n/a	n/a
Kansai International Airport - 2nd Phase	Japan	Reclamation to expand airport	542 hectares to be reclaimed to expand runway and additional terminal. Expected to complete 2011.	USD 13 billion	40 billion
Cebu Port Dredging	Philippines	Dredging for port upgrade	Under review	600 million Pesos	41.7 million
Navotas City Reclamation Project	Philippines	Reclamation for waterfront development	Launched in 2009. 145 hectares to be reclaimed	50 billion Pesos	3.45 billion
Port modernizing programme Phase 1A	Guam	Dredging & reclamation for port upgrade	Finalising preliminary design work	USD 104.5 million	324 million

Source: Benalec, AmResearch

**TABLE 15: CURRENT AND FUTURE MARINE CONSTRUCTION PROJECTS WITHIN THE ASIA PACIFIC RIM (2010 – 2015)
(CONT'D)**

Sao Bien International Port	Vietnam	Dredging & construction of new port	Awarded	USD 160.29 million	497 million
Proposal for Angat Dam dredging	Vietnam	Dredging for flood mitigation	Proposal stage	n/a	n/a
Sea port development	Vietnam	Dredging & construction of new port	Master plan approved	USD 24 million	74.4 million
Saigon Internation Terminals Vietnam (Sitv) Project Package 1 - Quay Deck, Dredging and Reclamation	Vietnam	Dredging & reclamation for upgrading port and container terminal	Awarded to CHEC in 2007	USD 163.3 million	506 million
Proposal for land reclamation outside Victoria Harbour	Hong Kong	Reclamation for mixed development	Proposal stage	n/a	n/a
Dredging of Pulau Baai Port	Indonesia	Maintenance dredging of navigational waterway	Not yet awarded	125 billion Rupiah	43.8 million
Jakarta Urgent Flood Mitigation Project and Ancol Reclamation	Indonesia	Dredging for flood mitigation and construction works	World Bank loan. Project delayed	USD 150 million	465 million
Capital Dredging at 7 rivers	Bangladesh	Dredging for flood mitigation	USD 100 million funding by Qatar	10.0 billion Taka	435 million
4 rivers dredging (Nakdong, Yeongsan, Geum & Han)	South Korea	Maintenance dredging for flood mitigation	Ongoing and expected to complete by 2014	22 trillion Korean Won	58.3 billion
Large-scale reclamation project aims to simultaneously landfill two estuaries, those of the Mankyung and Tongjin Rivers, by the construction of a 33km long sea dyke	South Korea	Reclamation for mixed development	Area to be reclaimed 40,100 hectares	USD 3 billion	9.3 billion

Source: Benalec, AmResearch

□ *Singapore contract testament to Benalec's deepening regional footprint*

The Singapore government has undertaken large-scale land reclamation within the island since the 1960's. From the merging of several small islands together via massive land reclamation from the sea, Singapore's total landmass has since expanded 22% from its original size of 581 sq km.

Indeed, land reclamation has modified the coastline of Singapore – extending it seawards. This is especially the case for the eastern, north eastern and western parts of the island-state.

In addition, large coastal areas have also been straightened by the building of dykes across estuaries, particularly in the west coast across the estuaries of Tengeh, Poyam, Murai and Sarimbun. As a result, many offshore islands have become larger.

Due to its limited land size and growing industrialisation/housing needs amid an expanding population base, these activities have continued in Singapore over the years. Key ongoing projects include:

- Expansion of the petrochemical terminals at Jurong Island and Tuas Island;
- Expansion of the Pulau Tekong Naval Base;
- Pasir Panjang Waterfront Development; and
- Marina Coastal Expressway

Collectively, we understand that these projects alone are estimated at RM24bil.

Further out, a considerable portion of land reclamation in Singapore would be confined to the Jurong/Tuas area as well as Pulau Tekong. To facilitate this ambitious programme, we understand that the total sand supply requirement at Tuas View and Changi is estimated at 800 million cu m.

Within Jurong Island alone, the Singapore government aims to reclaim a total land area of 2,790 hectares (6,919 acres) as part of initiatives to develop the island into an integrated, world-class petroleum & petrochemical hub. This is based on a cluster development strategy through the creation of a synergistic linkage – one of which is the concept of shared facilities.

The Jurong island amalgamation project is aimed at combining a group of seven small islands off the south-western coast of Singapore. The seven southern islands are Pulau Merlimau, Pulau Ayer Chawan, Pulau Ayer Merbau, Pulau Seraya, Pulau Sakra, Pulau Pesek and Pulau Pesek Kecil.

The island would then house the petroleum and petrochemical industries by reclaiming the channels between them – and extending into additional sea space.

On the other hand, large-scale land reclamation works are being planned on Pulau Tekong for housing as well as industrial developments.

All these years, the reclamation activities within Singapore have largely been dominated by the 'Big Four' world-class dredgers – two each from the Netherlands and Belgium. They are:

- (i) Van Oord (The Netherlands);
- (ii) Royal Boskalis Westminster N.V (The Netherlands);
- (iii) Dredging International (Belgium); and
- (iv) Jan De Nul Group (Belgium).

In addition, China Harbour Engineering Co Ltd of China is fast emerging as a new competitor to the scene – although its presence is largely localised within Chinese shores for now.

More importantly, we reckon the success of Benalec's sister company Oceanlec in securing a contract to supply and deliver construction materials for the Singapore government two years ago is testament to the group's growing quest to seek market expansion in the island nation – and by extension – the region.

What makes it more exciting is the challenging nature of this contract – which almost resembles a full-fledged reclamation job. The works include the extraction, transportation and delivery of construction materials - right up to deposition on approved sites.

We take comfort that this contract – broken down into three stages – is progressing smoothly. Oceanlec has so far completed the first two stages – and is currently negotiating with the Singapore government for the third stage.

For the time being, Oceanlec has provided an undertaking to provide Benalec with the first right of refusal to take on any projects that fall within the latter's expertise.

To further solidify its presence, Benalec is in the process of applying for a construction licence to secure future projects on its own – and has set up a branch office in Singapore.

Most importantly, we gather that the group is bidding for a sand supply contract in Singapore worth ~ RM352mil with the Singapore government. Tender bids closed on 17 December, with over 50 participants.

A tender interview could be carried out with selected candidates within the next one to two months – and followed by a formal award within the next six months. We believe Benalec has a fair chance of a favourable result – as it has put in a competitive bid.

The group's success in penetrating the Singapore market against the formidable Dutch and Belgian giants is proof of Benalec's deepening executional capabilities.

Further out, we reckon that the Singapore government will likely award subsequent sand supply contracts on a piecemeal basis.

A moot point to consider is the ongoing ban on the importation of sand sources in Singapore from Malaysia and Indonesia – which has remained since 2002. To a certain extent, the ban has somewhat impacted on the competitiveness of the European reclamation companies.

This is due to the fact that the huge cutter suction dredger vessels being deployed by the Europeans may not be so cost effective – if the sand source is more than 50 nautical miles apart from the reclamation site.

To illustrate our point, a brand new Dutch brand TSHD will cost approximately Euro 100mil – or roughly five times the price of a Chinese-made unit.

Until and unless the sand ban is lifted, this helps emerging regional dredging outfits such as Benalec to close the gap on the ‘Big Four’ Dutch and Belgian giants. Unlike its European counterparts, Benalec deploys smaller but cheaper vessels with lower overhead and labour costs.

Should the sand ban be lifted eventually, Benalec may opt to purchase the cheaper Chinese-made cutter suction dredgers in order to maintain its competitiveness.

UNENCUMBERED ACCESS TO PRIME SEAFRONT LAND

One of Benalec’s key attributes is its ability to make attractive value propositions to end-clients for land reclamation proposals. Benalec’s major breakthrough came from its ongoing land reclamation project in Klebang, Malacca.

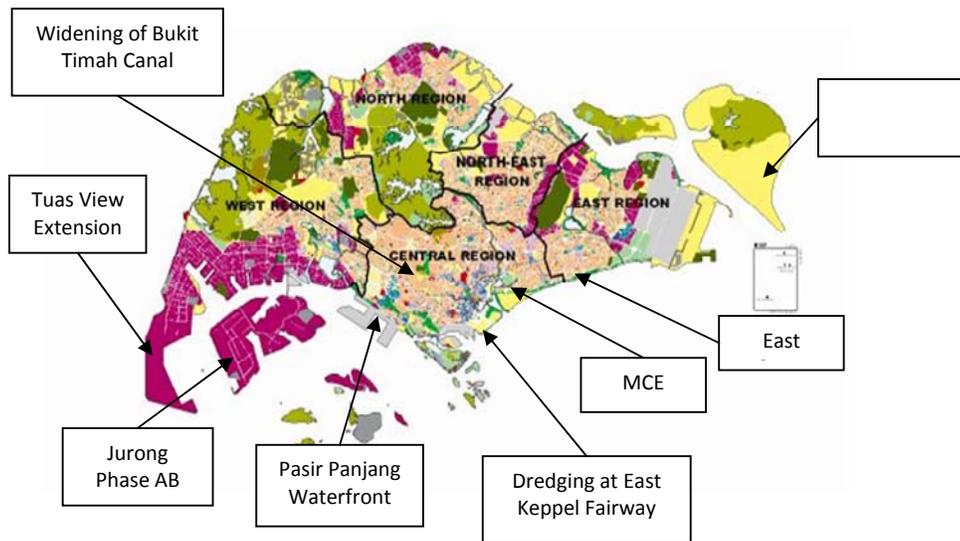
The group’s first contract in Malacca involved the reclamation of up to 180 acres of land for a local Malaysian group back in 2003.

Backed by its earlier breakthrough, the group carried out its first turnkey design & build for additional reclamation works for the Malacca government in 2008. This was quickly followed by a few more land reclamation proposals – where a proportion of the contract value was paid in-kind via land.

Leveraging on its success in Malacca, Benalec intends to replicate its model to other states. More importantly, this provides the group with access to unencumbered prime seafront land, particularly in Penang and Johor.

To be sure, we understand that the group has already made a proposal to undertake a land reclamation project in Penang.

CHART 12: ONGOING AND FUTURE RECLAMATION WORKS IN SINGAPORE



Land reclamation activities in Singapore is ongoing with several projects currently undertaken such as at :

1. Jurong Island and Tuas Island for the expansion of the Petrochemical Terminals
 2. Expansion of the Pulau Tekong Naval Base
 3. Pasir Panjang waterfront development,
 4. Marina Coastal Expressway (MCE)
 5. East Coast Reclamation
 6. Flood mitigation projects include dredging and widening of the Bukit Timah Canal (upstream and downstream).
- These projects are estimated to have a total value of at least RM 24 billion.

To recap, several iconic developments on reclaimed sea-fronting land are currently being proposed in the 'Pearl of the Orient' state. These would include IJM's *The Lights* development, Seri Tg. Pinang (E&O Group) as well as a proposed reclamation project south of the Penang Bridge by Boustead Holdings. Over in Johor, certain pockets of land along Danga Bay are being positioned for waterfront developments.

These proposals would enable Benalec to reap more value from the reclaimed land to be received as consideration for work done. A portion of the land could be sold – with the balance either used for property development partnerships with reputable developers or held for future usage.

HIGHLY SCALABLE BUSINESS MODEL

□ *Monetising the value of reclaimed land*

Armed with a stronger balance sheet post-listing, we reckon that Benalec's highly scalable business model could be repositioned to undertake more value-accretive deals.

The reclaimed land that Benalec will receive as payment through its innovative business proposals could be further monetised by adding more value to the raw land.

This could involve further development of infrastructure and innovative design & build solutions that can convert the raw land as a base for other value-added activities. This could involve ports, airports as well as specialised industrial facilities.

Worth noting is the increasing prominence placed on the development of oil & gas facilities - including storage hubs.

During the unveiling of the ETP Open day on September 22, the government floated the idea of creating an oil storage hub as one of its leading Entry Point Projects (EPP) to transform Malaysia into a high-income nation.

The move is supposed to take advantage of Johor's deep water coasts and close proximity to Singapore – the third largest oil trading hub. This is a natural progression to Malaysia's status as a major oil producing country and strategic location at the centre of the East Asia-Mideast shipping route.

The initiative would see oil storage terminals being built along the Pengerang coastline on the south-western tip of Johor to Tg. Langsat, extending southwest to Tg. Pelepas and Tg. Bin.

The overall target is to supply and store 10 million cu m of oil for the region by 2020 – with the intention of transforming Johor into a large petroleum, petrochemical and liquefied natural gas base.

This was quickly followed by an MoU between Dialog Bhd and the Johor state government in October 2010 – to set up a deepwater petroleum terminal in Pengerang.

Under the deal, Dialog and its JV partners – i.e. the Johor government and Vopak – would fork out RM5bil to develop the terminal over a period of 60 years. Our channel checks

indicate that the Environmental Impact Assessment (EIA) study on the project is close to completion.

The terminal is to be constructed on 500 acres of reclaimed land – with a storage capacity of 5 million cu m. When completed in three to four years' time, it is poised to be the first deepwater terminal within the ASEAN region – with a water depth of up to 26 metres.

Dutch group, Vopak, is the largest provider of conditioned storage facilities for bulk liquids. It is also one of Dialog's partners for the Kertih terminal, alongside Petronas.

On the other hand, the Tg. Langsat terminal is being jointly developed by Dialog (44%), MISC (36%) and Trafigura (20%). It has a combined storage facility of 650,000 cu m.

Apart from Johor, another area that is garnering attention is Tg. Agas in Pekan, Pahang. It was recently reported that the government had provided an additional grant of RM300mil to develop the Tg. Agas Oil & Gas Logistics Industrial Park. This is in addition to an earlier grant of RM150mil dished out under the 10MP.

Tg. Agas Supply Base & Marine Services Sdn Bhd (TASBMS) is the concessionaire and project company entrusted with the development of the industrial park measuring 4,098 acres located within Pekan – the royal town of Pahang.

The development includes the deepening of its waterfront, besides shoreline enhancement works. The RM620mil integrated common user supply base – due to be operational by 2013 – would serve as a one-stop centre to support offshore oil and gas exploration and production activities in the South China Sea. The supply base is jointly owned by TASBMS and Dubai-based Oilfields Centre Ltd.

The facility in Pekan is strategically located in the East Coast of Peninsular Malaysia facing the South China Sea compared to existing yards, which are located in the West Coast and Southern Johor. PM Datuk Seri Najib Tun Razak was recently quoted in press reports as saying that the project will involve an investment of around RM3bil between 2011 and 2012 – creating 30,000 jobs by 2020.

While our oil & gas analyst is uncertain about the viability of this project, it could well complement Eastern Pacific Industrial Corp's Kemaman Supply Base (KSB) operations.

The Tg. Agas industrial park is expected to have shipyards and fabrication yards, including a supply base for repairs and lay-ups. There will also be liquefied natural gas & petroleum terminals, a dredger yard, liquid bulk terminal as well as dockyards [Note: KSB does not have any fabrication, marine maintenance services or an industrial park currently].

Our ground checks indicate that there are up to 15 potential investors at the park. They include Oilfields, Tec-Steel Manufacturing Sdn Bhd, Usatech Marine (M) Sdn Bhd, Bitari Abadi Sdn Bhd, Core Competence Sdn Bhd, Competent Selection Sdn Bhd, Daewoo Shipbuilding and Marine Engineering Co Ltd and Damini Corp Sdn Bhd.

TASBMS is 30%-owned by the Pahang State Development Corp.

We understand that reclamation works at Tg. Agas will be required for the swampy land along with dredging works to deepen the water depth of the park from 5-7 metres currently to at least 20 metres.

We do not discount the possibility of Benalec participating in some of these specialised industrial facilities in the future. This is due to the group's ability to offer a whole range of marine construction works required to support these planned developments.

VALUATION AND RECOMMENDATION

□ Fair value at RM1.90/share

We have valued Benalec based on the Sum-Of-Parts methodology:

- We have pegged a PE of 12x on its three-year average marine construction profits;
- For its vessel chartering & marine transportation business, we have applied a target PE of 10x on the division's average three-year profits.
- The land portion held by Benalec for reclamation works done in Malacca (296 acres) is valued at RM20/psf. This pegs it at a 20% discount to current market value of comparable land in Malacca after accounting for potential discounts for block deals.

□ Explosive earnings CAGR of 41%

We project FY11F core earnings at RM93mil (+83%), accelerating by a further 19%-38% to RM119mil-RM141mil in FY12F-13F – translating into solid earnings CAGR of 41% from an earnings base of just RM51mil in FY10.

The expected commencement of reclamation works for Sentosacove Sdn Bhd in Malacca in 1H 2011 should provide a kick to the group's earnings trajectory for FY12F-13F. This is based on average marine construction margins of 35%-37% and new contract wins of RM650mil

–RM800mil.

Benalec's prolific contract pipeline should help underpin share price performance in the coming months. Near-term, it is among frontrunners in at least three jobs up for grabs worth a combined RM680mil – Glenmarie Cove, The Lights reclamation works and more construction material contracts (on a supply & delivery basis) in Singapore.

Valuations are a steal at FY11F-13F PEs of 5x-8x vs robust earnings CAGR of 41%, ROEs of 26%-27% and FY11F net gearing of only 11%.

Further valuation support should come from its planned dividend policy of 30% – translating into attractive yields of 6%-8% for FY12F-13F.

□ Scarcity premium – re-rating on the cards

Our analysis indicates that there are only a handful of pure and integrated marine construction specialists that are listed around the world.

Of the 'Big Four' global marine engineering giants, only Royal Boskalis Westminster is listed on the Dutch bourse. Boskalis has a market cap of 3.5 bil Euros – and is currently trading at forward multiples of 12x-13x. In FY09, the group registered a net profit of 228 mil Euros off a revenue base of 2.1 bil Euros.

With virtually no listed peers within the region and a solid earnings base, we reckon that Benalec should deservedly trade at a scarcity premium. This is further underpinned by its strategic positioning within the marine construction value chain.

Its closest peer is Hock Seng Lee – which currently trades at FY10F-11F PEs of 8x-10x. Even so, Hock Seng Lee's business model has also evolved in recent years – with an increasing shift from marine engineering works towards building/road-related contracts and property development activities.

TABLE 16: DERIVATION OF FAIR VALUE

Division	Value (RM)		% of SOP	Details
	mil	/share		
Marine construction	1,067.3	1.5	77.1	12x 3-year average construction profits
Vessel chartering & transportaton	98.2	0.1	7.1	10x 3-year average construction profits
Land sale from Malacca reclamation project	258.5	0.4	18.7	Valued at RM20/psf (20% discount to market value)
Net debt	(39.2)	(0.1)	(2.8)	FY11F forecast
Sum-Of-Parts value	1,384.9	1.9	100.0	
No. of shares	730.0			
Fair Value	1.90			

Source: Benalec, AmResearch

TABLE 17: COMPARISON AGAINST PEERS

Stock	Share price (LC)*	Market Cap (US\$ mil)	Market Cap/Order Book (x)	PE (x)			EPS CAGR	P/B (x)	ROE (%)	Div.Yield (%)	Fair Value
				FY10F	FY11F	FY12F					
AmResearch Universe											
Gamuda	3.81	1,968.5	1.1	20.7	22.4	18.0	21.9	2.3	22.7	3.1	4.20
IJM	6.46	2,237.2	1.9	23.6	20.6	18.9	21.7	1.6	7.9	1.9	7.52
WCT	3.27	833.2	0.7	31.8	14.2	11.5	11.9	1.7	13.0	2.9	3.95
Naim	3.37	272.8	0.3	9.2	7.5	5.8	20.4	1.1	8.0	3.3	5.09
HSL	1.77	333.9	0.8	12.8	10.2	8.0	29.0	2.5	20.6	1.2	2.20
Simple average		1,129.1	0.9	19.6	15.0	12.5		1.8	14.4	2.5	
Benalec	1.00		1.1	12.4	7.9	6.1	34.0	6.7	27.2	2.5	1.90

Note:

* FY10 are actual numbers for Gamuda, IJM and Benalec

** EPS CAGR calculations are based on FY10-13F for Gamuda, IJM and Benalec

Regional Peers

Dredging Corporation of India Ltd	429.05	266.2		24.3	-	-	-	-	-	0.8
China Communications Construction Co Ltd	6.61	12593.1		10.0	8.6	7.7	13.9	1.2	14.6	2.8

Other Local Peers

Sunway Holdings Bhd	2.26	443.7		9.9	8.8	7.8	12.3	1.5	16.7	1.5
TRC Synergy Bhd	1.35	83.1		13.5	7.7	6.9	39.6	0.8	10.2	3.0
Muhibbah Engineering M Bhd	1.53	197.3		13.9	11.1	10.2	16.8	1.1	10.7	2.4
MTD Capital Bhd	9.43	839.4		17.4	33.7	22.5	16.4	-	15.2	0.5
Ekovest Bhd	1.9	110.0		19.9	-	-	-	-	-	-
Ahmad Zaki Resources Bhd	1.09	97.6		9.9	8.4	7.3	16.8	1.1	13.4	3.4
Ranhill Bhd	0.875	169.2		28.0	14.6	-	-	0.8	1.6	1.1
Kimlun Corp Bhd	1.64	121.6		10.8	9.5	7.8	17.5	2.0	21.8	1.9

Source: Companies, Bloomberg, AmResearch

Hence, a significant PE re-rating could be on the cards for Benalec on continuing contract delivery and select 'event-driven' newsflow.

□ On an expansion mode

The group intends to use RM90mil out of the RM100mil it is raising from the IPO for working capital needs at two of its ongoing reclamation jobs in Malacca (Haruman Utama Sdn Bhd and Strategic Ocsar Sdn Bhd) – as well as a new contract (Sentosacove Sdn Bhd) that is due to commence in 1H 2011.

Post-IPO, we expect Benalec's net gearing position to improve to 11% in FY11 against 59% in FY09.

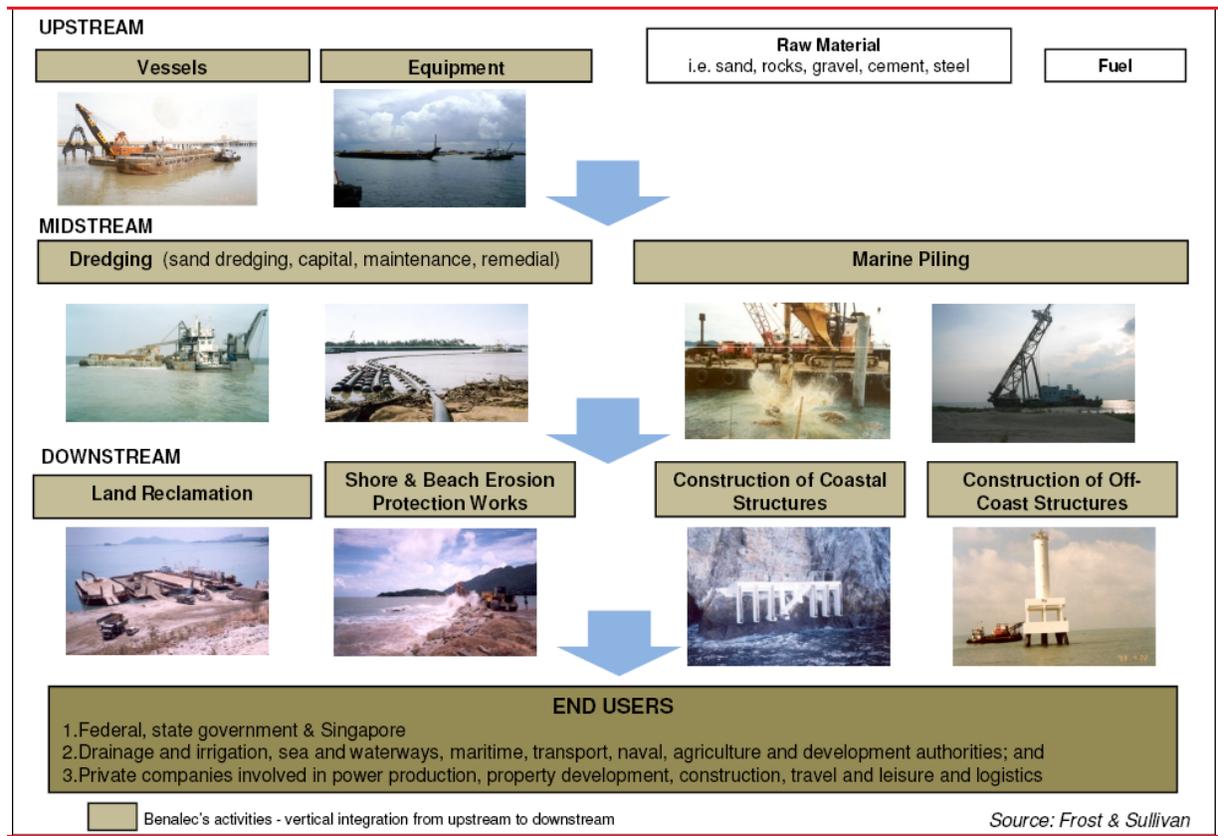
More importantly, its healthier balance sheet also means that the group has ample scope to gear up for orderbook expansion and penetration into future value-accretive deals.

TABLE 18: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2009	2010	2011F	2012F	2013F
Revenue	120.9	116.5	250.6	345.7	406.1
EBITDA	30.3	74.6	131.4	168.8	197.7
Depreciation	(8.7)	(11.1)	(13.5)	(16.2)	(17.9)
Operating income (EBIT)	21.6	63.5	117.9	152.6	179.8
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(3.1)	(2.6)	(5.3)	(4.8)	(4.3)
Exceptional items	5.3	7.7	0.0	0.0	0.0
Pretax profit	23.9	68.6	112.6	147.8	175.5
Taxation	(6.6)	(10.2)	(20.0)	(29.0)	(34.5)
Minorities/pref dividends	0.0	0.0	0.0	0.0	0.0
Net profit	17.3	58.4	92.6	118.8	141.1
Core net profit	11.9	50.6	92.6	118.8	141.1
Balance Sheet (RMmil, YE 30 Jun)	2009	2010	2011F	2012F	2013F
Fixed assets	104.8	222.2	213.8	242.6	239.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.2	0.2	0.2	0.2	0.2
Total non-current assets	105.0	222.4	213.9	242.7	239.9
Cash & equivalent	6.9	16.4	77.8	102.7	118.0
Stock	9.8	8.8	35.9	64.0	75.3
Trade debtors	249.5	164.5	329.5	454.6	545.1
Other current assets	66.4	42.4	76.2	105.8	121.9
Total current assets	332.5	232.1	519.4	727.0	860.3
Trade creditors	259.4	172.5	251.5	373.2	408.1
Short-term borrowings	7.6	36.2	23.4	26.4	24.4
Other current liabilities	1.1	9.0	9.0	9.0	9.0
Total current liabilities	268.1	217.7	283.8	408.6	441.5
Long-term borrowings	42.0	70.8	93.6	105.6	97.6
Other long-term liabilities	57.1	14.9	14.9	14.9	14.9
Total long-term liabilities	99.1	85.7	108.5	120.5	112.5
Shareholders' funds	70.3	151.2	341.1	440.7	546.2
Minority interests	0.0	0.0	0.0	0.0	0.0
BV/share (RM)	4.13	0.24	0.15	0.17	0.15
Cash Flow (RMmil, YE 30 Jun)	2009	2010	2011F	2012F	2013F
Pretax profit	23.9	68.6	112.6	147.8	175.5
Depreciation	8.7	11.1	13.5	16.2	17.9
Net change in working capital	(19.2)	24.8	(147.0)	(60.9)	(83.1)
Others	(3.5)	(100.6)	(14.7)	(24.2)	(30.2)
Cash flow from operations	9.8	4.0	(35.5)	78.9	80.2
Capital expenditure	(5.0)	(20.0)	(5.0)	(45.0)	(15.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	0.4	0.3	1.4	2.7	3.3
Cash flow from investing	(4.6)	(19.7)	(3.6)	(42.3)	(11.7)
Debt raised/(repaid)	27.2	57.3	10.0	15.0	(10.0)
Equity raised/(repaid)	0.0	0.0	25.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	(19.2)	(35.6)
Others	(3.5)	(2.9)	65.5	(7.5)	(7.6)
Cash flow from financing	23.7	54.3	100.5	(11.6)	(53.2)
Net cash flow	0.0	10.6	61.4	24.9	15.3
Net cash/(debt) b/f	0.2	6.2	16.4	77.8	102.7
Exchange rate effects	0.0	(0.4)	0.0	0.0	0.0
Net cash/(debt) c/f	6.9	16.4	77.8	102.7	118.0
Key Ratios (YE 30 Jun)	2009	2010	2011F	2012F	2013F
Revenue growth (%)	63.3	n/m	115.1	37.9	17.5
EBITDA growth (%)	31.0	146.2	76.0	28.5	17.1
Pretax margins (%)	19.7	58.9	44.9	42.8	43.2
Net profit margins (%)	14.3	50.1	37.0	34.4	34.7
Interest cover (x)	7.1	24.4	22.2	32.1	41.8
Effective tax rate (%)	27.7	14.9	17.7	19.6	19.6
Net dividend payout (%)	0.0	0.0	14.8	29.9	31.0
Debtors turnover (days)					
	753	516	480	480	490
Stock turnover (days)	43	66	100	120	120
Creditors turnover (days)	1,139	1,293	700	700	650

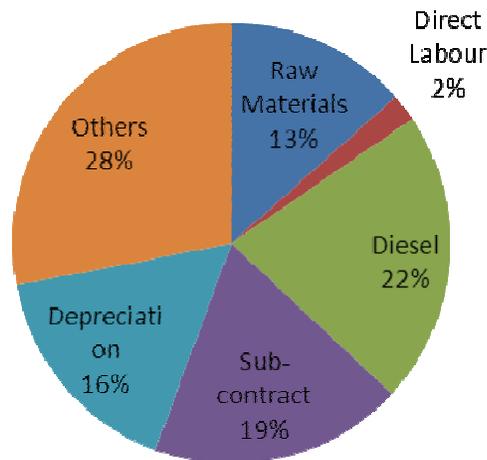
Source: Benalec, AmResearch

TABLE 19: MARINE CONSTRUCTION VALUE CHAIN



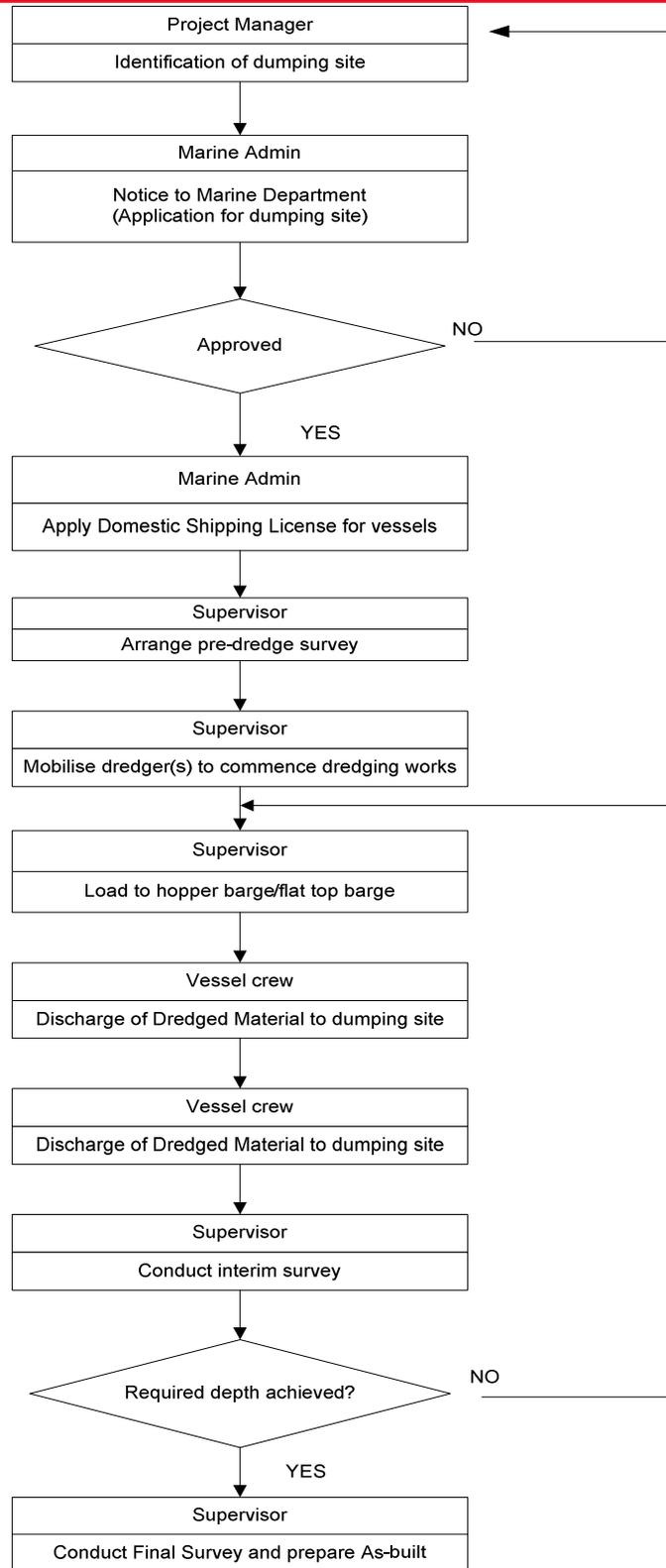
Source: Benalec, AmResearch

CHART 13: BREAKDOWN OF COST STRUCTURE (FY10)



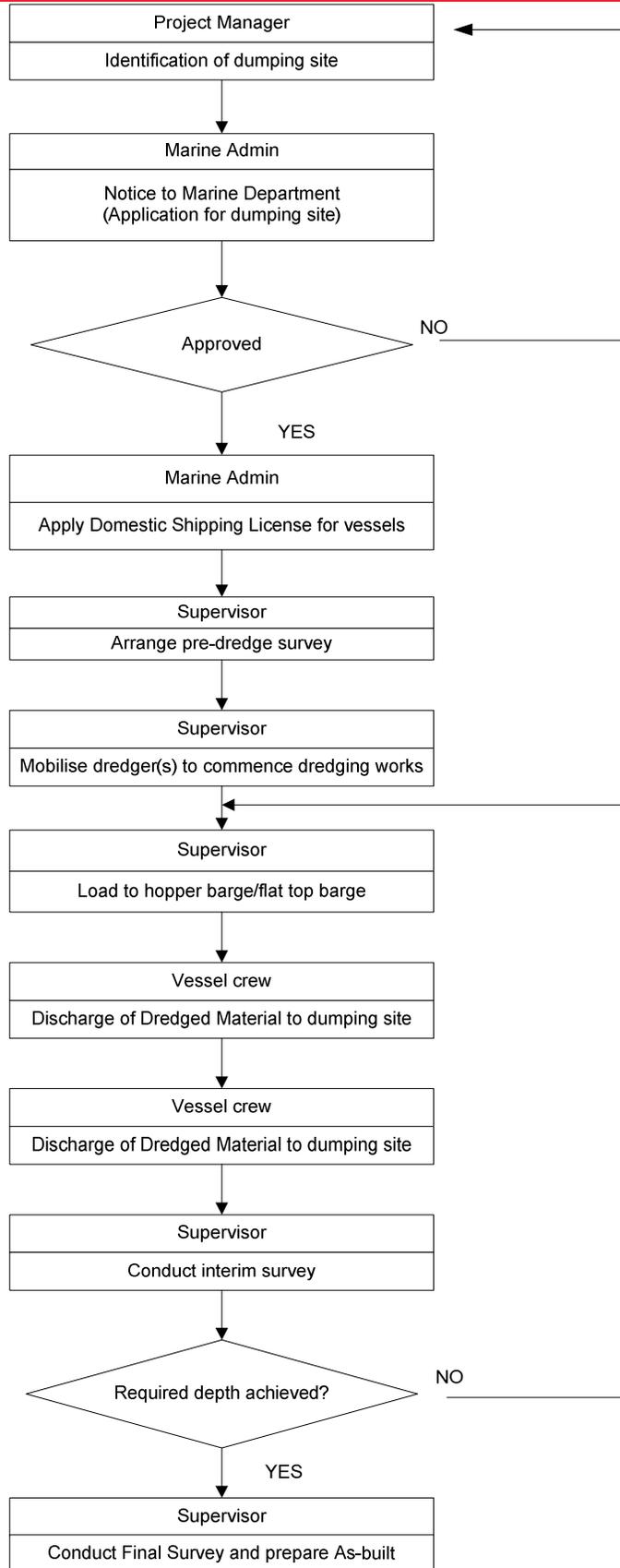
Source: Benalec, AmResearch

TABLE 20: DREDGING PROCESS



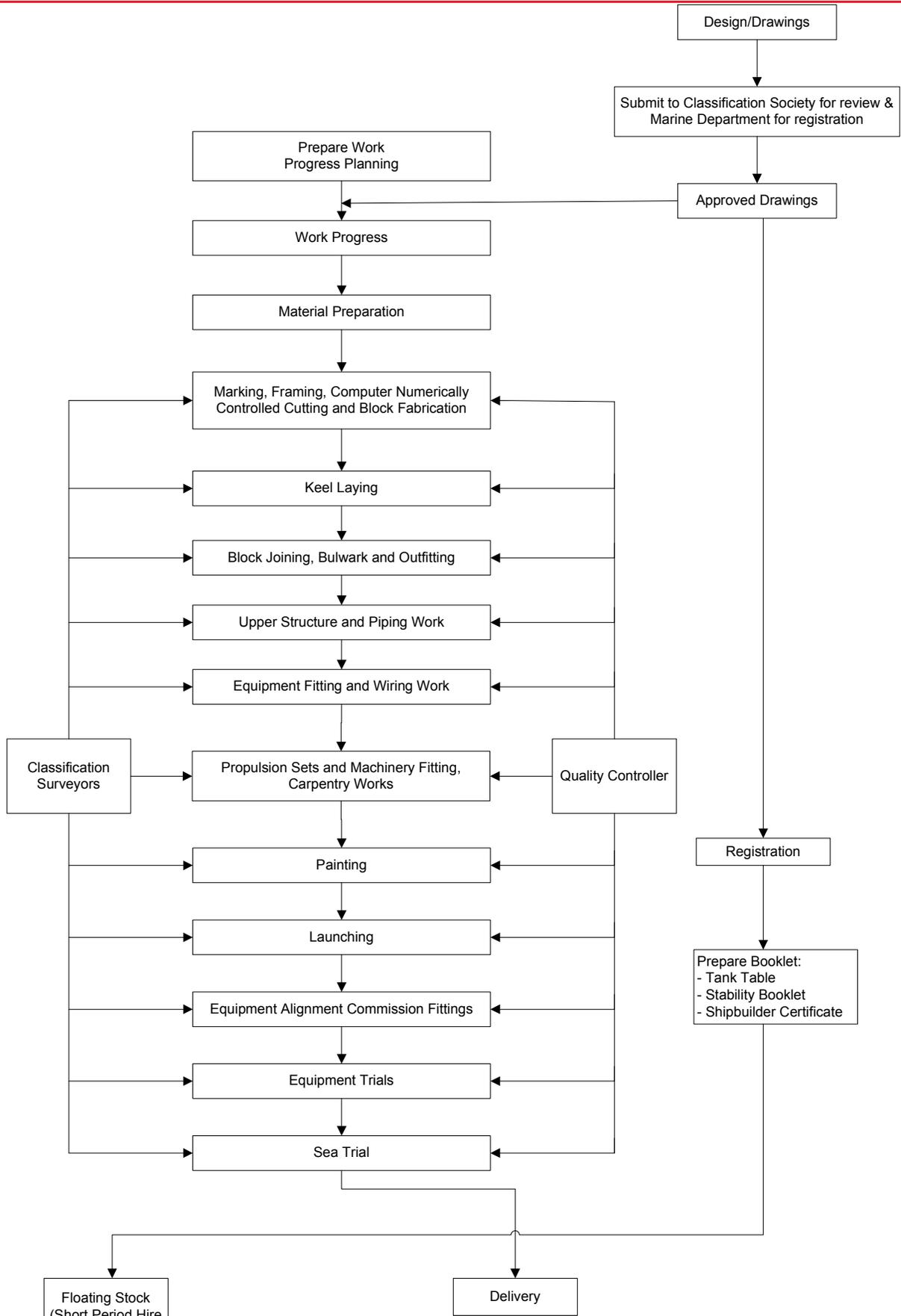
Source: Benalec, AmResearch

TABLE 21: LAND RECLAMATION PROCESS



Source: Benalec, AmResearch

TABLE 22: SHIPBUILDING PROCESS



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