



AmResearch

Company report

BENALEC HOLDINGS

(BHB MK, BENAL.KL)

12 March 2013

Vindicated!

BUY

(Maintained)

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Rationale for report: Company Result

Price	RM1.25
Fair Value	RM2.48
52-week High/Low	RM1.47/RM1.11

Key Changes

Fair value	unchanged
EPS	unchanged

YE to Jun	FY12	FY13F	FY14F	FY15F
Revenue (RMmil)	155.3	409.4	785.6	840.8
Core net profit (RMmil)	82.8	93.4	109.5	129.8
Core EPS (Sen)	10.3	11.6	13.6	16.2
EPS growth (%)	(16.5)	12.9	17.3	18.5
Consensus EPS (Sen)		13.3	15.3	15.5
DPS (Sen)	4.0	5.0	6.0	7.0
Core PE (x)	11.2	10.7	9.2	7.7
EV/EBITDA (x)	7.5	7.2	4.8	4.0
Div yield (%)	3.5	4.0	4.8	5.6
ROE (%)	16.0	15.9	16.5	17.1
Net Gearing (%)	net cash	9.6	11.3	5.0

Stock and Financial Data

Shares Outstanding (million)	803.0
Market Cap (RMmil)	1,003.8
Book value (RM/share)	0.64
P/BV (x)	1.9
ROE (%)	19.2
Net Gearing (%)	n/a
Major Shareholders	Leow family (55.5%) KWAP (5.4%)

Free Float (%)	39.1
Avg Daily Value (RMmil)	n/a

Price performance	3mth	6mth	12mth
Absolute (%)	(7.3)	9.5	(2.3)
Relative (%)	(7.8)	11.1	(6.4)



Investment Highlights

- **Maintain BUY on BenaLEC Holdings with an unchanged sum-of-parts-(SOP) derived fair value of RM2.48/share. BenaLEC's 70%-unit Spektrum Kukuh has signed a binding term sheet with 1MY Strategic Oil Terminal Sdn Bhd (1MY) and The State Secretary Inc (S.S.I.) for the sale and reclamation of 1,000 acres of land in Tg.Piai, Johor.**
- **1MY is a vehicle formed to construct, commission, operate and maintain an oil & petroleum storage facility at Tg.Piai. A formal SPA is to be executed within three months of the term sheet subject to finalisation of all the details.**
- **This landmark announcement vindicates our long-standing conviction of Tg.Piai's high development potential. By extension, it addresses any doubt about BenaLEC's deal-making prowess— with much more to come going forward.**
- **The term sheet follows a report by *The Star* that revealed that the Abu Dhabi government will forge a JV with 1MY to invest RM21bil in a petroleum storage facility in Tg.Piai that can store up to 60mil barrels of crude oil.**
- **Salient details such as the contract price have not been revealed at this juncture. Hence, we are maintaining our earnings forecasts for now pending an update from management, with an upside bias.**
- **But for now, the significance of this deal is abundantly clear. Firstly, the strategic importance of a trailblazer offtaker and associated inflow of potential FDI may see EIA approval being fast-tracked.**
- **Secondly, the spill-over from it is massive – anchored by future investments from Abu Dhabi. This will likely trigger more interest from other offtakers to invest in its land concessions at Tg.Piai, and also Pengerang.**
- **Thirdly, the sheer scale of this project will likely accelerate the maturity of Tg.Piai as a future oil hub, located near Singapore's Jurong vibrant petrochemical hub.**
- **BenaLEC is fast-emerging as a cheaper leverage to the oil & gas sector at FY13F-15F PEs of 8x-11x vs the sector average of ~17x. If this reclamation contract comes through, BenaLEC still has a sizeable remaining landbank of 4,245 acres in South Johor (Tg.Piai: 2,485 acres, Pengerang: 1,760 acres).**
- **Notably, our current valuation only includes the first 2,000 acres of its land at Tg.Piai. As such, a formalisation of this deal would help narrow the deep discount of 49% that BenaLEC is trading at, vis-a-vis its SOP of RM2.48/share. Funding would not be an issue, as the group is in a net cash position of RM42mil as at 31 Dec 2012.**

SIGNS BINDING TERM SHEET FOR 1,000 ACRES OF LAND IN TG.PIAI

□ Precursor to formal SPA within 3 months

Benalec Holdings announced yesterday that its 70%-owned unit Spektrum Kukuh Sdn Bhd had entered into a binding term sheet with 1MY Strategic Oil Terminal Sdn Bhd (1MYS) and The State Secretary Incorporated (S.S.I.) for the sale and reclamation of 1,000 acres of land in Tg.Piai, Johor.

1MYR is a vehicle formed to construct, commission, operate and maintain an oil & petroleum storage facility at Tg.Piai.

We gather that the term sheet is a precursor to a sale & purchase agreement (SPA), which is to be executed within three months.

TRAILBLAZER OFFTAKER IN THE WINGS

□ RM21bil in investments from Abu Dhabi at Tg.Piai

The term sheet follows a report by *The Star* that revealed that the Abu Dhabi government will forge a JV with 1MY to invest RM21bil in a petroleum storage facility in Tg.Piai that can store up to 60mil barrels of crude oil.

This new facility would be for the exclusive use of the UAE government, and will function as its strategic petroleum reserve.

Hence, this landmark announcement vindicates our long-standing conviction of Tg.Piai's high development potential.

By extension, the ability to attract sovereign funds from Abu Dhabi addresses any doubt about Benalec's deal-making prowess – with much more to come going forward.

Salient details such as the contract price have not been revealed at this juncture. Hence, we are maintaining our earnings forecasts for now pending an update from management, with an upside bias.

Further, *TheEdgeDaily* added that the indicative value of Benalec's reclamation contract at Tg.Piai could be worth between RM2.5bil and RM3bil.

□ Realising the deep development potential of Tg.Piai

But for now, the significance of it is abundantly clear. Firstly, the strategic importance of a trailblazer offtaker and associated inflow of potential FDI may see EIA approval being fast-tracked.

Secondly, the spill-over from this deal is massive – anchored by future investments from Abu Dhabi – will likely trigger more interest from other multi-national offtakers to invest in the group's land concessions at Tg.Piai, and also Pengerang.

Thirdly, the sheer scale of this project would help accelerate the maturity of Tg.Piai as a future oil hub, located near Singapore's Jurong vibrant petrochemical hub.

From a valuation standpoint, Benalec is fast-emerging as a cheaper leverage to the oil & gas sector at FY13F-15F PEs of 8x-11x against the sector average of ~17x.

Indeed, the imminent crystallisation of this deal would help narrow the deep discount of 49% that Benalec is trading at, vis-a-vis its SOP value of RM2.48/share.

Notably, our current valuation only incorporates the first 2,000 acres of its land concession in Tg.Piai.

If this reclamation contract comes through, Benalec still has a sizeable remaining landbank of 4,245 acres in South Johor as per its concession agreement (Tg.Piai: 2,485 acres, Pengerang: 1,760 acres).

FUNDING NOT AN ISSUE

Disclosing to Bursa Malaysia, Benalec said it would likely fund the required capex for this project via a combination of internally-generated funds and debt.

Benalec's balance sheet remains strong with a net cash position of RM42mil as at 31 Dec 2012. This is further supported by its decent yields of 4.9%-5.5% on an indicative minimum payout of 30%.

TABLE1: DERIVATION OF FAIR VALUE

Division	Value (RM)		% of SOP	Details
	mil	/share		
Marine construction	979.7	1.22	49.2	12x 3-year average construction profits
Vessel chartering & transportaton	16.4	0.02	0.8	8x 3-year average construction profits
Land sale from Malacca reclamation project	348.5	0.43	17.5	Based on ave. selling price of RM32 psf
NPV of undeveloped Johor landbank @ 7%	701.2	0.87	35.2	Based on Phase 1 & 2 of Tg. Piai (2,000 acres)
Net debt	(56.2)	(0.07)	(2.8)	FY13F
Sum-Of-Parts value	1,989.5	2.48	100.0	
No. of shares	803.0			
Fair Value	2.48			
Capital gain (%)	115.4			
FY13F dividend yield (%)	4.0			
Total return (%)	119.4			
Discount to SOP (%)	49.5			

Source: Benalec, AmResearch

TABLE 2: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2011	2012	2013F	2014F	2015F
Revenue	211.0	155.3	409.4	785.6	840.8
EBITDA	143.9	115.4	146.4	225.3	262.8
Depreciation	(20.9)	(10.8)	(16.9)	(17.7)	(18.8)
Operating income (EBIT)	123.0	104.6	129.5	208	244.0
Other income & associates	0.0	0.0	0.0	0.0	0.0
Net interest	(2.9)	(4.2)	(4.4)	(8.2)	(7.9)
Exceptional items	6.0	0.0	0.0	0.0	0.0
Pretax profit	126.1	100.3	125.1	199.4	236.1
Taxation	(30.0)	(17.6)	(24.3)	(43.7)	(51.7)
Minorities/pref dividends	0.0	0.0	(7.4)	(46.2)	(54.6)
Net profit	96.1	82.8	93.4	109.5	129.8
Core net profit	90.1	82.8	93.4	109.5	129.8
Balance Sheet (RMmil, YE 30 Jun)	2011	2012	2013F	2014F	2015F
Fixed assets	241.7	240.1	233.2	235.5	236.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other long-term assets	0.0	0.0	0.0	0.0	0.0
Total non-current assets	241.8	240.1	233.2	235.5	236.7
Cash & equivalent	69.8	130.5	111.8	103.1	125.1
Stock	12.2	20.2	174.4	270.2	243.9
Trade debtors	207.0	199.6	583.3	1,011.6	1,151.7
Other current assets	107.5	181.5	158.5	303.9	348.4
Total current assets	396.4	531.8	1,028.0	1,688.7	1,869.1
Trade creditors	170.0	139.3	451.9	979.3	1,027.7
Short-term borrowings	19.2	30.9	29.6	31.6	28.6
Other current liabilities	19.6	1.7	1.7	1.7	1.7
Total current liabilities	208.8	171.8	483.2	1,012.6	1,058.0
Long-term borrowings	43.7	17.3	118.5	126.5	114.5
Other long-term liabilities	39.0	66.3	66.3	66.3	66.3
Total long-term liabilities	82.7	83.6	184.8	192.8	180.8
Shareholders' funds	346.8	516.5	585.8	665.2	758.9
Minority interests	0.0	0.0	7.4	53.6	108.1
BV/share (RM)	0.48	0.64	0.73	0.83	0.95
Cash Flow (RMmil, YE 30 Jun)	2011	2012	2013F	2014F	2015F
Pretax profit	126.1	100.3	125.1	199.4	236.1
Depreciation	(80.0)	2.8	(84.4)	36.1	97.3
Net change in working capital	(63.1)	(105.3)	(202.4)	(142.0)	(109.9)
Others	(82.4)	(17.9)	(22.0)	(37.3)	(45.7)
Cash flow from operations	1.5	(12.0)	(82.4)	37.9	99.2
Capital expenditure	(29.3)	(10.2)	(10.0)	(20.0)	(20.0)
Net investments & sale of fixed assets	3.6	10.6	0.0	0.0	0.0
Others	(35.6)	(2.4)	2.0	1.8	1.9
Cash flow from investing	(61.3)	(2.0)	(8.0)	(18.2)	(18.1)
Debt raised/(repaid)	22.9	(14.7)	100.0	10.0	(15.0)
Equity raised/(repaid)	100.0	95.8	0.0	0.0	0.0
Dividends paid	0.0	(14.6)	(24.1)	(30.1)	(36.1)
Others	(24.3)	5.9	(4.4)	(8.2)	(7.9)
Cash flow from financing	98.6	72.3	71.6	(28.3)	(59.0)
Net cash flow	38.7	58.3	(18.8)	(8.7)	22.1
Net cash/(debt) b/f	15.3	54.3	110.8	92.0	83.3
Exchange rate effects	0.3	(1.8)	0.0	0.0	0.0
Net cash/(debt) c/f	54.3	110.8	92.0	83.3	105.4
Key Ratios (YE 30 Jun)	2011	2012	2013F	2014F	2015F
Revenue growth (%)	n/a	n/a	163.7	91.9	7.0
EBITDA growth (%)	1.8	n/a	26.9	53.9	16.6
Pretax margins (%)	59.8	64.6	30.6	25.4	28.1
Net profit margins (%)	45.5	53.3	22.8	13.9	15.4
Interest cover (x)	31.6	18.1	20.3	20.9	24.9
Effective tax rate (%)	23.8	17.5	19.4	21.9	21.9
Net dividend payout (%)	15.2	29.1	32.2	33.0	32.5
Debtors turnover (days)	331	478	349	371	470
Stock turnover (days)	11	38	87	103	112
Creditors turnover (days)	242	363	264	332	436

Source: Benalec, AmResearch

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