



AmResearch

Company report

BENALEC HOLDINGS

(BHB.MK, BENAL.KL)

18 September 2012

Latent value bottled up... waiting to be unearthed!

BUY

(Maintained)

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Rationale for report: Company Update

| | |
|------------------|---------------|
| Price | RM1.12 |
| Fair Value | RM2.48 |
| 52-week High/Low | RM1.43/RM1.04 |

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 |
| Core EPS growth (%) | (16.5) | 12.9 | 17.3 | 18.5 |
| Consensus EPS (Sen) | | 15.0 | 16.0 | n/a |
| DPS (Sen) | 4.0 | 5.0 | 6.0 | 7.0 |
| Core PE (x) | 11.2 | 9.6 | 8.2 | 6.9 |
| EV/EBITDA (x) | 7.5 | 6.5 | 4.3 | 3.6 |
| Div yield (%) | 3.6 | 4.5 | 5.4 | 6.3 |
| ROE (%) | 19.2 | 16.9 | 17.5 | 18.2 |
| Net Gearing (%) | net cash | 9.6 | 11.3 | 5.0 |

Stock and Financial Data

| | |
|------------------------------|------------------------------------|
| Shares Outstanding (million) | 803.0 |
| Market Cap (RMmil) | 899.4 |
| Book value (RM/share) | 0.64 |
| P/BV (x) | 1.7 |
| ROE (%) | 19.2 |
| Net Gearing (%) | net cash |
| Major Shareholders | Leow family (53.0%) KWAP (7.3%) |

| | |
|-------------------------|------|
| Free Float (%) | 39.7 |
| Avg Daily Value (RMmil) | n/a |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|--------|--------|
| Absolute (%) | 2.7 | (10.8) | (10.1) |
| Relative (%) | (3.8) | (16.5) | (22.3) |



Investment Highlights

- **Maintain BUY on Benalec Holdings, with an unchanged fair value of RM2.48/share. A report by *The Edge Weekly* cited Benalec being confident of striking a deal to develop the first 250 acres of prime seafront land within the next few months in South Johor following the recent signing of a Development Agreement (DA) with the Johor government.**
- **Benalec is reportedly in negotiations with several foreign tank farm operators from the Middle East, Europe and China. In fact, Benalec may accelerate reclamation works at its Tg.Piai landbank by 2H13 with 500 acres – doubling that of its present target – if it secures two or three major offtakers.**
- **This latest news re-affirms our view that the latent value of Benalec's concessions in Johor is underappreciated. Firstly, the DA seals Benalec's exclusive rights to reclaim/develop 5,485 acres of prime seafront land in Tg.Piai and Pengerang into a future oil hub.**
- **Secondly, and significantly – there is already deep value attached to Benalec's highly-coveted DA. Just based on Benalec's 2,000 acres of land in Tg.Piai and a 25% discount to the market value of similar deals within this area, the implied value attached to Benalec's effective 70% entitlement rights in Johor is already RM900mil (RM1.14/share).**
- **Thirdly, *The Edge Weekly* added that Benalec's Pengerang landbank may be included in RAPID's masterplan. We agree, as together with Tg.Piai, Benalec's landbank – with good sea frontage and close proximity to Jurong – can actually complement RAPID by providing storage space to support the massive investments being lined up.**
- **Fourthly, Benalec is a cheaper entry to the repositioning of South Johor as an emerging oil & gas hub. The stock is trading at only 7x-10x FY13F-15F PEs vs. the oil & gas sector's 18x. We forecast contributions from this segment to reach ~64% of group EBIT in FY14F-15F.**
- **Fifthly, Benalec has the balance sheet (FY13F net gearing: 0.1x) to embark on this massive project, which requires upfront payment from buyers. Major shareholder in the Leaw family raised their stake in Benalec to 54.4% as at September 12 from 53.7% in May. This is backed by yields of 4.5%-6.3% on a minimum payout of ~30%.**

Equally, there is scope for valuation upgrades as our forecast only assumes 2,000 acres of reclaimed land sales in Tg.Piai. Benalec's reclamation model provides the ideal platform to add more value via multiple channels as the development of its Johor landbank progresses (e.g. stakes in the tank farms, leasing and marine/logistical support).

TABLE 1: 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 (%) | 4.5 | | | |
| Total return (%) | 119.9 | | | |

Source: Benalec, AmResearch

PERCEPTION WILL CHANGE WHEN LATENT VALUE EMERGES

❑ *The market has ignored the fact that the Johor concessions were sealed in just 10 months!*

Despite signing a landmark development agreement (DA) with the Johor state government on 7 September, the share price of Benalec has remain largely subdued – retracing by ~7% to RM1.12/share currently from as high as RM1.21/share since then.

To recap, Benalec's 70%-owned units Spektrum Budi and Spektrum Kukuh had each signed DAs with the Johor government and State Secretary Inc (SSI) in return for exclusive rights to reclaim and develop two large tracts of prime seafont land in South Johor along Tg.Piai (3,485 acres) and Pengerang (1,760 acres).

With the entire masterplan prepared by Singapore's famed Jurong Consult, Benalec's southern concessions are designed as an integrated petroleum and petrochemical logistics hub and marine industrial park.

We gather that part of Benalec's lacklustre share price performance could be attributable to a perceived lack of newsflow ever since the group last obtained approval-in-principle from the Johor government last November to embark on this highly-ambitious project.

But, we are unmoved. Rather, Benalec's ability to crystallise a full-fledged DA in just 10 months has been largely ignored, in our view.

Furthermore, the Johor government's interest is protected. The state (through SSI) is set to receive 3% of the gross sales of the net saleable land on the reclaimed area, thus enjoying upside potential from any future appreciation of the land.

From here onwards, the next two major milestones from Benalec would be on:-

- (i) Finalising the remaining critical operational procedures, i.e. hydraulic studies, final survey on project land and EIA;
- (ii) Securing the offtakers (to be discussed further in the next section).

❑ *Johor concession rights already worth RM1.14/share on paper with just 2,000 acres!*

Despite its latent appeal, we believe Benalec's Johor forays continue to be largely under-appreciated. It highlights a wide disconnect between Benalec's current valuations and the deep-embedded value of its Johor landbank.

Poignantly, we believe the market may not have appreciated the fact that the DA itself already has some value attached to it.

As an indication, MMC Corp unit Seaport Worldwide Sdn Bhd had back in September 2008 entered into a 30-year land lease agreement with ATT Tanjung Sdn Bhd (a 50:50 JV between MISC and Vitol) for a 123-acre oil terminal at Tg.Bin.

Phase 1 of ATT Tg.Bin terminal – the first anchor tenant at the 2,255-acre Tg.Bin Petroleum and Maritime Industry Centre that is located not far off from Benalec's Tg.Piai concession – kicked off in April with a base capacity of approximately 741,200 cu m.

Under the agreement, ATT Tg.Bin will design, construct, commission and operate the oil terminal for storage of fuel oil, distillates and light distillates.

When Phase 2 is completed, the terminal would have an additional 820,000 cu m of storage space (total: 1,561,200 cu m) of fuel oil, middle distillates and light distillates.

Drawing the rates for similar deals within the vicinity as a yardstick and pegging a 25% discount to it (assuming negligible ancillary cost), our initial estimates indicate that the implied value attached to Benalec's effective 70% entitlement rights alone in

CHART 1: PETRONAS' RAPID PROJECT, PENERANG SOUTH JOHOR



Source: internet, AmResearch

Johor on just 2,000 acres of land at Tg.Piai is already worth RM900mil (or RM1.14/share).

Furthermore, we believe our valuations are conservative, given:

- (i) Benalec's development rights are for a longer period of 99 years
- (ii) Compared to the surrounding areas, the Tg.Piai is already blessed with a natural depth of >15 metres with comparatively less accumulation of siltation.
- (iii) Tg.Piai is strategically located just diagonally across Singapore's Jurong petrochemical hub (17km) – along the busy straits of Malacca with good sea frontage.
- (iv) The implied value for its Pengerang landbank should be worth more than RM20 psf – given the relatively higher cost structure compared to Tg.Piai.

NOW FOR THE OFFTAKERS

□ Intensifying interest from major oil & gas traders

While several other oil terminal projects have already been mooted at South Johor, we envisage a structural shift in incremental demand for oil storage space to benefit the early incumbents within this burgeoning area – Benalec notwithstanding. Indeed, we are confident that Benalec will be more than capable of holding its own fort in the face of competition:-

- (i) As highlighted earlier, the strategic location of Tg.Piai as the closest among the various oil terminal proposals in Johor to Jurong is a major plus point.
- (ii) Tg.Piai is naturally sheltered from the monsoon winds with a natural depth of 20m. This attribute

means that Tg.Piai requires a relatively shorter jetty length (~500m) required to accommodate Very Large Crude Carrier (VLCC) vessels compared with up to 2km for other oil terminal projects within South Johor.

- (iii) With its deep draft, the long-term capital dredging requirements at Tg.Piai would also be considerably lower.

Prior to this, the ground work to introduce Benalec's oil terminal hub project has already been laid months ago despite the perceived lack of newsflow surrounding the stock during this period. With the agreement now firmly in place, we hence believe this would further lend credence to Benalec's on-going efforts to market its land.

To this end, Benalec's strategy is to target international tank farm operators that are predominantly based in Jurong – the third largest oil trading hub in the world.

We gather that Benalec is holding talks with several operators from the Middle East, Europe and China with some at an advanced stage. For economies of scale, the land parcels to be sold (or even leased in certain instances) would ideally be a minimum of 100 acres.

To be sure, we draw comfort that *The Edge Weekly* report highlighted that Benalec may opt to double the first planned sale of its Tg.Piai landbank to 500 acres (originally: 250 acres) if it secures two or three major offtakers.

In terms of operational timeline, management is ramping up efforts to finalise the layout of its masterplan and providing feedback to the relevant authorities for the EIA report.

Due consideration is also given to optimise the net sellable area of its landbank – including the infrastructures to be put in. Part of this would involve the construction of a jetty that can accommodate VLCCs.

TABLE 2: OUTSTANDING ORDERBOOK

| Project | State | Value (RM mil) | | Period | | Client |
|---|----------|----------------|--------------|--------|------|--|
| | | Initial | Unbilled | Start | End | |
| Construction, completion and maintenance of reclamation and shore protection works for 180 acres at Klebang Besar | Malacca | 71.3 | 6.7 | 2007 | 2012 | Harun Utama Sdn Bhd |
| Construction, completion and maintenance of 204 acres (Phase 3) between Kuala Sg. Melaka and Kuala Sg. Seri Melaka | Malacca | 114.5 | 0.5 | 2008 | 2012 | Oriental Boon Siew |
| Construction, completion and maintenance of reclamation and shore protection works for 180 acres at Limbongan Daerah Melaka Tengah | Malacca | 77.2 | 7.6 | 2009 | 2012 | Strategic Oscar Sdn Bhd |
| Construction, completion and maintenance of reclamation and shore protection works for 144.2 acres at Pulau Indah Industrial Park, Port Klang | Selangor | 75.0 | 72.1 | 2011 | 2013 | Oceanfront Land Sdn Bhd Atlantic Property Sdn Bhd Oceanic Sdn Bhd Oceanview Sdn Bhd |
| Coastal reclamation works from Kuala Sungai Melaka (Phase 3 - VO) for 65 acres | Malacca | 32.2 | 6.1 | 2010 | 2012 | Oriental Boon Siew (M) Sdn Bhd |
| Construction, completion and maintenance of reclamation and shore protection works for 720 acres at Mukim Klebang, Melaka Tengah | Malacca | 468.0 | 340.1 | 2011 | 2016 | Sentosacove Sdn Bhd |
| Proposed earthworks, river protection works & its associated works at Precinct 4, Glenmarie Cove, Port Klang | Selangor | 37.0 | 15.2 | 2011 | 2013 | Glenmarie Cove |
| Reclamation of above 4 acres adjacent to Lot 100, Pulau Melaka, Kawasan Bandar XLIII, Bandar Melaka, Daerah Melaka Tengah | Malacca | 4.7 | 1.4 | 2011 | 2012 | Arab City Melaka Sdn Bhd |
| Reclamation and shore protection works for 60 acres at a portion to the Coast of Pulau Konet, District of Alor Gajah, Melaka | Malacca | 36.6 | 36.6 | 2012 | 2013 | Anzeco Coal Terminal Sdn Bhd |
| Proposed reclamation of the development of waterfront city measuring 15 acres at the district of Melaka Tengah, Melaka | Malacca | 7.7 | 7.7 | 2012 | 2013 | Swiss Horizon Sdn Bhd |
| Coal supply contract TNB* | Various | 67.0 | 67.0 | 2012 | 2015 | Tenaga Nasional Bhd |
| Total | | 991.2 | 561.0 | | | |

* Option to renew for another two years (1 May 2015 -30 April 2017) or another RM45mil

Source: Benalec, AmResearch

Once all approvals are received, reclamation works may kick off as early as 2H13.

It is worth noting Benalec still has an MoU with Singapore's Rotary Engineering Ltd to develop an independent deepwater storage terminal for oil products with an initial capacity of 1 million cu m (and up to 3 million cu m) on 250 acres of reclaimed land. Both parties would make a final decision on whether to proceed on the JV by Dec-2012.

Further out, the group is also open to selling plots of land to edible oil operators (e.g. oil palm) although oil & gas operators remain a priority.

COMPLEMENTING RAPID

□ RM120bil investments in South Johor oil & gas industry within next five to six years

The local press reported last May that RAPID is set to contribute RM60bil or roughly half the targeted RM120bil investments that are expected to pour into Pengerang in South Johor within the next five to six years.

Feasibility studies along with site topographical survey and soil investigation works were completed in October 2011. Front-end engineering design (FEED) (currently carried out by Technip) and EIA studies are currently ongoing.

Following the completion of the FEED, Petronas is expected to make the final investment decision by mid-2013 with full completion by end-2016.

RAPID is one of the government's high-impact Economic Transformation Programme (ETP) projects.

When fully completed, it will have a capacity to process 300,000 barrels of crude oil/day (bpd) to produce petroleum products. This can be used to produce petroleum products such as petrol, jet and diesel fuel with a total capacity of 9 million tonnes, and 4.5 million tonnes of petrochemicals a year.

The 2,000-ha RAPID complex would also have its own regassification plant to serve Liquefied Natural Gas (LNG) tankers.

This comes amid news last week that a Dialog-Vopak JV is to co-invest RM4bil in the first independent LNG trading terminal in Asia. The project would include an LNG storage, loading and regassification terminal to import LNG for trading purposes and for the domestic usage.

The Dialog-Vopak JV is already in the midst of developing of a US\$3.5bil tank terminal storage facility on 500 acres of reclaimed land just south of RAPID. The entire project has a total storage capacity of up to 5 mil cu m that is to be fully developed by 2020. Phase 1 (1.3mil cu m) is scheduled to kick-off by 2014.

To spearhead RAPID, Petronas was reported to be seeking 10 to 12 investors. Thus far, it has signed agreements with three partners.

Two of these were inked in May 2012 with Itochu and PTT Global Chemical Public Co to develop a few downstream units for the complex. A month later, Petronas and BASF signed a Head of Agreement (HoA) to co-develop facilities for the production of polyisobutylene, non-ionic surfactants and methanesulfonic acid.

Apart from these three companies, a Taiwanese petrochemical giant has been touted as another potential investor in South Johor, with total investments being banded at US\$10bil-US\$12bil.

The government-backed Taiwanese investments will include a refinery with a capacity of 150,000 barrels/ day and a naptha cracker with an annual capacity of 800,000 tonnes.

With these planned investments, the entire South Johor Economic Region is envisaged to have a total refinery capacity of 450,000 bpd, and naptha cracker capacity of 3.8 mill tonnes a year.

❑ Benalec offers storage space... and more

Rather than competing, we opine that Benalec's presence in Johor actually complements the ambitious development footprint that Petronas has outlaid through RAPID.

Notably, RAPID's focus is on the developing both upstream and downstream oil & gas facilities.

Hence, we believe Benalec's strategic landbanks at both Tg.Piai and Pengerang are suitably positioned to ride an expected uptick in demand for storage space required to support these massive investments in the years to come.

In addition, management believes its Pengerang landbank can cater to fabricators along with the establishment of a dedicated port – once the development pace at RAPID comes into full swing.

Stacking it up, we do not preclude the possibility of Benalec's Pengerang landbank being included as part of RAPID's overall masterplan sometime in the future.

CHART 2: PB BAND CHART



CHART 3: PE BAND CHART

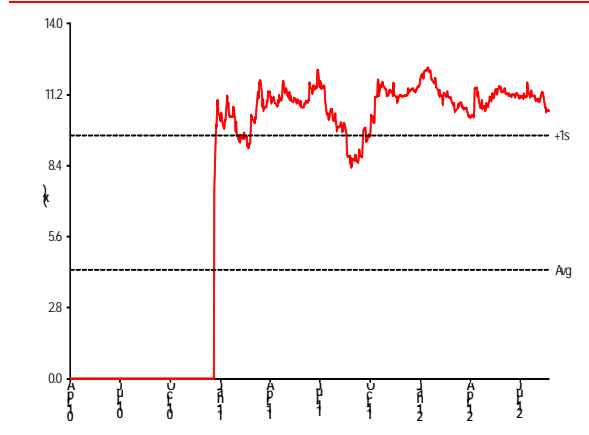


TABLE 2: FINANCIAL DATA

| 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

Published by

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Printed by

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