



## Benalec Holdings

BHB MK / BENAL.KL

## COMPANY NOTE

Market Cap  
**US\$360.6m**  
RM1,118m

Avg Daily Turnover  
**US\$2.93m**  
RM8.92m

Free Float  
**38.5%**  
803.0 m shares

Current **RM1.39**  
Target **RM2.01**  
Prev. Target **N/A**  
Up/Downside **44.6%**

SHORT TERM (3 MTH) **TRADING BUY**  
LONG TERM **OUTPERFORM**  
**TRADING SELL**  
**NEUTRAL**  
**UNDERPERFORM**

### Notes from the Field



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Company Visit  Expert Opinion   
Channel Check  Customer Views

*“Sustainable investment in important high-impact project is vital to Malaysia's long-term economic growth, while the storage facility in Tanjung Piai will spur significant economic activities.”*

– Datuk Seri Najib Razak,  
Prime Minister of Malaysia

# Turning sand into gold

*Benalec is the only domestic land-reclamation contractor with a land-swap business with no equal in its field. Margins are superior to the sector's with upside from land-sale gains. Its strongest appeal is its prospects in Iskandar.*

We initiate with Trading Buy instead of an Outperform as the stock should be event-driven. Our target price is set at a 20% discount to RNAV. It is high time to relook its potential as a major player in land reclamation. The signing of an SPA for the first phase of the reclamation job at Tanjung Piai should be a major catalyst. The stock is a laggard among Iskandar plays and is now our top pick in the smaller-cap space.

### One of its kind

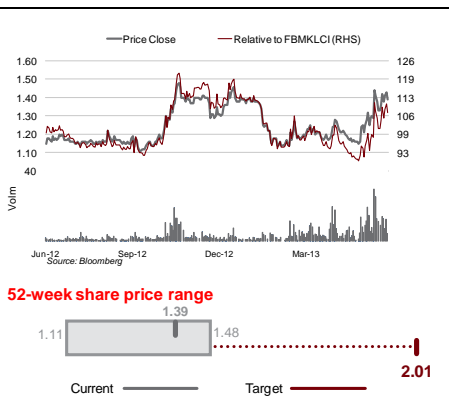
Benalec started off as a coastal protection and reclamation contractor 12 years ago. Today, its superior land-reclamation margins of over 20% are second to none: higher than the 4-16% pretax margins for contractors under our coverage. Operating efficiency has enabled the group to tender at very competitive prices. The group focuses on Malaysia, especially initiatives under the Economic Transformation Programme (ETP). It plans to leverage its land-swap reclamation model to expand from Melaka to Johor/Iskandar. This is where its growth potential lies.

### Iskandar angle

Massive petrochemical complexes and oil & gas hubs under the ETP are expected to take off in a big way in the next five years in Iskandar. Various coastal developments would require land reclamation. For Tanjung Piai Phase 1, we conservatively calculate a potential land-sale gain of up to RM566m for Benalec over the next four years, or RM142m p.a. Another potential gain in Iskandar is from 1,760 acres in Pengerang. Melaka reclamation jobs and land sale gains provide an earnings base before Iskandar jobs take off.

### Undervalued, even without Iskandar

Valuations are attractive even if we exclude Tanjung Piai's prospects. Its RNAV/share drops from RM2.51 to RM2.35, excluding the latter. At a 20% RNAV discount, the stock should be worth RM1.88 (for 35% upside). Optimistically, we estimate a 51% upside to RNAV/share of RM2.51 if we factor in all the potential land sale gains including Pengerang land.



### Financial Summary

|                                | Jun-11A | Jun-12A | Jun-13F | Jun-14F | Jun-15F |
|--------------------------------|---------|---------|---------|---------|---------|
| Revenue (RMm)                  | 210.9   | 155.9   | 187.0   | 179.5   | 215.5   |
| Operating EBITDA (RMm)         | 142.7   | 37.3    | 56.6    | 53.9    | 64.6    |
| Net Profit (RMm)               | 138.4   | 84.2    | 58.0    | 77.1    | 97.6    |
| Core EPS (RM)                  | 0.17    | 0.10    | 0.07    | 0.10    | 0.12    |
| Core EPS Growth                | 60.3%   | (39.2%) | (31.1%) | 32.9%   | 26.6%   |
| FD Core P/E (x)                | 8.06    | 13.25   | 19.23   | 14.47   | 11.43   |
| DPS (RM)                       | -       | 0.030   | 0.007   | 0.019   | 0.024   |
| Dividend Yield                 | 0.00%   | 2.16%   | 0.52%   | 1.38%   | 1.75%   |
| EV/EBITDA (x)                  | 7.97    | 29.25   | 20.22   | 20.20   | 16.04   |
| P/FCFE (x)                     | NA      | NA      | NA      | 30.48   | 47.84   |
| Net Gearing                    | 6.31%   | (4.98%) | 5.08%   | (3.71%) | (9.21%) |
| P/BV (x)                       | 3.22    | 2.16    | 1.95    | 1.50    | 1.30    |
| Recurring ROE                  | 55.4%   | 19.5%   | 10.7%   | 11.7%   | 12.2%   |
| % Change In Core EPS Estimates |         |         |         |         |         |
| CIMB/consensus EPS (x)         |         |         | 0.61    | 0.64    | 0.77    |

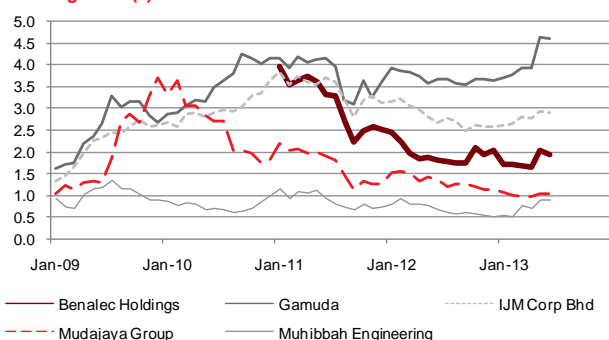
SOURCE: CIMB, COMPANY REPORTS

## PEER COMPARISON

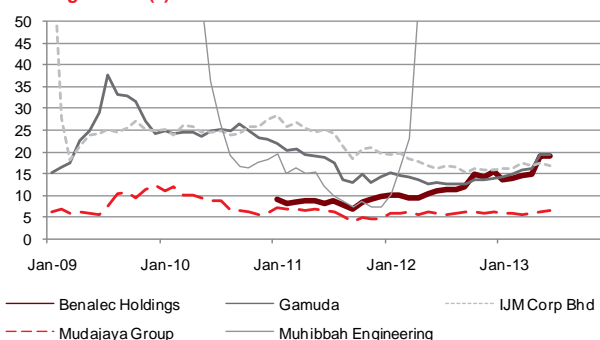
### Research Coverage

|                         | Bloomberg Code | Market    | Recommendation     | Mkt Cap US\$m | Price       | Target Price | Upside       |
|-------------------------|----------------|-----------|--------------------|---------------|-------------|--------------|--------------|
| <b>Benalec Holdings</b> | <b>BHB MK</b>  | <b>MY</b> | <b>TRADING BUY</b> | <b>361</b>    | <b>1.39</b> | <b>2.01</b>  | <b>44.6%</b> |
| Gamuda                  | GAM MK         | MY        | OUTPERFORM         | 3,492         | 4.85        | 5.60         | 15.5%        |
| IJM Corp Bhd            | IJM MK         | MY        | OUTPERFORM         | 2,560         | 5.70        | 6.80         | 19.4%        |
| Mudajaya Group          | MDJ MK         | MY        | OUTPERFORM         | 471           | 2.69        | 3.25         | 20.8%        |
| Muhibbah Engineering    | MUHI MK        | MY        | OUTPERFORM         | 185           | 1.41        | 1.83         | 29.8%        |

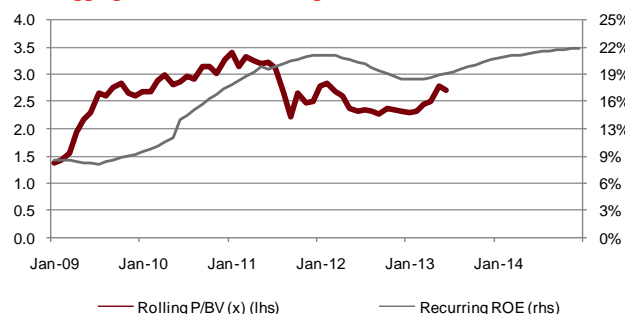
### Rolling P/BV (x)



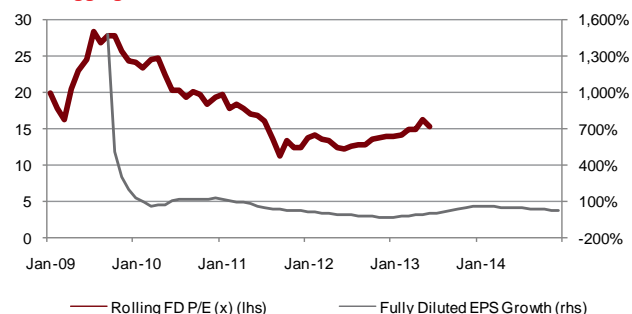
### Rolling FD P/E (x)



### Peer Aggregate: P/BV vs Recurring ROE



### Peer Aggregate: FD P/E vs FD EPS Growth



### Valuation

|                         | P/E (FD) (x) |              |              | P/BV (x)    |             |             | EV/EBITDA (x) |              |              |
|-------------------------|--------------|--------------|--------------|-------------|-------------|-------------|---------------|--------------|--------------|
|                         | Dec-12       | Dec-13       | Dec-14       | Dec-12      | Dec-13      | Dec-14      | Dec-12        | Dec-13       | Dec-14       |
| <b>Benalec Holdings</b> | <b>15.69</b> | <b>16.50</b> | <b>12.76</b> | <b>2.05</b> | <b>1.69</b> | <b>1.39</b> | <b>23.74</b>  | <b>20.21</b> | <b>17.91</b> |
| Gamuda                  | 18.62        | 17.07        | 13.76        | 4.86        | 4.39        | 4.03        | 19.28         | 16.67        | 14.96        |
| IJM Corp Bhd            | 18.41        | 14.91        | 13.10        | 2.96        | 2.91        | 2.97        | 11.83         | 10.55        | 9.93         |
| Mudajaya Group          | 6.22         | 6.79         | 5.13         | 1.18        | 0.95        | 0.76        | 2.98          | 1.63         | 0.66         |
| Muhibbah Engineering    | NA           | 7.66         | 6.80         | 0.92        | 0.88        | 0.83        | NA            | 7.67         | 7.52         |

### Growth and Returns

|                         | Fully Diluted EPS Growth |              |              | Recurring ROE |              |              | Dividend Yield |              |              |
|-------------------------|--------------------------|--------------|--------------|---------------|--------------|--------------|----------------|--------------|--------------|
|                         | Dec-12                   | Dec-13       | Dec-14       | Dec-12        | Dec-13       | Dec-14       | Dec-12         | Dec-13       | Dec-14       |
| <b>Benalec Holdings</b> | <b>-35.9%</b>            | <b>-4.9%</b> | <b>29.3%</b> | <b>14.6%</b>  | <b>11.2%</b> | <b>12.0%</b> | <b>1.34%</b>   | <b>0.95%</b> | <b>1.57%</b> |
| Gamuda                  | 10.3%                    | 9.1%         | 24.0%        | 28.9%         | 29.5%        | 30.5%        | 2.35%          | 2.39%        | 2.39%        |
| IJM Corp Bhd            | 8.3%                     | 23.5%        | 13.8%        | 17.4%         | 19.9%        | 22.5%        | 2.28%          | 2.46%        | 2.64%        |
| Mudajaya Group          | -10.2%                   | -8.4%        | 32.4%        | 21.6%         | 15.5%        | 16.4%        | 3.35%          | 3.72%        | 4.09%        |
| Muhibbah Engineering    | -259.7%                  | na           | 12.7%        | -16.0%        | 11.8%        | 12.6%        | 1.77%          | 2.13%        | 2.48%        |

SOURCE: CIMB, COMPANY REPORTS

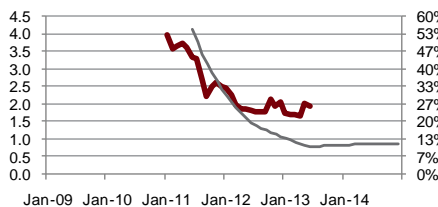
Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends

## BY THE NUMBERS

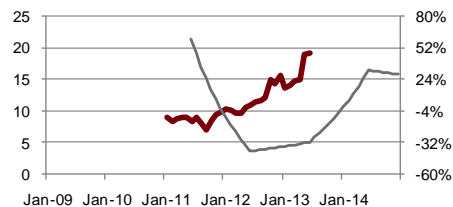
### Share price info

| Share px perf. (%)  | 1M   | 3M   | 12M    |
|---------------------|------|------|--------|
| Relative            | 15.6 | 9.9  | 6.6    |
| Absolute            | 19.8 | 17.8 | 18.8   |
| Major shareholders  |      |      | % held |
| Oceancove Sdn bhd   |      |      | 53.2   |
| KWAP                |      |      | 6.9    |
| Dato' Leaw Seng Hai |      |      | 1.4    |

### P/BV vs Recurring ROE



### FD Core P/E vs FD Core EPS Growth



We forecast zero land-sale gains in FY13. For FY14, we estimate a conservative RM28m land-sale gain from Melaka.

### Profit & Loss

| (RMm)                                     | Jun-11A      | Jun-12A      | Jun-13F      | Jun-14F      | Jun-15F      |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Total Net Revenues</b>                 | <b>210.9</b> | <b>155.9</b> | <b>187.0</b> | <b>179.5</b> | <b>215.5</b> |
| <b>Gross Profit</b>                       | <b>122.0</b> | <b>66.1</b>  | <b>77.2</b>  | <b>73.6</b>  | <b>88.3</b>  |
| <b>Operating EBITDA</b>                   | <b>142.7</b> | <b>37.3</b>  | <b>56.6</b>  | <b>53.9</b>  | <b>64.6</b>  |
| Depreciation And Amortisation             | (20.9)       | (10.8)       | (10.8)       | (7.2)        | (8.6)        |
| <b>Operating EBIT</b>                     | <b>121.8</b> | <b>26.4</b>  | <b>45.8</b>  | <b>46.7</b>  | <b>56.0</b>  |
| Total Financial Income/(Expense)          | (2.9)        | (4.2)        | (2.3)        | (1.8)        | (1.7)        |
| Total Pretax Income/(Loss) from Assoc.    | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Total Non-Operating Income/(Expense)      | 49.5         | 79.6         | 21.6         | 42.5         | 56.9         |
| <b>Profit Before Tax (pre-EI)</b>         | <b>168.4</b> | <b>101.8</b> | <b>65.1</b>  | <b>87.4</b>  | <b>111.2</b> |
| Exceptional Items                         |              |              |              |              |              |
| <b>Pre-tax Profit</b>                     | <b>168.4</b> | <b>101.8</b> | <b>65.1</b>  | <b>87.4</b>  | <b>111.2</b> |
| Taxation                                  | (30.0)       | (17.6)       | (7.2)        | (10.5)       | (13.3)       |
| Exceptional Income - post-tax             |              |              |              |              |              |
| <b>Profit After Tax</b>                   | <b>138.4</b> | <b>84.2</b>  | <b>57.9</b>  | <b>76.9</b>  | <b>97.9</b>  |
| Minority Interests                        | 0.0          | 0.0          | 0.1          | 0.2          | (0.3)        |
| Preferred Dividends                       |              |              |              |              |              |
| FX Gain/(Loss) - post tax                 |              |              |              |              |              |
| Other Adjustments - post-tax              |              |              |              |              |              |
| <b>Net Profit</b>                         | <b>138.4</b> | <b>84.2</b>  | <b>58.0</b>  | <b>77.1</b>  | <b>97.6</b>  |
| Recurring Net Profit                      | 138.4        | 84.2         | 58.0         | 77.1         | 97.6         |
| <b>Fully Diluted Recurring Net Profit</b> | <b>138.4</b> | <b>84.2</b>  | <b>58.0</b>  | <b>77.1</b>  | <b>97.6</b>  |

Rising operating cash flows from reclamation work and land-sale gains from Melaka and Tanjung Piai.

### Cash Flow

| (RMm)                            | Jun-11A        | Jun-12A        | Jun-13F       | Jun-14F       | Jun-15F      |
|----------------------------------|----------------|----------------|---------------|---------------|--------------|
| <b>EBITDA</b>                    | <b>142.7</b>   | <b>37.3</b>    | <b>56.6</b>   | <b>53.9</b>   | <b>64.6</b>  |
| Cash Flow from Invt. & Assoc.    | 0.0            | 0.0            | 0.0           | 0.0           | 0.0          |
| Change In Working Capital        | (101.5)        | (38.5)         | (124.0)       | (103.0)       | (65.0)       |
| (Incr)/Decr in Total Provisions  | 0.0            | 0.0            | 0.0           | 0.0           | 0.0          |
| Other Non-Cash (Income)/Expense  | 20.9           | 10.8           | 10.8          | 7.2           | 8.6          |
| <b>Other Operating Cashflow</b>  | <b>(115.4)</b> | <b>(121.4)</b> | <b>(9.1)</b>  | <b>113.7</b>  | <b>35.1</b>  |
| Net Interest (Paid)/Received     | (2.9)          | (4.2)          | (2.3)         | (1.8)         | (1.7)        |
| Tax Paid                         | 30.0           | 17.6           | (8.9)         | (10.7)        | (13.5)       |
| <b>Cashflow From Operations</b>  | <b>(26.2)</b>  | <b>(98.4)</b>  | <b>(76.8)</b> | <b>59.3</b>   | <b>28.2</b>  |
| Capex                            | (30.5)         | (10.2)         | (0.6)         | (24.5)        | (6.9)        |
| Disposals Of FAs/subsidiaries    | 0.0            | 0.0            | 0.0           | 0.0           | 0.0          |
| Acq. Of Subsidiaries/investments | 0.0            | 0.0            | 0.0           | 0.0           | 0.0          |
| Other Investing Cashflow         | (32.0)         | 17.5           | 11.5          | 0.0           | 0.0          |
| <b>Cash Flow From Investing</b>  | <b>(62.4)</b>  | <b>7.3</b>     | <b>10.9</b>   | <b>(24.5)</b> | <b>(6.9)</b> |
| Debt Raised/(repaid)             | 3.9            | (19.0)         | (17.6)        | 1.8           | 2.0          |
| Proceeds From Issue Of Shares    | 100.0          | 96.3           | 0.0           | 0.0           | 0.0          |
| Shares Repurchased               | 0.0            | 0.0            | 0.0           | 0.0           | 0.0          |
| Dividends Paid                   | 0.0            | (16.1)         | (5.8)         | (15.4)        | (19.5)       |
| Preferred Dividends              | 0.0            | 0.0            | 0.0           | 0.0           | 0.0          |
| Other Financing Cashflow         | 24.7           | 90.6           | 17.0          | 37.2          | 49.7         |
| <b>Cash Flow From Financing</b>  | <b>128.5</b>   | <b>151.9</b>   | <b>(6.3)</b>  | <b>23.6</b>   | <b>32.2</b>  |

## BY THE NUMBERS

Cash declines in FY13 due to zero land-sale gains.

### Balance Sheet

| (RMm)                                | Jun-11A      | Jun-12A      | Jun-13F      | Jun-14F      | Jun-15F      |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total Cash And Equivalents           | 69.8         | 130.5        | 58.2         | 116.6        | 170.2        |
| Total Debtors                        | 207.0        | 200.2        | 366.1        | 347.5        | 417.0        |
| Inventories                          | 7.5          | 2.5          | 3.2          | 3.3          | 3.4          |
| Total Other Current Assets           | 108.7        | 200.4        | 207.0        | 300.4        | 328.5        |
| <b>Total Current Assets</b>          | <b>392.9</b> | <b>533.6</b> | <b>634.6</b> | <b>767.9</b> | <b>919.1</b> |
| Fixed Assets                         | 245.3        | 240.1        | 220.3        | 237.6        | 235.9        |
| Total Investments                    | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Intangible Assets                    | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Total Other Non-Current Assets       | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Total Non-current Assets</b>      | <b>245.3</b> | <b>240.1</b> | <b>220.3</b> | <b>237.6</b> | <b>235.9</b> |
| Short-term Debt                      | 19.2         | 18.9         | 20.5         | 22.6         | 24.8         |
| Current Portion of Long-Term Debt    | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Total Creditors                      | 170.0        | 141.8        | 187.5        | 163.4        | 196.1        |
| Other Current Liabilities            | 19.6         | 1.7          | 0.0          | 0.0          | 0.0          |
| <b>Total Current Liabilities</b>     | <b>208.8</b> | <b>162.4</b> | <b>208.0</b> | <b>186.0</b> | <b>220.9</b> |
| Total Long-term Debt                 | 43.7         | 29.3         | 12.4         | 12.2         | 11.9         |
| Hybrid Debt - Debt Component         | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Total Other Non-Current Liabilities  | 28.8         | 56.6         | 54.3         | 54.3         | 54.3         |
| <b>Total Non-current Liabilities</b> | <b>72.5</b>  | <b>86.0</b>  | <b>66.7</b>  | <b>66.5</b>  | <b>66.2</b>  |
| Total Provisions                     | 10.2         | 9.0          | 8.8          | 8.7          | 8.5          |
| <b>Total Liabilities</b>             | <b>291.4</b> | <b>257.3</b> | <b>283.6</b> | <b>261.1</b> | <b>295.6</b> |
| Shareholders' Equity                 | 346.8        | 516.4        | 571.4        | 744.4        | 859.3        |
| Minority Interests                   | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Total Equity</b>                  | <b>346.8</b> | <b>516.4</b> | <b>571.4</b> | <b>744.4</b> | <b>859.3</b> |

### Key Ratios

|                           | Jun-11A | Jun-12A | Jun-13F | Jun-14F | Jun-15F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth            | (31.7%) | (26.1%) | 20.0%   | (4.0%)  | 20.0%   |
| Operating EBITDA Growth   | 46.4%   | (73.9%) | 51.9%   | (4.9%)  | 20.0%   |
| Operating EBITDA Margin   | 67.7%   | 23.9%   | 30.3%   | 30.0%   | 30.0%   |
| Net Cash Per Share (RM)   | (0.027) | 0.032   | (0.036) | 0.034   | 0.099   |
| BVPS (RM)                 | 0.43    | 0.64    | 0.71    | 0.93    | 1.07    |
| Gross Interest Cover      | 31.32   | 4.57    | 10.70   | 13.00   | 13.00   |
| Effective Tax Rate        | 17.8%   | 17.3%   | 11.0%   | 12.0%   | 12.0%   |
| Net Dividend Payout Ratio | 0.0%    | 28.6%   | 10.0%   | 20.0%   | 20.0%   |
| Accounts Receivables Days | 331.1   | 477.4   | 548.2   | 721.2   | 647.6   |
| Inventory Days            | 15.31   | 20.22   | 9.46    | 11.24   | 9.56    |
| Accounts Payables Days    | 573.9   | 635.6   | 547.2   | 604.5   | 516.0   |
| ROIC (%)                  | 52.5%   | 5.2%    | 6.9%    | 5.7%    | 5.8%    |
| ROCE (%)                  | 37.6%   | 5.2%    | 7.4%    | 6.4%    | 6.5%    |

### Key Drivers

| (RMm)                                  | Jun-11A | Jun-12A | Jun-13F | Jun-14F | Jun-15F |
|--|---------|---------|---------|---------|---------|
| Outstanding Orderbook                  | 550     | 643     | 314     | 664     | 1,514   |
| Orderbook Depletion                    | 150     | 329     | 150     | 150     | 150     |
| Orderbook Replenishment                | 243     | -       | 500     | 1,000   | 1,500   |
| ASP (% chg, main prod./serv.)          | N/A     | N/A     | N/A     | N/A     | N/A     |
| Unit sales grth (% , main prod./serv.) | N/A     | N/A     | N/A     | N/A     | N/A     |
| Util. rate (% , main prod./serv.)      | N/A     | N/A     | N/A     | N/A     | N/A     |
| ASP (% chg, 2ndary prod./serv.)        | N/A     | N/A     | N/A     | N/A     | N/A     |
| Unit sales grth (% ,2ndary prod/serv)  | N/A     | N/A     | N/A     | N/A     | N/A     |
| Util. rate (% , 2ndary prod/serv)      | N/A     | N/A     | N/A     | N/A     | N/A     |

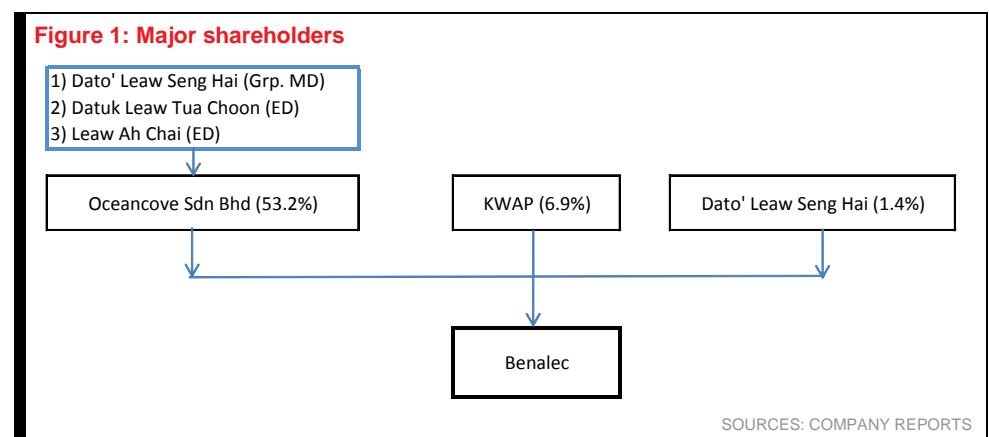
SOURCE: CIMB, COMPANY REPORTS

# Turning sand into gold

## 1. BACKGROUND

### 1.1 Owned by Leaw brothers ▶

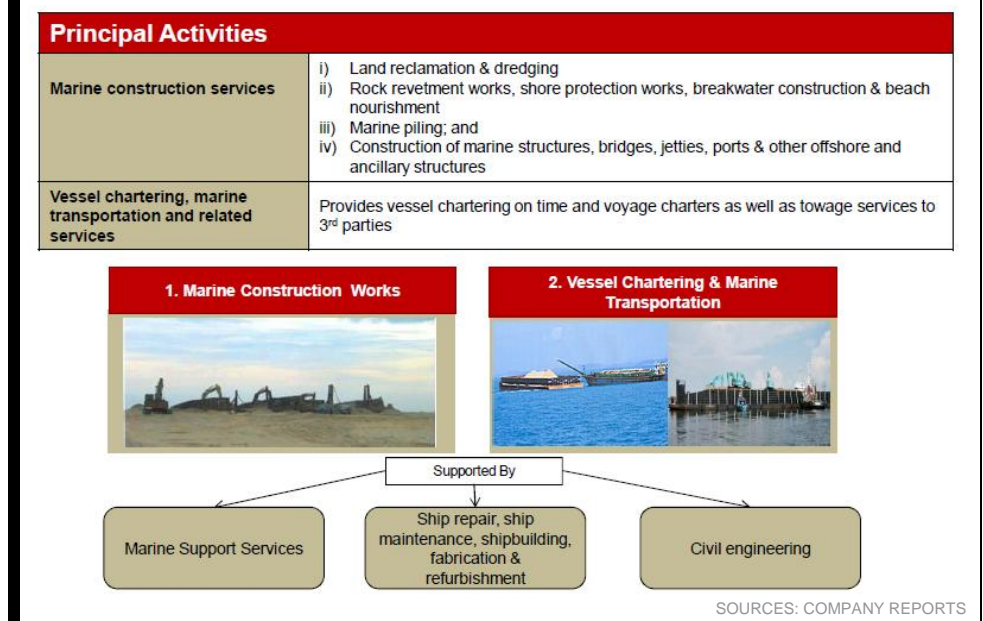
Benalec was listed in 2011 (at an IPO price of RM1). The group is primarily owned by the Leaw brothers: Dato' Leaw Seng Hai (Group Managing Director), Datuk Leaw Tua Choon (Executive Director) and Leaw Ah Chye (Executive Director). Their combined 53.2% stake in Benalec is held through Oceancove Sdn Bhd. Dato' Leaw Seng Hai also owns a separate 1.4% stake in Benalec. Benalec's second-largest shareholder is Kumpulan Wang Persaraan (KWAP) with a 6.9% stake.



### 1.2 Started off as coastal work contractor ▶

Benalec started life as a coastal protection and reclamation contractor 12 years ago. While land reclamation is its bread-and-butter, other businesses are vessel chartering and marine support services/shipbuilding. Benalec had a 17.9% share of the domestic marine-construction market between 2006 and 2009 and was ranked the second most active company in Malaysia in this industry. Domestically, marine construction is dominated by five players. The other four unlisted players are Inai Kiara Sdn Bhd, See Song & Sons Sdn Bhd, See Yong & Sons Sdn Bhd, and Tidalmarine Dredging Sdn Bhd. Major customers are the local authorities, government department/agencies and port operators, covering the infrastructure and oil & gas sectors.

**Figure 2: Business structure**



**Figure 3: Major players in marine construction**

| Companies                              | Status     | Market share (%) | Focus areas   |
|--|------------|------------------|---|
| Benalec Holdings                       | Listed     | 18%              | Large-scale land reclamation works - peninsula Malaysia |
| Hock Seng Lee                          | Listed     | 9%               | Marine construction & land reclamation works - Sarawak  |
| Malaysian Resources Corporation (MRCB) | Listed     | 16%              | River and beach rehabilitation - peninsula Malaysia     |
| Inai Kiara Sdn Bhd                     | Not listed | 25%              | Land reclamation works                                  |
| See Song & Sons Sdn Bhd                | Not listed | na               | Land reclamation works                                  |
| See Yong & Sons Sdn Bhd                | Not listed | na               | Land reclamation works                                  |
| Tidalmarine Dredging Sdn Bhd           | Not listed | na               | Land reclamation works                                  |

*RM2.9bn estimated total value of marine construction works in 2006-09*  
*Benalec controls 18% market share*

SOURCES: COMPANY REPORTS

### 1.3 Small jobs in the early days ▶

Benalec's early days were spent building its track record by undertaking various small-scale projects for numerous government/state agencies. It then ventured into coastal protection work in 1993, with two key projects for the state of Perak. The group's maiden land-reclamation project was for Pantai Kok on Langkawi Island in 2000. Its fortunes took off from that year onwards. Job flows gained momentum, with the group landing several higher-value land-reclamation jobs from the other southern states of Peninsula Malaysia. It bagged a land-reclamation and soil-improvement contract for Glenmarie Cove in Port Klang in 2003 and in the same year, penetrated Melaka with a 180-acre land-reclamation project.

### 1.4 Penetrated Melaka in a big way ▶

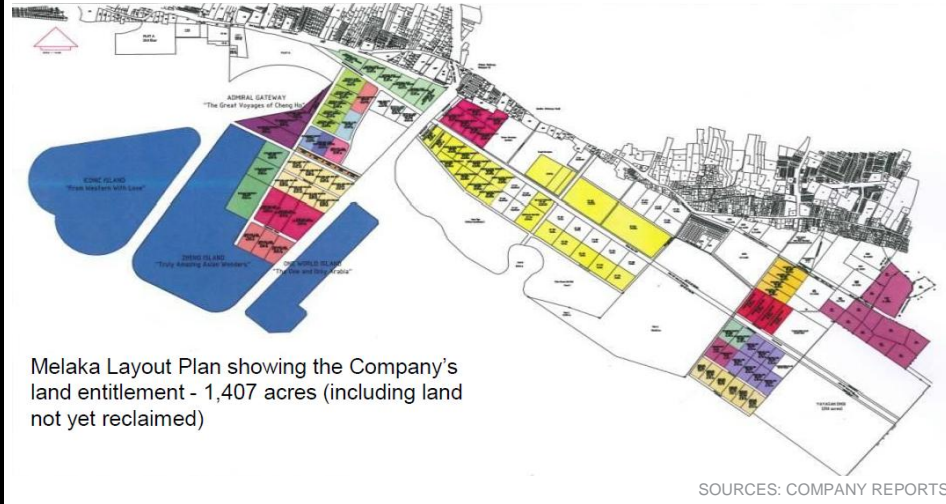
This project kicked off a new business model for the group's marine-construction/land-reclamation segment. From pure progress-billing type of construction revenue, the group initiated a mix of progress-billing (cash) contracts and land-payment contracts, a model that is unique to Benalec. In 2005, Benalec clinched its first large-scale land-reclamation contract in Melaka, involving reclamation work for another 1,157 acres.

To date, it has reclaimed 2,400 acres in Melaka, with an outstanding 600 acres. Benalec is not a property developer. Its land-reclamation contracts in Melaka



are based on land swaps which enable Benalec to realise gains on land sales, at average historical selling prices that are at 15-20% above Benalec's reclamation costs. The group's reclamation cost structure is probably the lowest in the industry, thanks to its own fleet of vessels and in-house marine logistics.

**Figure 4: Melaka reclamation work**



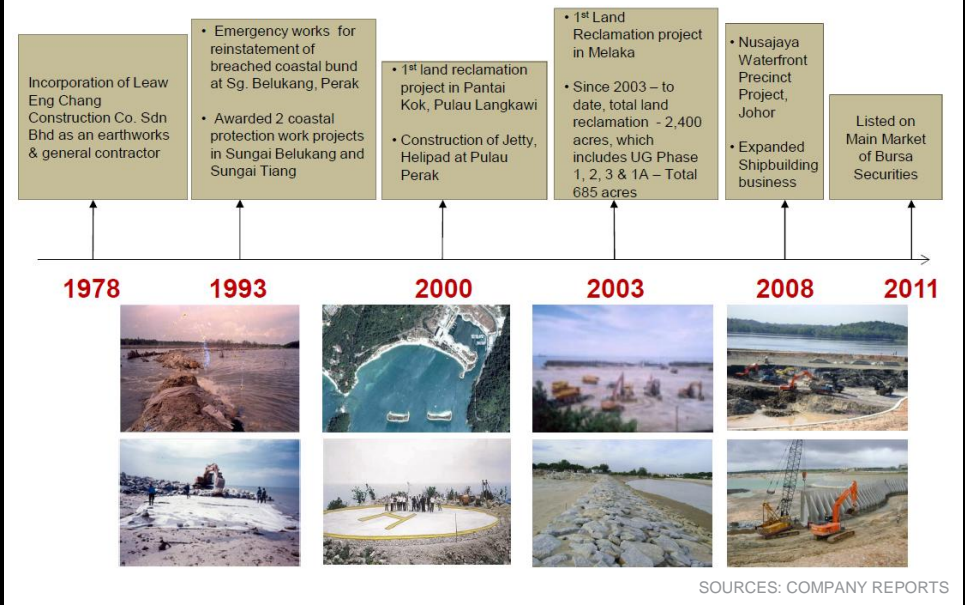
**Figure 5: Melaka reclamation work (others)**



### 1.5 Johor prospects after AFC

Benalec's longer-term prospects involve its positioning in Johor. A RM87m marina contract for the Nusajaya Waterfront Precinct at Puteri Harbour secured after the Asian Financial Crisis (AFC) in 2008 has raised the group's profile as a major land-reclamation contractor and marine-logistics provider in that region. In the same year, the group clinched a S\$250m contract from the Singapore government for the supply of sand from Vietnam to Tuas View's reclamation project.

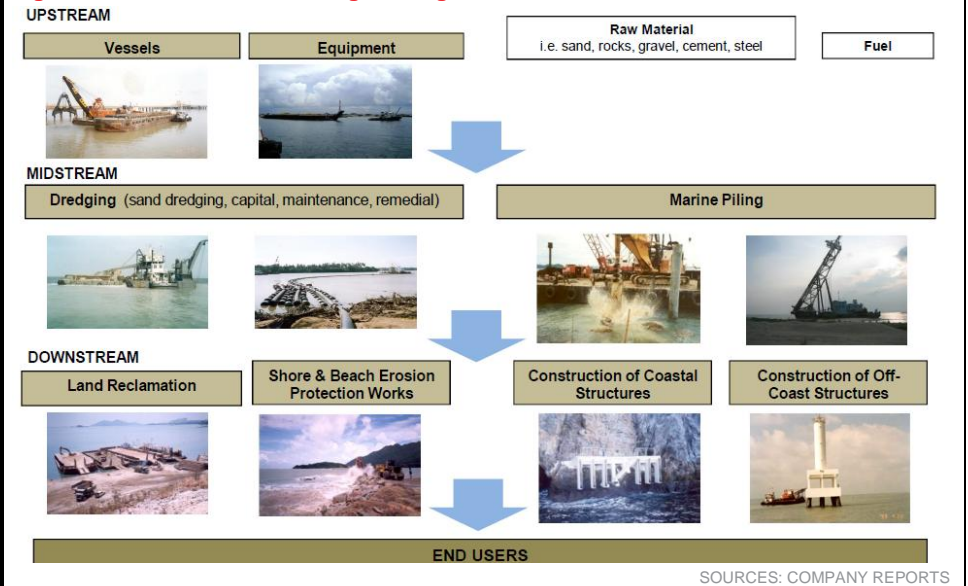
**Figure 6: Milestones**



### 1.6 End-to-end marine engineering supply chain »

Benalec provides integrated marine engineering solutions. Its upstream segment includes vessel ownership and equipment, midstream segment dredging and marine piling, and downstream segment land reclamation. While upstream and midstream operations enable the group to benefit from stable earnings over the longer term with cost efficiency from its own fleet of 93 vessels, Benalec's growth potential lies in its downstream segment.

**Figure 7: End-to-end marine engineering services**



### 1.7 Margins are good »

Benalec has been successful in competitive tender jobs, particularly when it comes to bidding for land-reclamation projects. The beauty of having vessel chartering and marine transportation services in-house is that they enable the group to manage its costs better. The group's diverse collection of 93 vessels include five clamshell dredgers, 11 sand pump ships, one bulk carrier, one piling barge and 40 flat top barges to undertake medium to large land-reclamation



jobs. Its typical pretax margins for construction and civil work are 10-15%, while those related to land reclamation top 20%. These are higher than the normal 5-8% margins for open-tender civil work domestically.

### 1.8 Margin booster from land sales ▶

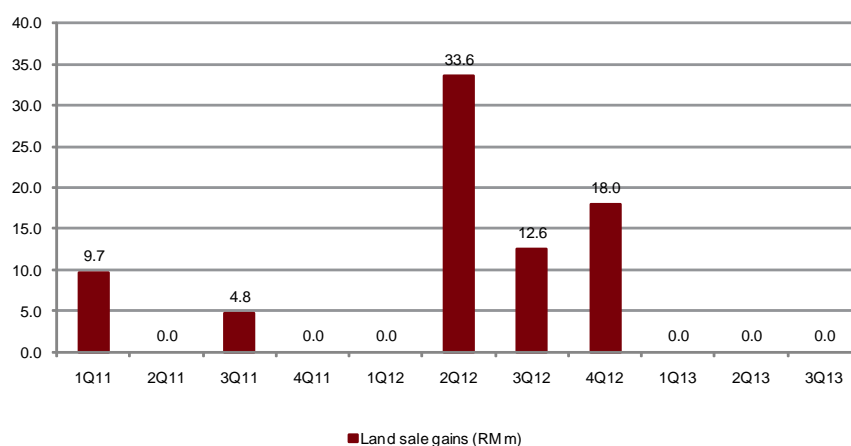
Boosting its profitability is margin upside from land sales. Over the past two years, margins from land sales in Melaka were 45-60%. Though such gains are regarded as exceptional items, their earnings flow partially offsets the group's lumpy progress billings. The group booked RM14.5m of gains from land sales in FY11 (RM9.7m: 1Q11, RM4.8m: 3Q11). Such gains grew by a whopping 342% yoy to RM64.2m in FY12 (RM33.6m: 2Q12, RM12.6m: 3Q12, RM18m: 4Q12), all from its Melaka reclamation project.

**Figure 8: Quarterly breakdown of marine construction segment**

|   | 1Q11 | 2Q11 | 3Q11 | 4Q11 | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 |
|---|------|------|------|------|------|------|------|------|------|------|------|
| Pretax profit (RM m)                    | 33.5 | 25.0 | 25.3 | 27.3 | 23.7 | 24.2 | 56.2 | 19.0 | 35.0 | 29.4 | 14.4 |
| Land sale gains (RM m)                  | 9.7  | 0.0  | 4.8  | 0.0  | 0.0  | 33.6 | 12.6 | 18.0 | 0.0  | 0.0  | 0.0  |
| Pretax profit ex-land sale gains (RM m) | 23.8 | 25.0 | 20.5 | 27.3 | 23.7 | -9.4 | 43.6 | 1.0  | 35.0 | 29.4 | 14.4 |
| Pretax margin ex-land sale gains (%)    | 50%  | 55%  | 43%  | 36%  | 31%  | -31% | 40%  | 4%   | 30%  | 40%  | 13%  |
| Total pretax margin (%)                 | 71%  | 55%  | 53%  | 36%  | 31%  | 81%  | 51%  | 77%  | 30%  | 40%  | 13%  |

SOURCES: CIMB, COMPANY REPORTS

**Figure 9: Quarterly land-sale gains in FY11-12**



SOURCES: CIMB, COMPANY REPORTS

## 2. OUTLOOK

### 2.1 Future land-sale gains in Melaka can be lucrative ▶

On 14 Mar 11, Jayamas Cekap Sdn Bhd, a wholly-owned subsidiary of Benalec, signed a Deed of Assignment with the Melaka state government to undertake reclamation work off the coast of Kawasan Kota Laksamana in Bandar Melaka. The reclamation size is 250 acres with scope of work from 2011 to 2015 (five years).

Past transactions for the group in Melaka largely involved raw land i.e. sales were closed after land had been reclaimed. For example, prior to the group's listing in 2011, it had 297 acres of land held for sale on its balance sheet, accumulated from land swaps mainly from its Melaka project. Benalec closed a land sale for 59 acres (20% of its land held, at an implied reclamation cost of RM12.60 psf) for RM19.30 psf or at over a 50% premium to its land cost. We estimate reclamation costs for various plots in its pipeline at RM20-38 psf, with potential guided market valuations of RM28 psf to over RM40 psf.

**Figure 10: Example of a land transaction**

| Period                   | Land held<br>for sale<br>(acres) | Total land<br>reclamation cost<br>(RM m) | Land sold<br>(acres) | Corresponding<br>land reclamation cost<br>(RM m) | Corresponding<br>land reclamation cost<br>(RM psf) | Selling<br>price<br>(RM m) | Selling<br>price<br>(RM psf) | Gain on<br>disposal<br>(RM m) | Gain on<br>disposal<br>(RM psf) |
|--------------------------|----------------------------------|--|----------------------|--|--|----------------------------|------------------------------|-------------------------------|---------------------------------|
| Prior to listing in 2011 | 296.7                            | 176.2                                    | 58.9                 | 32.3   | 12.6   | 49.6                       | 19.3                         | 17.3                          | 6.7                             |

SOURCES: PROSPECTUS

## 2.2 Melaka provides the base for next 2-3 years ▶

The group's outstanding order book is RM314m, comprising mainly land-reclamation work in Melaka. Total land to be reclaimed in Melaka has depleted from 2,400 acres a few years back to 600 acres. This should underpin the segment's earnings over the next 2-3 years. The group has 1,000 acres of land in the pipeline, of which 600 acres have yet to be reclaimed while 400 acres are land held for sale on its balance sheet as at 3QFY6/13. Benalec has yet to execute any land sales YTD. Based on assumed average land values of RM29.50 psf and average land-reclamation costs of RM24 psf, we estimate that the group can potentially book RM237m land-sale gains over the next 2-3 years; about 3x its accumulated land-sale gains of RM79m in the past two years.

**Figure 11: Outstanding order book**

| Client                       | State    | Projects  | Acres        | Duration  | Balance<br>(RM m) |
|------------------------------|----------|---|--------------|-----------|-------------------|
| Haruman Utama Sdn Bhd        | Melaka   | Reclamation works at Klebang Besar  | 180          | 2007-2013 | 6.5               |
| Oriental Boon Siew Sdn Bhd   | Melaka   | Reclamation & shore protection works (phase 3) for Kuala Sg. Melaka & Sg. Seri Melaka | 204          | 2008-2013 | 0.0               |
| Strategic Oscar Sdn Bhd      | Melaka   | Reclamation works at Pantai Limbongan, Mukim Klebang Besar                            | 180          | 2009-2013 | 7.5               |
| *Multiple clients            | Selangor | Reclamation at Pulau Indah Industrial Park, Port Kelang                               | na           | 2011-2013 | 31.2              |
| Oriental Boon Siew Sdn Bhd   | Melaka   | Coastal reclamation works at Kuala Sg. Melaka (Phase 3 - VO)                          | 65           | 2010-2013 | 6.1               |
| Sentosa Cove Sdn Bhd         | Melaka   | Reclamation at Mukim Klebang  | 720          | 2011-2016 | 209.9             |
| Comtrac Sdn Bhd              | Selangor | Earthworks, river protection works at Precinct 4, Glenmarie Cove, Port Klang          | na           | 2011-2013 | 13.5              |
| Arab City Melaka Sdn Bhd     | Melaka   | Reclamation of above 4 acres adjacent to Lot 100, Pulau Melaka                        | 4            | 2011-2013 | 1.4               |
| Anzeco Coal Terminal Sdn Bhd | Melaka   | Reclamation & shore protection works at the coast of Pulau Konet                      | 60           | 2012-2013 | 36.6              |
| Swiss Horizon Sdn Bhd        | Melaka   | Reclamation for the development of a waterfront city                                  | 15           | 2012-2013 | 1.4               |
| <b>Total</b>                 |          |   | <b>1,428</b> |           | <b>314.1</b>      |

\*Oceanfront Land Sdn Bhd

\*Atlantic Property Sdn Bhd

\*Oceanic Sdn Bhd

\*Oceanview Property Sdn Bhd

SOURCES: CIMB, COMPANY REPORTS

**Figure 12: Potential land-sale gains from Melaka FY14/15**

|   | Acres          | m sq ft     | Cost<br>RM m | Selling<br>price<br>RM psf | Gains<br>RM psf | Gains<br>RM m |
|---|----------------|-------------|--------------|----------------------------|-----------------|---------------|
| Size of remaining reclamation jobs in Melaka                | 600.0          | 26.1        | 28           | 30.8                       | 2.8             | 73.2          |
| Land inventory in balance sheet (alienated, ready for sale) | 400.0          | 17.4        | 20           | 28.1                       | 8.1             | 141.1         |
| <b>Total/average</b>  | <b>1,000.0</b> | <b>43.6</b> | <b>24</b>    | <b>29.5</b>                | <b>5.5</b>      | <b>237.4</b>  |

SOURCES: CIMB, COMPANY REPORTS

## 2.3 Potential land-sale gains of RM28m in 1QFY14 ▶

Of its 400 acres ready for sale, the sale of some 80 acres is pending shareholders' approval. Based on our modest sale-value target of RM28 psf and an estimated land-reclamation cost of RM20 psf, the group could conservatively realise RM28m in land-sale gains in 1QFY14. If it can sell the remaining 221 acres at similar valuations, we are looking at an additional RM77m of gains from FY14.

**Figure 13: Potential sale of the 400 acre Melaka land inventory**

| Potential land sales:                             | Acres        | m sq ft     | RM m      | RM psf      | RM psf     | RM m         |
|---|--------------|-------------|-----------|-------------|------------|--------------|
| 1) Kota Laksamana (pending shareholders approval) | 80.0         | 3.5         | 20        | 28.1        | 8.1        | 28.1         |
| 2) Klebang (recognise in FY14 - June Y/E)         | 41.0         | 1.8         | 20        | 28.1        | 8.1        | 14.4         |
| 3) Cheng Ho City man made islands                 | 180.0        | 7.8         | 20        | 28.1        | 8.1        | 63.3         |
| <b>Total</b>                                      | <b>301.0</b> | <b>13.1</b> | <b>20</b> | <b>28.1</b> | <b>8.1</b> | <b>105.8</b> |

Targeting RM368 land sale value or RM28 psf  
75% of landbank or 301 acres is ready for sale  
80 acres to be sold potential within 2HFY13

SOURCES: CIMB, COMPANY REPORTS

### 3. JOHOR/ISKANDAR TO PROVIDE GROWTH

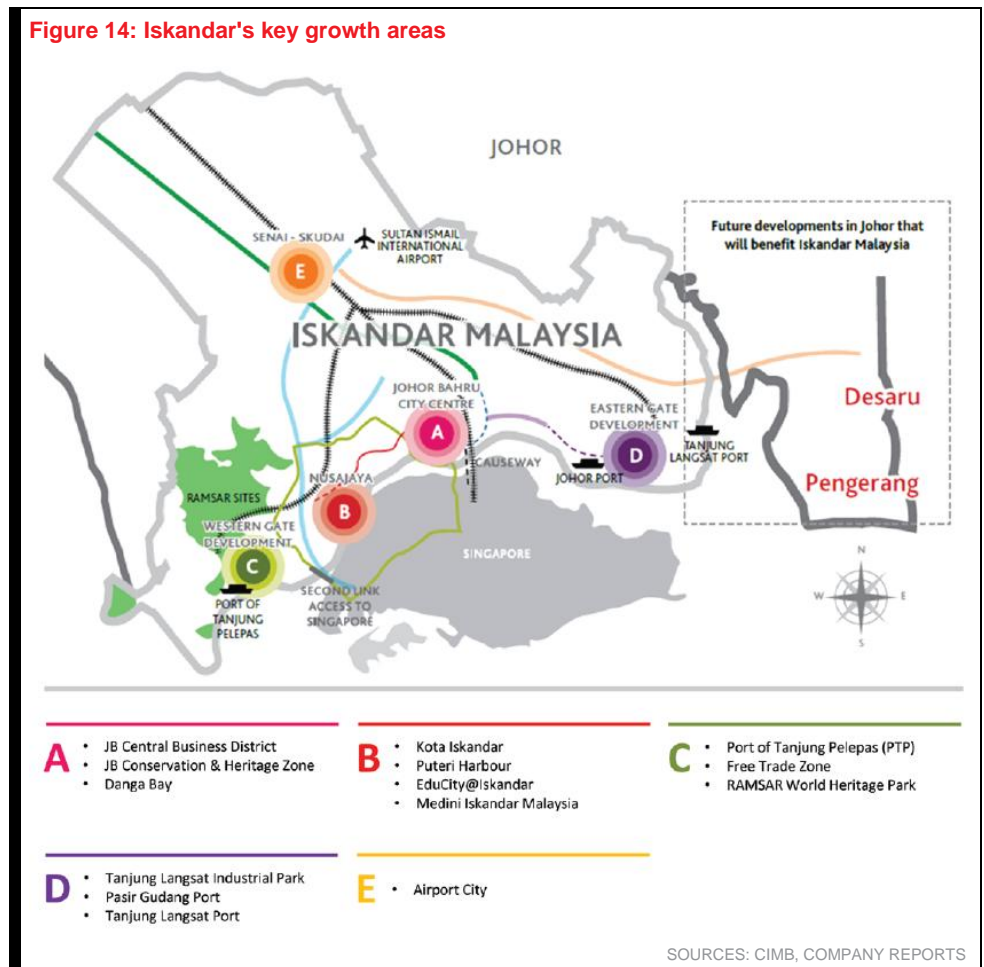
#### 3.1 "Goldmine" in the West and East of Johor ▶

The vast potential of South Johor lies in downstream oil & gas, which falls under Entry Point Projects (EPP) 4 and 13 of the ETP Oil, Gas and Energy (OGE) initiative. These will support the continued efforts of domestic oil & gas production and more importantly, the expansion of downstream oil & gas facilities by attracting international oilfield service majors, unlocking gas demand through LNG imports and increasing petrochemical output. The ultimate aim is to make Malaysia the No. 1 Asian hub for oilfield services. To achieve this, the next thing to do is to develop the best logistics, and this is where South Johor (located near Iskandar) comes in.

#### 3.2 Benalec could emerge a big beneficiary ▶

Being one of the pioneers in marine and civil engineering since its establishment in 1978 and touted as the most cost-efficient/competitive in land reclamation, Benalec has its sights on the major oil-&-gas-related developments under ETP. With most of the projects located in coastal areas, there is massive land to be reclaimed, both at the east (Pengerang) and west ends (near Zone C) of Johor/Iskandar. These areas have the potential to become major oil & gas storage and trading hubs.

Figure 14: Iskandar's key growth areas



### 3.3 South Johor has the geographical advantage ►

South Johor has the geographical advantage to become a regional oil & gas storage hub. Before Tanjung Piai (announced in Nov 2011), there were three ongoing storage tank facilities, located in: 1) Tanjung Bin, 2) Tanjung Langsat, and 3) Pengerang with a total storage capacity of 10m cu m3. Given Iskandar's proximity to Singapore and a shortage of oil & gas storage areas in Singapore, expansion in logistics now focuses on Iskandar. The economics makes sense, since there has been increasing demand to build oil & gas storage capacity in the region that would have spinoffs for the oil-trading business, refineries, petrochemical complexes and LNG regas terminals.



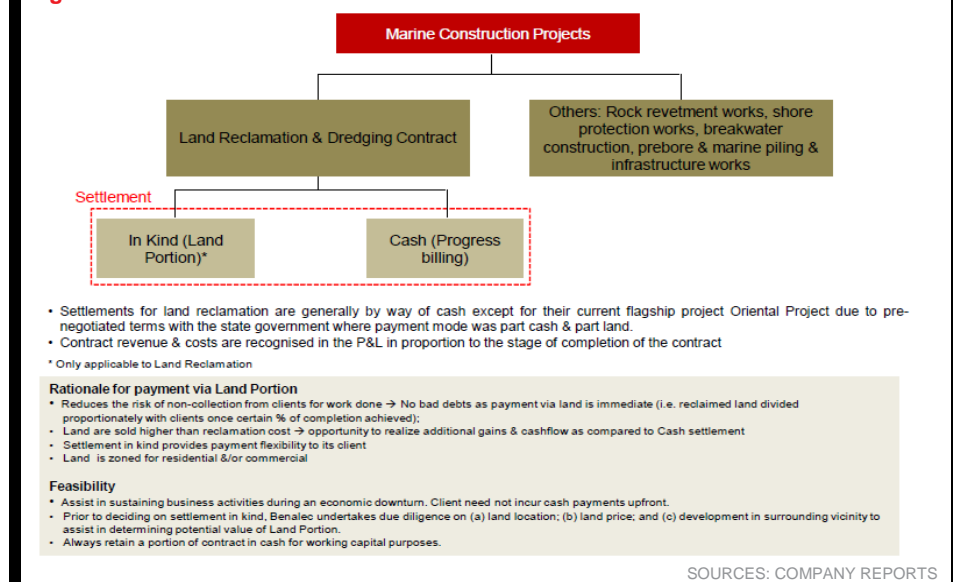
**Figure 15: How South Johor commands its geographical advantage**



### 3.4 Benalec's prospects in South Johor

There are land-reclamation and land-sale opportunities in the massive 3,435-acre Tanjung Piai and 1,760-acre Pengerang. Benalec has a first-mover advantage, as it has signed a Development Agreement (DA) with the state of Johor. This agreement provides the group with the rights to reclaim land at Tanjung Piai for 20 years and Pengerang for 10 years.

**Figure 16: Marine construction business**



### 3.5 South Johor exposure: Tanjung Piai and Pengerang

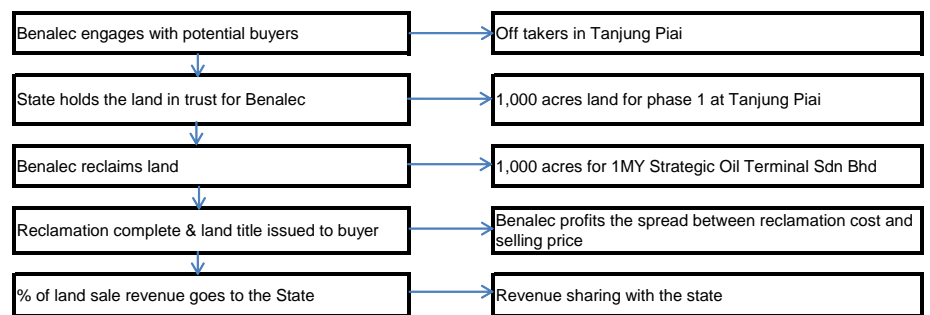
The development of a 3,485-acre petroleum and petrochemical hub and maritime industrial park in Tanjung Piai (over 10-15 years) and a 1,760-acre petroleum and petrochemical hub and maritime industrial park in Pengerang (over 10 years) should provide larger reclamation and land-sale opportunities for Benalec, beyond its ongoing jobs in Melaka. The group has yet to start reclamation work in Pengerang while Tanjung Piai is making good progress given a shortage of oil storage facilities in Jurong, Singapore. Tanjung Piai will entail man-made reclamation with Phase 1 measuring 2k acres and Phase 2,

1,485 acres. Under ETP, it will be developed into Malaysia's second major oil-trading hub.

### 3.6 Milestone for Tanjung Piai in 2013

2013 marked a major milestone for the group in Johor. On 12 Mar 13, Benalec announced the signing of a binding term sheet with the State Secretary of Johor and 1MY Strategic Oil Terminal Sdn Bhd to undertake reclamation work and the sale of 1k acres of land off the coast of Tanjung Piai. This will be the first phase of reclamation work for the group, commencing in 1H2014, subject to the signing of a sale-and-purchase agreement (SPA) with the off-taker. The SPA is supposed to be finalised within three months from the signing of the term sheet, or by 12 Jun 13. The project has yet to be granted environmental impact assessment (EIA) approval. Once this project takes off, potential earnings contribution is huge. Working on a RM52 psf average reclamation cost and RM65 psf selling price (RM13 psf surplus value), and assuming that the entire total work will be paid in land swaps, Benalec could gain RM566m over 4 years from FY14 or RM142m p.a.

Figure 17: Simplified process flow for the Tanjung Piai deal



SOURCES: BENALEC

Figure 18: Reclamation projects in Pengerang and Tanjung Piai

#### i. Tanjung Piai Reclamation

- 3,485 acres at Tanjung Piai, Johor
- Phase 1 : 2,000 acres & Phase 2&3 : 1,485 acres
- A 'man-made island' reclamation concept
- Duration : 10-15 years

#### ii. Pengerang Reclamation

- 1,760 acres at Pengerang, Johor
- A 'Peninsular reclamation' concept
- Duration : 10 years
- Earmarked for container port and maritime industries

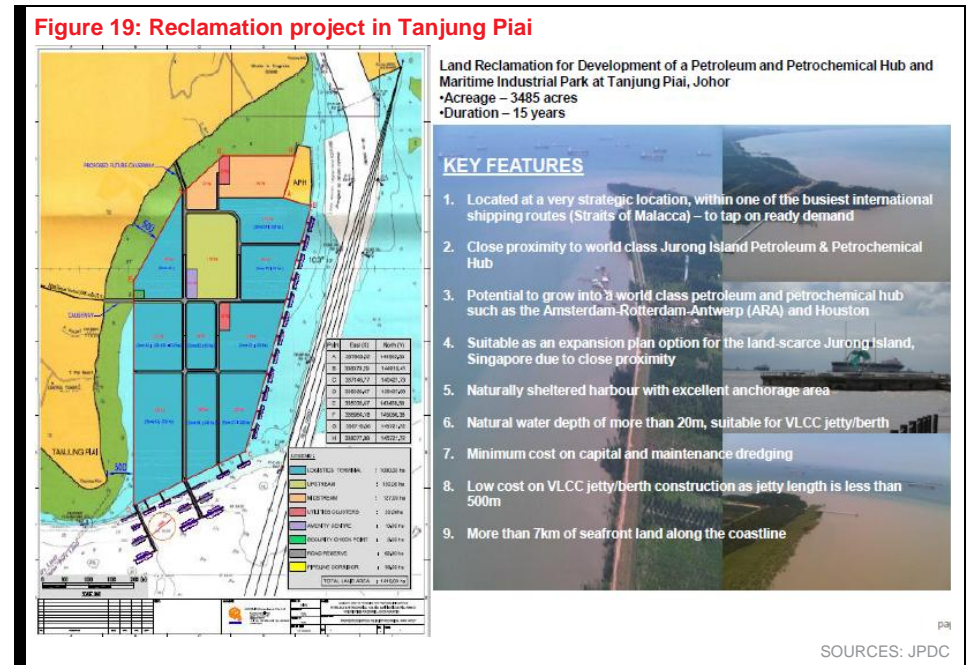


SOURCES: JPDC

### 3.7 A "master developer" for oil & gas hubs

We are positive on the group's prospects in Tanjung Piai. Over the longer term and given the vast opportunities for land reclamation, the group could emerge as a "master developer" for oil & gas hubs in the southern region. Also, with other oil-&-gas and industrial-related ventures coming onstream in Tanjung Piai, we would not discount the possibility of an extension of its

land-reclamation model from land swaps to potential equity stakes in the ventures for recurring income. At this juncture, given the superior margins coming from only reclamation and land swaps, the group does not plan to become a full-fledged property developer.



## 4. RISKS

### 4.1 What could go wrong for Tanjung Piai? »

While we acknowledge South Johor's rising appeal as an alternative location for oil-&-gas-related storage terminals, petrochemical complexes and the likes, developments are still in the early stages. The only two ventures in South Johor/Greater Iskandar that are now in advanced stages of execution are Petronas's RM60bn Refinery and Petrochemical Integrated Development (Rapid) project and Dialog-Vopak's RM4bn LNG Terminal located within the Pengerang Integrated Petrochemical Complex (PIPC). For Tanjung Piai (the western side of Johor), the term sheet signed between Benalec, the state of Johor and the off-taker marks the first potential venture to develop an oil & gas terminal. This is positive but there has to be progress on the SPA for Benalec to lock in the first phase of 1k reclamation works. What could go wrong are delays in the SPA.

### 4.2 Environmental Impact Assessment (EIA) »

The Ramsar Convention on Wetlands is an intergovernmental treaty that ensures that member countries maintain the ecological character of their wetlands and plan for their sustainable use. Ramsar announced in Jun 03 that it had designated three new Ramsar sites in the state of Johor: Pulau Kukup (647ha), Sungai Pulai (9,126ha) and Tanjung Piai (526ha). According to Ramsar's website ([www.ramsar.org](http://www.ramsar.org)), including Tasek Bera, Malaysia has four Ramsar sites. Tanjung Piai has been designated a Ramsar site as it features coastal mangroves which supports many threatened wetland-dependant species. To date, we understand that the development of Tanjung Piai into a petroleum hub and maritime industrial park has yet to be granted EIA approval. This could emerge as the next hurdle after the signing of the SPA. We understand that EIA approval is targeted for completion before end-2013.

Figure 20: Ramsar sites in Johor



### 4.3 Execution »

Benalec's execution risks are minimal, in our view. The group's track record in undertaking various small to medium reclamation projects for both private clients and local state governments supports this view. Benalec's operational model for land reclamation is highly scalable, supported by its fleet of 93 vessels which ensures optimum cost efficiency. The group's capacity would not be too stretched if it undertakes the massive 1k acre reclamation for Phase 1 of Tanjung Piai. Completing reclamation in Melaka over the next 6-9 months would gradually free up capacity.

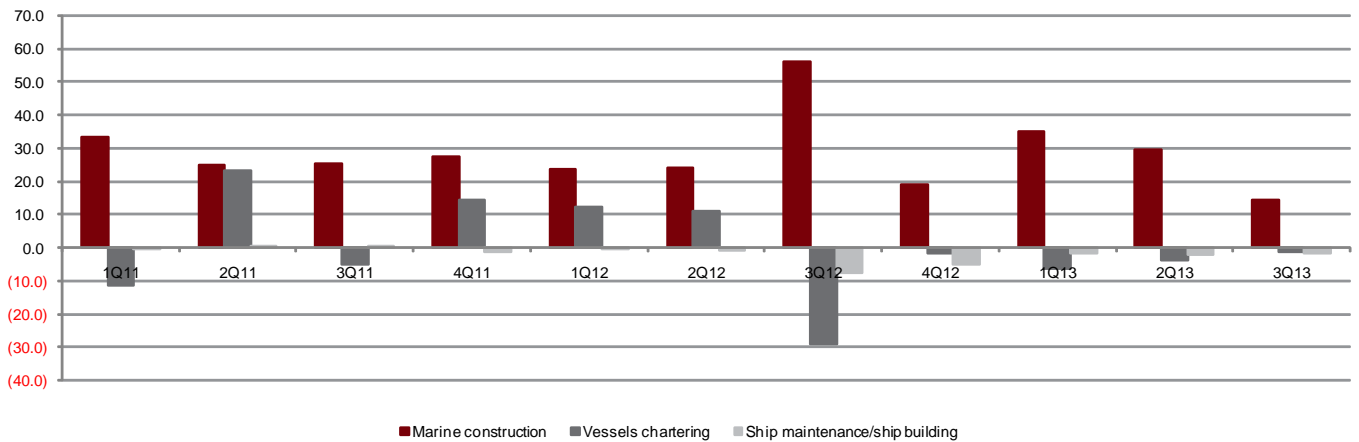
## 5. FINANCIALS

### 5.1 Volatile earnings backed by land-sale gains »

For 9MFY13, Benalec had yet to secure any land-sale gains. This compared with land-sale gains of RM14.5m in FY11, and RM64.2m in FY12. We do not expect any land sale gains in 4QFY13 as shareholders approval for the sale of the 80-acre land in Melaka would be finalised in 1QFY14. We are not too jittery as profits for land reclamation depend purely on progress billings, which fluctuate with construction work progress. Also, the pricing for potential land sales is dictated by demand and supply and the ability of Benalec to secure buyers. We expect earnings volatility to smoothen out from FY14, from reclamation profits and land-sale gains from Tanjung Piai Phase 1, which will be executed for one customer/off-taker. Profits from land reclamation should continue to overwhelm losses from vessel chartering and ship maintenance/ship building.



Figure 21: Quarterly pretax profits for all segments (RM m)

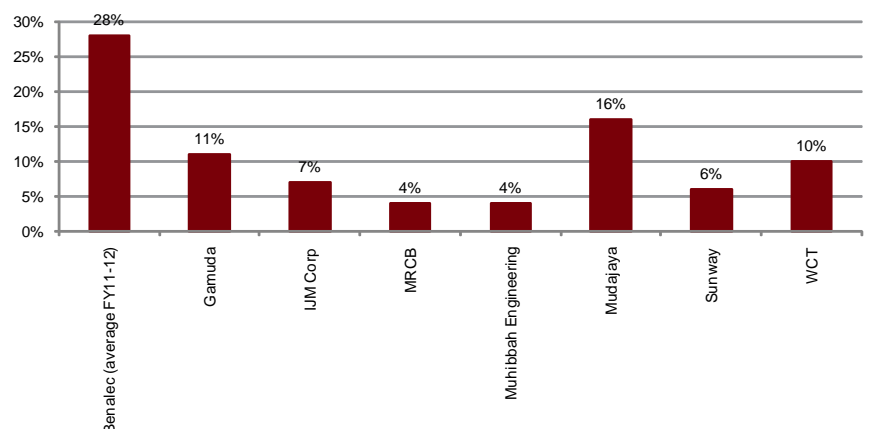


SOURCES: CIMB, COMPANY REPORTS

## 5.2 Above-industry margins

Historical pretax margins for marine construction were 20-28% (ex-land-sale gains). Average pretax margins in the eight quarters of FY11-12 averaged 28%, at the higher end of the group's historical range. With land-sale gains, pretax margins would go as high as 77%, as in 4Q12. Marine construction/land reclamation pretax margins of 20-28% are superior to the 7-11% construction margins for big-cap contractors like Gamuda and IJM Corp and far exceeding the 4-15% construction pretax margins of smaller-mid-sized players like WCT, MRCB, Mudajaya, Muhibbah Engineering and Sunway. We believe Benalec's high margins can be sustained by its low-cost reclamation model. Any risks to future reclamation margins should be compensated by gains from land sales, which should be the case for future reclamation jobs in Iskandar as the reclamation cost is higher than Melaka. Diesel is its main raw material, at 30-40% of its raw-material purchases.

Figure 22: Benalec's pretax margins vs. the other major contractors



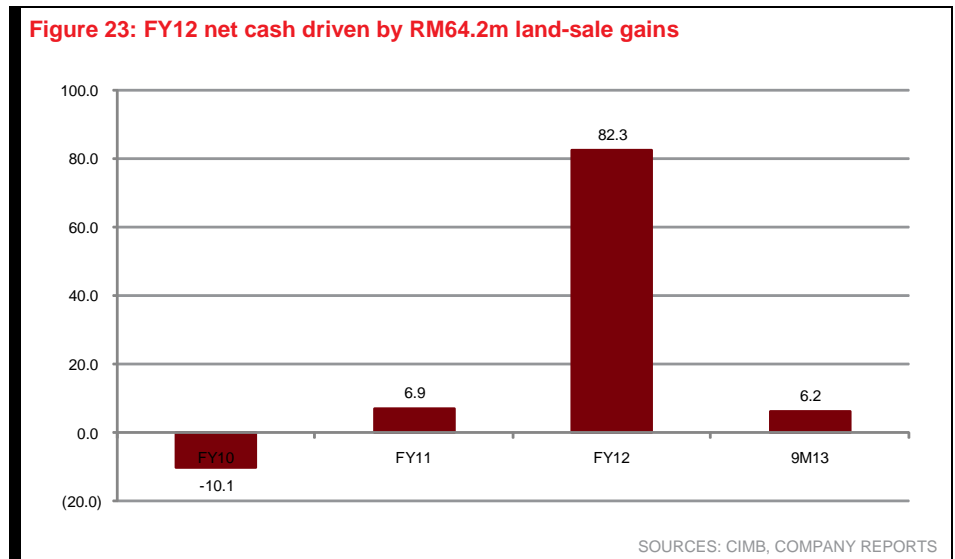
SOURCES: CIMB, COMPANY REPORTS

## 5.3 Strong net cash in FY12 due to land-sale gains

FY12 net cash was RM82.3m. The surge in FY12 was spearheaded by a RM64.2m gain from land sales (RM15m gain from land sales in FY11). As at 9M13, Benalec's net cash was RM6.2m, with no land sales. The group is likely to close FY13 with a net debt position as no land sales are expected in 4Q13. For

FY14-15, we forecast the group to be in net cash position driven by land-sale gains.

**Figure 23: FY12 net cash driven by RM64.2m land-sale gains**



## 6. SWOT

### 6.1 Favourable SWOT analysis ▶

One of Benalec's key strengths is its competitive advantage against the other players in the segment, led by its land-reclamation track record in Melaka and aggressive duplication of its success in Iskandar, where major oil & gas petrochemical complexes are being planned. We are not too concerned about the sustained losses of its vessel and shipyard divisions as these divisions internally enable the group to maximise cost efficiency and maintain its reclamation costs low. After Melaka, its longer-term source of growth should be Iskandar. There would be higher conviction and clarity on its prospects in Iskandar once the SPA and EIA are cleared for Phase 1 in Tanjung Piai.

**Figure 24: SWOT**

#### Strengths

- Pioneer in marine engineering since 1978
- Owns a large fleet of vessels - maximises cost efficiency
- Dominant market share
- Proactive in initiating reclamation rights with state governments
- Scaleable business model including payment in land

#### Opportunities

- More reclamation opportunities in Melaka
- More coastal protection works in Peninsula Malaysia
- Reclamation opportunities in Penang
- Large-scale reclamation opportunities in Tg. Piai
- Large-scale reclamation opportunities in Pengerang

#### Weaknesses

- Losses for vessels and shipyard divisions
- Timing for the signing of sale and purchase agreement (SPA)
- Approval of EIA could delay reclamation works in Iskandar
- Recognition of gains from land sale tends to be lumpy
- Progress billings for land reclamation works tend to be lumpy

#### Threats

- Delay in securing additional reclamation works
- Prolonged EIA approval for reclamation jobs in Iskandar
- Rising operating costs for reclamation works
- Slow progress of future off takers in Tg. Piai and Pengerang
- Emergence of other players which are more competitive

SOURCES: CIMB

## 7. VALUATION AND RECOMMENDATION

### 7.1 Initiate with Trading Buy ▶

Benalec is the only land-reclamation contractor with a land-swap business, matched by no other players in its field. Margins are superior to the sector's with upside from gains from land sales. Its strongest appeal is prospects in Iskandar. We begin coverage with a Trading Buy and RM2.01 target price, based on a 20% discount to RNAV. This gives investors 45% potential upside. Our 20% RNAV discount is in line with the discount we ascribe to Sunway which also benefits from Iskandar, though bigger than the 10% discounts we

use for Gamuda and IJM Corp given Benalec's smaller market cap. We believe it is high time to take a close look at the group's potential as a major player in land reclamation. Our recommendation is a Trading Buy and not an Outperform as sentiment on the stock should be event-driven in the next three months, starting with the signing of the SPA for the first-phase reclamation job (due on 12 Jun 13) at Tanjung Piai. The stock is one of the laggards in the Iskandar rally and is now our top pick in the smaller-cap space, replacing Mudajaya.

## 7.2 RNAV valuation ▶

Main components of our RNAV are CY14 net profits for the group's marine construction, pegged to our target market P/E of 15.6x. We have excluded vessel chartering and its shipyard as those divisions are in losses. Vessel chartering's valuations are reflected by the NBV of its fleet of 93 vessels worth RM205m, while we include the NBV of the 17-acre land for its shipyard operations.

## 7.3 Still undervalued, excluding Iskandar ▶

The RM187m land held for sale in our valuation represents the NBV of the 250-acre land on the group's balance sheet from land swaps in Melaka. We also include the value of outstanding land in Melaka, assuming the group can monetise 200 acres in FY14, based on a RM13 psf surplus value. For Tanjung Piai, we assume the group can monetise 30% of Phase 1 or 333 acres in FY14, also based on a conservative RM13 psf surplus value. Our sensitivity analysis suggests that a base-case RNAV which excludes Tanjung Piai's prospects still looks attractive. Removing Tanjung Piai cuts our RNAV/share from RM2.51 to RM2.35. Based on a 20% RNAV discount, the stock is thus worth RM1.88 (35% upside). Optimistically, we estimate a 51% upside to RNAV/share of RM2.51 if we factor in all the potential land sale gains including Pengerang land (see appendix)

Figure 25: RNAV

| Business components  | CY14                          |              |                            |                 |
|--|-------------------------------|--------------|----------------------------|-----------------|
|  | net profit<br>(RM m)          | Stake<br>(%) | P/E<br>(x)                 | Value<br>(RM m) |
| Marine construction  | 87.4                          | 100%         | 15.6                       | 1,363.2         |
| NBV of land held for sale (3QFY6/13)   |                               |              |                            | 186.5           |
| NBV of shipyard land (FY12)  |                               |              |                            | 12.6            |
| NBV of 93 fleet of vessels (as at FY10)  |                               |              |                            | 205.2           |
|  | Land<br>available<br>for sale | Stake<br>(%) | Surplus<br>value<br>RM psf |                 |
| Melaka land (600 acres balance unreclaimed, 400 acres in land inventory)                       | 200.0                         | 100%         | 13.0                       | 113.3           |
| Tanjung Piai land phase 1 (1,000 acres over 4 years from FY14)                                 | 333.3                         | 70%          | 13.0                       | 132.1           |
| Debt (3QFY6/13)  |                               |              |                            | (33.0)          |
| Cash (3QFY6/13)  |                               |              |                            | 39.2            |
| <b>RNAV</b>  |                               |              |                            | <b>2,019.1</b>  |
| No. of shares  |                               |              |                            | 804.1           |
| <b>RNAV/share</b>  |                               |              |                            | <b>2.51</b>     |
| RNAV discount  |                               |              |                            | 20%             |
| <b>Target price (RM)</b>   |                               |              |                            | <b>2.01</b>     |
| <i>RNAV excludes loss making vessel chartering &amp; shipbuilding segments</i>                 |                               |              |                            |                 |
| <i>RNAV includes the NBV of shipyard land and NBV of 93 vessels</i>                            |                               |              |                            |                 |
| <i>RNAV includes NBV of land held for sale from Melaka project at RM16.8 psf</i>               |                               |              |                            |                 |
| <i>Melaka land monetisation assumes RM28 psf selling price less RM22 psf reclamation cost</i>  |                               |              |                            |                 |
| <i>Tanjung Piai land phase 1 assumes RM65 psf selling price less RM52 psf reclamation cost</i> |                               |              |                            |                 |
| <i>Size of land sale assumed and surplus value are conservative</i>                            |                               |              |                            |                 |
| <i>20% RNAV discount is similar to our basis for Sunway which rides on the Iskandar theme</i>  |                               |              |                            |                 |

SOURCES: CIMB, COMPANY REPORTS

## 7.4 Major laggard in Iskandar rally ▶

Benalec is a major laggard in the recent Iskandar-related rally. Screening the YTD share prices of various property developers and contractors with land in Iskandar, their average share price has surged 54%. This compares with Benalec's +3% YTD. Though the stock plunged to its low of RM1.14 in Feb 13 due to election risks and concerns of further delays in Johor, it has recovered to levels before election risks set in. In our view, its current share price does not reflect its prospects in Iskandar. Excluding UEM Land, which owns 8,426 acres of land in Iskandar, other property developers own 210-1,858 acres. Assuming that Benalec swaps 50% of its entire 3,485 acres in Tanjung Piai and 1,760 acres in Pengerang, it could potentially own 2,623 acres of reclaimed land over time.

**Figure 26: YTD share-price performances of companies with Iskandar exposure**

| Bloomberg    |         | Share price 31 Dec 12 | Last price | % chg |
|--------------|---------|-----------------------|------------|-------|
| Companies    | Ticker  | (RM)                  | (RM)       |       |
| UEM Land     | ULHB MK | 2.10                  | 3.41       | 62%   |
| Tebrau Teguh | TEB MK  | 0.71                  | 1.66       | 135%  |
| KSL          | KSL MK  | 1.44                  | 2.20       | 53%   |
| Plenitude    | PLEN MK | 1.83                  | 2.18       | 19%   |
| Daiman       | DD MK   | 1.81                  | 2.84       | 57%   |
| Crescendo    | CCDO MK | 1.82                  | 3.37       | 85%   |
| Mah Sing     | MSGB MK | 1.87                  | 3.15       | 68%   |
| E&O          | EAST MK | 1.56                  | 2.16       | 38%   |
| Sunway       | SWB MK  | 2.33                  | 3.98       | 71%   |
| Gamuda       | GAM MK  | 3.58                  | 4.85       | 35%   |
| IJM Corp     | IJM MK  | 4.98                  | 5.70       | 14%   |
| WCT          | WCT MK  | 2.31                  | 2.63       | 14%   |
| Benalec      | BHB MK  | 1.35                  | 1.39       | 3%    |

SOURCES: CIMB, COMPANY REPORTS

**Figure 27: Land bank of various developers vs Benalec's potential land bank in Iskandar**

|              |              |              |              |               |              |            |               | GDV        |
|--------------|--------------|--------------|--------------|---------------|--------------|------------|---------------|------------|
|              | Kuala Lumpur | Selangor     | Penang       | Johor         | Others       | Overseas   | Total         | (RM bn)    |
| E&O          | 16           | 310          | 936          | 210           | -            | -          | 1,471         | 40         |
| Mah Sing     | 153          | 910          | 100          | 468           | 13           | -          | 1,644         | 15         |
| SP Setia     | 91           | 3,519        | 74           | 1,037         | 42           | 566        | 5,329         | 60         |
| Sunway       | -            | 814          | 127          | 1,858         | 998          | 97         | 3,894         | 31         |
| UEM Land     | 82           | 535          | -            | 8,426         | 2,681        | 4          | 11,728        | 76         |
| UOA Dev      | 104          | 10           | -            | -             | -            | -          | 114           | 13         |
| <b>Total</b> | <b>445</b>   | <b>6,098</b> | <b>1,237</b> | <b>11,999</b> | <b>3,734</b> | <b>668</b> | <b>24,180</b> | <b>234</b> |
| Benalec      | 0            | 0            | 0            | 2,623         | 400          | 0          | 3,023         | NA         |

SOURCES: CIMB, COMPANY REPORTS



**Figure 28: Benalec's land held for sale (FY12)**

| Description                                   | Land area<br>(acres) | Existing usage           | Tenure                             | NBV as at<br>30/06/2012<br>(RM) | Date on<br>acquisition<br>(based of<br>title date) |
|---|----------------------|--------------------------|------------------------------------|---------------------------------|--|
| Kawasan Bandar VI, Melaka Tengah, Melaka      | 5.3                  | Vacant land/ Residential | Leasehold & expiring on 18/05/2105 | 3,713,673                       | 19/05/2006   |
| Pekan Klebang Sek. III, Melaka Tengah, Melaka | 53.9                 | Vacant land/ Residential | Leasehold & expiring on 28/11/2109 | 38,183,218                      | 29/11/2010   |
| Pekan Klebang Sek. III, Melaka Tengah, Melaka | 5.0                  | Vacant land/ Residential | Leasehold & expiring on 09/12/2109 | 3,262,360                       | 10/12/2012   |
| Pekan Klebang Sek. III, Melaka Tengah, Melaka | 31.0                 | Vacant land/ Residential | Leasehold & expiring on 09/12/2109 | 20,607,722                      | 10/12/2012   |
| Pekan Klebang Sek. II, Melaka Tengah, Melaka  | 7.8                  | Vacant land/ Commercial  | Leasehold & expiring on 09/12/2109 | 3,569,180                       | 10/12/2012   |
| Pekan Klebang Sek. II, Melaka Tengah, Melaka  | 7.9                  | Vacant land/ Commercial  | Leasehold & expiring on 09/12/2109 | 3,613,030                       | 10/12/2012   |
| Pekan Klebang Sek. II, Melaka Tengah, Melaka  | 5.5                  | Vacant land/ Commercial  | Leasehold & expiring on 15/11/2110 | 3,143,945                       | 16/11/2011   |
| Pekan Klebang Sek. II, Melaka Tengah, Melaka  | 5.5                  | Vacant land/ Commercial  | Leasehold & expiring on 15/11/2110 | 3,143,945                       | 16/11/2011   |
| Pekan Klebang Sek. II, Melaka Tengah, Melaka  | 7.1                  | Vacant land/ Commercial  | Leasehold & expiring on 15/11/2110 | 4,050,005                       | 16/11/2011   |
| Pekan Klebang Sek. II, Melaka Tengah, Melaka  | 41.6                 | Vacant land/ Commercial  | Leasehold & expiring on 24/04/2111 | 39,723,058                      | 25/04/2012   |
| Kawasan Bandar VI, Melaka Tengah, Melaka      | 9.8                  | Vacant land/ Residential | Leasehold & expiring on 21/07/2110 | 6,783,439                       | 22/07/2011   |
| Kawasan Bandar VI, Melaka Tengah, Melaka      | 5.0                  | Vacant land/ Residential | Leasehold & expiring on 21/07/2110 | 3,487,322                       | 22/07/2011   |
| Kawasan Bandar VI, Melaka Tengah, Melaka      | 36.1                 | Vacant land/ Residential | Leasehold & expiring on 24/04/2111 | 28,030,960                      | 25/04/2012   |
| Kawasan Bandar VI, Melaka Tengah, Melaka      | 28.5                 | Vacant land/ Residential | Leasehold & expiring on 24/04/2111 | 22,153,351                      | 25/04/2012   |
|   | <b>250.0</b>         |                          |                                    | <b>183,465,208</b>              |  |

SOURCES: CIMB, COMPANY REPORTS

## 8. APPENDIX

### 8.1 Key management ▶

**Group MD - Dato' Leaw Seng Hai**, a Malaysian aged 50, was appointed to the Board as a Director on 12 Jul 05 and was re-designated Group Managing Director on 5 Oct 10. He obtained a Bachelor of Science (Engineering) with Second Class Honours (Upper Division) from the University College of London, UK in 1985. Upon graduation, he joined the family's civil-engineering business as a Site Engineer. He was promoted to Project Manager in 1992 and assumed the position of Managing Director in 1994. He has accumulated extensive marine-construction and business-management knowledge over these past 25 years.

Currently, he leads the Group in conceptualising, formalising and implementing strategies, planning and management with a focus on corporate development. He has been the driving force behind the Group's remarkable growth and expansion. He is the brother of Datuk Leaw Tua Choon and Leaw Ah Chye, both Executive Directors. He is also a Director of Ocean Cove Sdn Bhd, a major shareholder of the Company. He holds securities in the Company and is an indirect major shareholder of the Company.

**ED - Datuk Leaw Tua Choon**, a Malaysian aged 53, was appointed to the Board as an Executive Director on 5 Oct 10. He obtained a degree of Bachelor of Science from the North East London Polytechnic, UK in 1985. Upon graduation, he joined the family's civil-engineering business and has since accumulated more than 25 years of experience in civil and marine construction. He has extensive experience in managing the Group's wide spectrum of marine-construction works, including dredging, reclamation, rock revetment work, marine structures and jetties, breakwaters, shore protection, beach nourishment, pre-bore and marine piling work. He is presently overseeing the Group's extensive reclamation works at Melaka. He is a Director and major shareholder of Ocean Cove Sdn Bhd.

**ED - Mr Leaw Ah Chye**, a Malaysian aged 51, was appointed to the Board as a Director on 12 Jul 05 and was re-designated an Executive Director on 5 Oct 10. He has accumulated more than 30 years of experience in civil and marine construction. He is in charge of maintenance and repair servicing of vessels, heavy machinery, plant and equipment used in the Group's marine-construction work. He also manages the repair and maintenance of tugboats and steel barges, including the construction of several vessels used for

dredging and land reclamation. He is a Director and major shareholder of Oceancove Sdn Bhd, a major shareholder of Benalec.

## 8.2 Best-case RNAV ▶

Our best-case RNAV factors in all the land available for sale in Melaka, Tanjung Piai phase 1, and Pengerang phase 1 (assumed 880 acres). This provides a 52% upside to our base-case RNAV/share of RM2.51. Using an unchanged 20% RNAV discount, the stock is worth RM3.05.

**Figure 29: RNAV: best-case including potential land reclamation at Pengerang**

|  | CY14                          |              |                            |                 |
|--|-------------------------------|--------------|----------------------------|-----------------|
|  | net profit<br>(RM m)          | Stake<br>(%) | P/E<br>(x)                 | Value<br>(RM m) |
| Business components  |                               |              |                            |                 |
| Marine construction  | 87.4                          | 100%         | 15.6                       | 1,363.2         |
| NBV of land held for sale (3QFY6/13)   |                               |              |                            | 186.5           |
| NBV of shipyard land (FY12)  |                               |              |                            | 12.6            |
| NBV of 93 fleet of vessels (as at FY10)  |                               |              |                            | 205.2           |
|  | Land<br>available<br>for sale | Stake<br>(%) | Surplus<br>value<br>RM psf |                 |
| Melaka land (600 acres balance unreclaimed, 400 acres in land inventory)                       | 400.0                         | 100%         | 13.0                       | 226.5           |
| Tanjung Piai land phase 1 (1,000 acres over 4 years from FY14)                                 | 1,000.0                       | 70%          | 13.0                       | 396.4           |
| Pengerang land (assumed phase 1: 880 acres)  | 880.0                         | 70%          | 25.0                       | 670.8           |
| Debt (3QFY6/13)  |                               |              |                            | (33.0)          |
| Cash (3QFY6/13)  |                               |              |                            | 39.2            |
| <b>RNAV</b>  |                               |              |                            | <b>3,067.4</b>  |
| No. of shares  |                               |              |                            | 804.1           |
| <b>RNAV/share</b>  |                               |              |                            | <b>3.81</b>     |
| RNAV discount (unchanged)  |                               |              |                            | 20%             |
| <b>Implied target price (RM)</b>   |                               |              |                            | <b>3.05</b>     |
| <i>RNAV excludes loss making vessel chartering &amp; shipbuilding segments</i>                 |                               |              |                            |                 |
| <i>RNAV includes the NBV of shipyard land and NBV of 93 vessels</i>                            |                               |              |                            |                 |
| <i>RNAV includes NBV of land held for sale from Melaka project at RM16.8 psf</i>               |                               |              |                            |                 |
| <i>Melaka land monetisation assumes RM28 psf selling price less RM22 psf reclamation cost</i>  |                               |              |                            |                 |
| <i>Tanjung Piai land phase 1 assumes RM65 psf selling price less RM52 psf reclamation cost</i> |                               |              |                            |                 |
| <i>Assumed Pengerang land phase 1 of 880 acres, RM25 psf surplus value</i>                     |                               |              |                            |                 |
| <i>Size of land sale assumed and surplus value are conservative</i>                            |                               |              |                            |                 |
| <i>20% RNAV discount is similar to our basis for Sunway which rides on the Iskandar theme</i>  |                               |              |                            |                 |

SOURCES: CIMB, COMPANY REPORTS

## 9. TECHNICAL VIEW ON BENALEC

### 9.1 Breakout above major resistance trendline would be bullish ▶

Since its RM1.55 Aug-2011 high, Benalec's share price has been trading sideways. However, we see signs of this sideways trend ending and a new uptrend could have already started for the stock. The monthly and weekly MACD and RSI is positive, likely sign of a medium term uptrend is taking place.

However, the stock is trading just below its major resistance trendline since Aug-2011 (at RM1.42) with its next resistance at RM1.55, the Aug-2011 last high. Average trading volume the past month was around 12m shares. A breakout above the major resistance trendline supported by strong trading volume would be a medium term bullish sign for the stock.

**Figure 30: Weekly chart for Benalec (RM1.40)**



**Figure 31: Monthly chart for Benalec (RM1.40)**



**Figure 32: Sector Comparisons**

| Company                      | Bloomberg Ticker | Recom.       | Price        | Target Price | Market Cap (US\$ m) | Core P/E (x) |             | 3-year EPS CAGR (%) | P/BV (x)    |             | Recurring ROE (%) |              | Dividend Yield (%) |             |
|------------------------------|------------------|--------------|--------------|--------------|---------------------|--------------|-------------|---------------------|-------------|-------------|-------------------|--------------|--------------------|-------------|
|                              |                  |              | (local curr) | (local curr) |                     | CY2013       | CY2014      |                     | CY2013      | CY2014      | CY2013            | CY2014       | CY2013             | CY2014      |
| Gamuda                       | GAM MK           | Outperform   | 4.85         | 5.60         | 3,492               | 17.4         | 15.6        | 15.0%               | 4.86        | 4.39        | 28.9%             | 29.5%        | 2.4%               | 2.4%        |
| IJM Corp Bhd                 | IJM MK           | Outperform   | 5.70         | 6.80         | 2,560               | 17.6         | 14.8        | 14.7%               | 2.96        | 2.91        | 17.4%             | 19.8%        | 2.3%               | 2.5%        |
| Malaysian Resources Corp     | MRC MK           | Outperform   | 1.70         | 1.98         | 761                 | 38.6         | 37.8        | 4.3%                | 2.56        | 2.39        | 6.8%              | 6.5%         | 3.1%               | 1.4%        |
| Muhibbah Engineering         | MUHI MK          | Outperform   | 1.41         | 1.83         | 185                 | na           | 7.7         | 11.2%               | 0.92        | 0.88        | -16.0%            | 11.8%        | 1.8%               | 2.1%        |
| Mudajaya Group               | MDJ MK           | Outperform   | 2.69         | 3.25         | 471                 | 6.2          | 6.8         | 8.0%                | 1.18        | 0.95        | 21.3%             | 15.4%        | 3.3%               | 3.7%        |
| Sunway Bhd                   | SWB MK           | Outperform   | 3.98         | 4.51         | 1,660               | 13.9         | 12.9        | 5.9%                | 1.50        | 1.30        | 11.7%             | 10.9%        | 1.5%               | 2.4%        |
| WCT Bhd                      | WCT MK           | Outperform   | 2.63         | 3.11         | 927                 | 13.6         | 12.1        | 14.6%               | 1.69        | 1.44        | 12.9%             | 12.8%        | 2.7%               | 3.1%        |
| Benalec Holdings             | BHB MK           | Trading Buy  | 1.39         | 2.01         | 361                 | 15.7         | 16.5        | -7.8%               | 2.05        | 1.69        | 14.7%             | 11.2%        | 1.3%               | 1.0%        |
| <b>Malaysia average</b>      |                  |              |              |              |                     | <b>21.1</b>  | <b>15.9</b> | <b>13.9%</b>        | <b>3.33</b> | <b>3.14</b> | <b>16.2%</b>      | <b>20.3%</b> | <b>2.4%</b>        | <b>2.3%</b> |
| Adhi Karya                   | ADHI IJ          | Neutral      | 3,850        | 3,300        | 707                 | 32.8         | 19.1        | 36.8%               | 5.91        | 4.69        | 20.5%             | 27.3%        | 0.7%               | 0.9%        |
| Pembangunan Perumahan        | PTPP IJ          | Outperform   | 1,580        | 1,800        | 780                 | 24.7         | 16.9        | 30.2%               | 4.62        | 3.79        | 21.0%             | 24.7%        | 0.9%               | 1.2%        |
| Total Bangun Persada         | TOTL IJ          | Outperform   | 1,480        | 1,350        | 515                 | 28.7         | 23.3        | 29.0%               | 7.66        | 6.55        | 28.4%             | 30.2%        | 3.0%               | 2.1%        |
| Wijaya Karya                 | WIKA IJ          | Outperform   | 2,600        | 2,850        | 1,624               | 34.2         | 24.8        | 37.8%               | 6.09        | 5.58        | 20.6%             | 24.7%        | 0.9%               | 1.2%        |
| <b>Indonesia average</b>     |                  |              |              |              |                     | <b>30.6</b>  | <b>21.4</b> | <b>34.5%</b>        | <b>5.82</b> | <b>5.02</b> | <b>21.6%</b>      | <b>25.8%</b> | <b>1.2%</b>        | <b>1.3%</b> |
| CH. Karnchang                | CK TB            | Outperform   | 25.75        | 35.00        | 1,398               | 74.9         | 37.4        | na                  | 4.97        | 2.54        | 7.5%              | 8.9%         | 1.0%               | 3.5%        |
| Italian-Thai Development     | ITD TB           | Underperform | 7.85         | 8.00         | 1,081               | 119.1        | 39.2        | na                  | 3.77        | 3.51        | 3.2%              | 9.1%         | 0.0%               | 0.6%        |
| Sino-Thai Eng & Construction | STEC TB          | Outperform   | 22.90        | 34.00        | 1,147               | 23.3         | 19.6        | 28.6%               | 4.42        | 4.35        | 19.5%             | 22.0%        | 2.4%               | 0.1%        |
| <b>Thailand average</b>      |                  |              |              |              |                     | <b>51.1</b>  | <b>30.0</b> | <b>na</b>           | <b>4.38</b> | <b>3.23</b> | <b>9.1%</b>       | <b>12.2%</b> | <b>1.0%</b>        | <b>1.6%</b> |
| Yongnam Holdings             | YNH SP           | Outperform   | 0.34         | 0.36         | 342                 | 9.8          | 6.5         | 6.7%                | 1.33        | 1.14        | 13.8%             | 19.0%        | 2.9%               | 2.9%        |
| <b>Singapore average</b>     |                  |              |              |              |                     | <b>9.8</b>   | <b>6.5</b>  | <b>6.7%</b>         | <b>1.33</b> | <b>1.14</b> | <b>13.8%</b>      | <b>19.0%</b> | <b>2.9%</b>        | <b>2.9%</b> |
| <b>Average (all)</b>         |                  |              |              |              |                     | <b>21.8</b>  | <b>17.2</b> | <b>27.9%</b>        | <b>3.04</b> | <b>2.65</b> | <b>15.0%</b>      | <b>16.5%</b> | <b>1.8%</b>        | <b>2.0%</b> |

SOURCES: CIMB, COMPANY REPORTS

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|                     |          |           |           |             |                  |
|---------------------|----------|-----------|-----------|-------------|------------------|
| <b>Score Range:</b> | 90 – 100 | 80 – 89   | 70 – 79   | Below 70 or | No Survey Result |
| <b>Description:</b> |          | Excellent | Very Good | Good        | N/A              |

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#### Spitzer Chart for stock being researched ( 2 year data )



Distribution of stock ratings and investment banking clients for quarter ended on 30 April 2013

1002 companies under coverage

|                                | Rating Distribution (%) | Investment Banking clients (%) |
|--------------------------------|-------------------------|--------------------------------|
| Outperform/Buy/Trading Buy     | 51.4%                   | 7.8%                           |
| Neutral                        | 35.1%                   | 4.7%                           |
| Underperform/Sell/Trading Sell | 13.5%                   | 4.9%                           |

#### Recommendation Framework #1 \*

##### Stock

**OUTPERFORM:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.

**NEUTRAL:** The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

**UNDERPERFORM:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.

**TRADING BUY:** The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 3 months.

**TRADING SELL:** The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 3 months.

##### Sector

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 3 months.

\* This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.

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#### Recommendation Framework #2 \*\*

##### Stock

**OUTPERFORM:** Expected positive total returns of 10% or more over the next 12 months.

**NEUTRAL:** Expected total returns of between -10% and +10% over the next 12 months.

**UNDERPERFORM:** Expected negative total returns of 10% or more over the next 12 months.

##### Sector

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over

**TRADING BUY:** Expected positive total returns of 10% or more over the next 3 months.

**TRADING SELL:** Expected negative total returns of 10% or more over the next 3 months.

the next 12 months.

**TRADING BUY:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.

**TRADING SELL:** The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 3 months.

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**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.**

AAV – not available, ADVANC - Excellent, AEONTS – Good, AMATA - Very Good, ANAN – not available, AOT - Excellent, AP - Very Good, BANPU - Excellent, BAY - Excellent, BBL - Excellent, BCH – not available, BCP - Excellent, BEC - Very Good, BGH - not available, BJC – Very Good, BH - Very Good, BIGC - Very Good, BTS - Excellent, CCET - Good, CENTEL – Very Good, CK - Very Good, CPALL - Very Good, CPF - Very Good, CPN - Excellent, DELTA - Very Good, DTAC - Very Good, EGCO – Excellent, ERW – Excellent, GLOBAL - Good, GLOW - Very Good, GRAMMY – Excellent, HANA - Very Good, HEMRAJ - Excellent, HMPRO - Very Good, INTUCH – Very Good, ITD – Very Good, IVL - Very Good, JAS – Very Good, KAMART – not available, KBANK - Excellent, KK – Excellent, KTB - Excellent, LH - Very Good, LPN - Excellent, MAJOR - Good, MAKRO – Very Good, MCOT - Excellent, MINT - Very Good, PS - Excellent, PSL - Excellent, PTT - Excellent, PTTGC - Excellent, PTTEP - Excellent, QH - Excellent, RATCH - Excellent, ROBINS - Excellent, RS – Excellent, SAMART – Excellent, SC – Excellent, SCB - Excellent, SCC - Excellent, SCCC - Very Good, SIRI - Good, SPALI - Very Good, SRICHA – not available, SSI – not available, STA - Good, STEC - Very Good, TCAP - Very Good, THAI - Excellent, THCOM – Very Good, TICON – Very Good, TISCO - Excellent, TMB - Excellent, TOP - Excellent, TRUE - Very Good, TTW – Very Good, TUF - Very Good, VGI – not available, WORK – Good.