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# INVEST MALAYSIA 2016

THE CAPITAL MARKET CONVERSATION

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## RESEARCH GUIDE



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## Feature Article

# Taking Stock of Malaysia's FTAs

### 14 FTAs and counting

To date, Malaysia has signed 14 FTAs. Seven are bilateral FTAs i.e. with Japan, Pakistan, New Zealand, India, Chile, Australia, Turkey. The other seven are multilateral FTAs i.e. the ASEAN Free Trade Agreement (AFTA); Malaysia's participation in the ASEAN FTAs with Australia-New Zealand, China, India, Japan, South Korea; and the recently signed Trans-Pacific Partnership Agreement with 11 other countries - US, Japan, Canada, Mexico, Australia, New Zealand, Chile, Peru, Singapore, Vietnam and Brunei. These FTA partner countries account for 61% of world GDP; 4.2tr or 58% of world's population; 45% of world trade and 46% of world FDI.

Malaysia is also negotiating another four FTAs, all of which are multilateral FTAs i.e. Malaysia-EU Free Trade Agreement (MEUFTA); Malaysia-European Free Trade Association (EFTA - Switzerland, Norway, Iceland, Liechtenstein) Economic Partnership Agreement (MEEPA); ASEAN-Hong Kong Free Trade Agreement (AHKFTA); Regional Comprehensive Economic Partnership (RCEP) which involves 16 countries - ASEAN 10, China, Japan, India, South Korea, Australia and New Zealand.

### Broadly positive impact seen from FTAs

We looked at the impact of Malaysia FTAs that are already in force, focusing on the trade and investment impact. We found these FTAs to have a broadly positive impact on Malaysia's trade performance with its FTAs partners. In particular, post-FTA trade balances between Malaysia and its FTA partners improved vs. pre-FTA trade balances (i.e. on average, larger trade surpluses or smaller trade deficits, both of which are GDP "accretive"). Indeed, cumulatively, these FTAs resulted in positive impact on GDP growth post-FTAs (i.e. added to growth via larger trade surplus or smaller trade deficits) compared with the negative impact on GDP growth pre-FTAs (i.e. subtract to growth). Since 2008, more than half of Malaysia's total trade surplus came from the combined trade balances (in surplus overall) between Malaysia and its FTA partners. Further, trade activities between Malaysia and its FTA partners have generally increased post-FTAs, as per their higher shares of Malaysia's exports, imports and total trade.

There is also positive investment effect seen via higher FDI inflows from FTAs partners. In particular, actual FDIs from regional FTA partners have increased, namely from ASEAN, China, Japan and South Korea.

There are other benefits to the economy by keeping the trade channel open. Malaysia has a high level of participation in the global value chain (GVC) trade flows. About 80% of its gross exports are involved in forward and backward GVC participations. This benefitted the economy in terms of FDI as well as building the capacity and developing the capability of local firms to be part of the GVC, especially SMEs in the manufacturing sector and services providers. There are also the efficiency gains from trade facilitation. Looking at the World Bank's *Doing Business Report* database, and specifically zeroing on the "Trading Across Border" segment, Malaysia has improved its ranking on this segment over the past decade, aided by the reductions in the number of documents and days to export and import. This is indicative of FTAs' positive spillover by making and prompting Malaysia to be more efficient in trade facilitation.

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## Malaysia's Free Trade Agreements (FTAs)

To date, Malaysia has signed a total of 14 FTAs and currently negotiating 4 FTAs. Seven are bilateral FTAs with Japan, Pakistan, New Zealand, India, Chile, Australia and Turkey. The other seven are multilateral FTAs, mostly together with Malaysia's ASEAN counterparts, which include the ASEAN Free Trade Agreement (AFTA) and ASEAN FTAs with Australia-New Zealand, China, India, Japan and South Korea.

The latest FTA signed by Malaysia is the multilateral Trans-Pacific Partnership Agreement (TPPA) on 4 Feb 2016 at Auckland, New Zealand together with 11 other countries - US, Japan, Canada, Mexico, Australia, New Zealand, Chile, Peru, Singapore, Vietnam and Brunei. TPPA is expected to be enforced in 18-24 months after the signing.

Malaysia's FTA partners make up sizeable shares of world's GDP, population, trade and FDI. In view of some overlap in the bilateral FTAs and ASEAN-based multilateral FTAs, overall, Malaysia currently has FTAs with ASEAN (Singapore, Indonesia, Thailand, Philippines, Vietnam, Brunei, Myanmar, Cambodia, Laos), China, Japan, South Korea, India, Australia, New Zealand, Chile, Pakistan, Turkey. When TPPA comes into force, US, Canada, Mexico and Peru will be added to the list of Malaysia's FTA partners. In total, these countries account for 61% of world GDP, 4.2tr or 58% of world's population, 45% of world trade and 46% of world FDI.

Malaysia is also currently involved in negotiating another four FTAs, all of which are multilateral FTAs i.e. Malaysia-EU Free Trade Agreement (MEUFTA), Malaysia-EFTA Economic Partnership Agreement (MEEPA), ASEAN-Hong Kong Free Trade Agreement (AHKFTA) and Regional Comprehensive Economic Partnership (RCEP). The RCEP involves 16 countries - ASEAN 10, China, Japan, India, South Korea, Australia and New Zealand.

### Malaysia's Free Trade Agreements (FTAs)

Signed Bilateral FTAs	Signed Multilateral FTAs	FTAs Currently Under Negotiations
Malaysia-Australia	ASEAN Free Trade Agreement (AFTA)	Malaysia-EU Free Trade Agreement (MEUFTA) Malaysia-European Free Trade Association (EFTA - Switzerland, Norway, Iceland, Liechtenstein) Economic Partnership Agreement (MEEPA)
Malaysia-Chile	ASEAN-Australia-New Zealand	ASEAN-Hong Kong
Malaysia-India	ASEAN-China	Regional Comprehensive Economic Partnership (RCEP)
Malaysia-Japan	ASEAN-India	
Malaysia-New Zealand	ASEAN-Japan	
Malaysia-Pakistan	ASEAN-South Korea	
Malaysia-Turkey	Trans-Pacific Partnership Agreement (TPPA)	

Note: This list exclude 1) D-8 Preferential Tariff Agreement (D-8 PTA) signed on 13 May 2006 between Malaysia and Turkey, Indonesia, Iran, Egypt, Nigeria, Pakistan and Bangladesh; and 2) Trade Preferential System among the Member States of the Organisation of the Islamic Conference (TPS-OIC). Source: MITI ([fta.miti.gov.my](http://fta.miti.gov.my))

**Two trends observed.** From the above list of FTAs signed by Malaysia and currently under negotiations, two things are clear. First, the trend is towards "multilateral FTAs" vs "bilateral FTAs". For that matter, Malaysia's first FTA was actually a multilateral FTA i.e. ASEAN Free Trade Agreement (AFTA). Second, the FTAs are becoming "comprehensive" in that not only they added trade in services to trade in goods, but they include what we termed as "Trade++" agendas and items that are pertinent to present day global trade, investment and business flows like technical barriers to trade; sanitary & phytosanitary measures; customs cooperation; investment; financial & non-financial services; telecommunications; e-commerce; government procurement; competition; intellectual property; labour; environment; capacity building; state-owned enterprises; SMEs; and dispute settlements. The first "comprehensive" FTA signed by Malaysia was with Japan which came into force back in 13 July 2006.

## Chronology of Key Bilateral & Multilateral Free Trade Agreements (FTAs) Signed by Malaysia

FTAs	Key Dates & Other Details
ASEAN Free Trade Agreement (AFTA)	Creation of AFTA was agreed at 1992 ASEAN Summit in Singapore and <b><u>entered into force on 1 Jan 1993</u></b> via the Common Effective Preferential Tariff (CEPT) that aimed to reduce tariffs on all manufactured goods to 0%-5% by 2008. By 1 Jan 2010, ASEAN-6 (Malaysia, Singapore, Indonesia, Philippines, Thailand, Brunei) is a completely free trade area with 99% of tariff lines in the inclusion list at 0%, while 91% of the tariff lines in the inclusion list for CMLV (Cambodia, Myanmar, Laos, Vietnam) are at 0%, giving a total ASEAN average of 96% of tariff lines in the inclusion list at 0%.
ASEAN-South Korea	The Framework Agreement on Comprehensive Economic Cooperation between ASEAN and Korea was signed by the Leaders at the ASEAN-Korea Summit on 13 December 2005 in Kuala Lumpur, Malaysia and <b><u>entered into force on 1 July 2006</u></b> . This was also accompanied by the signing of the Agreement on Dispute Settlement Mechanism between ASEAN and Korea. The FTA on trade in goods was signed on 26 Aug 2006, followed by trade in services agreement on 21 Nov 2007 and trade in investment agreement on 2 June 2009.
Malaysia-Japan	Malaysia and Japan established the Malaysia-Japan Economic Partnership Agreement (MJEPA) on 13 Dec 2005. MJEPA <b><u>entered into force on 13 July 2006</u></b> . MJEPA is Malaysia's first comprehensive Agreement covering: trade in industrial and agricultural goods, trade in services, investment, rules of origin, customs procedures, standards and conformance, intellectual property, competition policy, enhancement of business environment, safeguard measures and dispute settlement.
Malaysia-Pakistan	Malaysia and Pakistan established the Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA) on 8 November 2007 and it <b><u>entered into force in 1 Jan 2008</u></b> . Encompasses liberalisation in trade in goods and services, investment, as well as bilateral technical cooperation and capacity building in areas such as sanitary and phytosanitary measures, intellectual property protection, construction, tourism, healthcare and telecommunications.
ASEAN-Japan	The Framework for Comprehensive Economic Partnership (CEP) between ASEAN and Japan was signed by the Leaders of ASEAN and Japan on 8 Oct 2003 in Bali during the ASEAN-Japan Summit. Negotiations on ASEAN-Japan Comprehensive Economic Partnership (AJCEP) Agreement, which commenced in Apr 2005, were concluded in Dec 2007. ASEAN Member States and Japan completed the process of signing the AJCEP Agreement by circulation on 14 Apr 2008 and entered into force on 1 Dec 2008. <b><u>For Malaysia, it entered into force on 1 Feb 2009</u></b> . Although the AJCEP is based on the respective bilateral Economic Partnership Agreements (EPAs) signed by Japan with individual ASEAN countries, including Malaysia, there is substantial value-adding to these EPAs under the AJCEP. It is a comprehensive agreement which include trade in goods & services; trade in investment; rules of origin; sanitary & phytosanitary; technical barriers to trade; dispute settlement mechanism; and economic cooperation.
ASEAN-India	The ASEAN-India Trade in Goods Agreement was signed at the ASEAN Economic Ministers Meeting with India on 13 Aug 2009 in Bangkok, Thailand. The FTA <b><u>entered into force on 1 Jan 2010</u></b> .
ASEAN-Australia-New Zealand	Economic Ministers of ASEAN, Australia and New Zealand signed the AANZFTA Agreement on 27 Feb 2009, and <b><u>Malaysia implemented AANZFTA on 1 Jan 2010</u></b> . This is ASEAN's first comprehensive FTA with Dialogue Partners and covers trade in goods; investment; trade in services; financial services; telecommunications; electronic commerce; movement of natural persons; intellectual property; competition policy; and economic cooperation.
ASEAN-China	Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China was signed on 4 Nov 2002, providing the legal basis for ASEAN and China to negotiate the enabling agreements that led to the <b><u>creation of ASEAN-China Free Trade Agreement (ACFTA) on 1 Jan 2010</u></b> . Between 2004 and 2014, over 10 key agreements and protocol were concluded, including ASEAN-China Free Trade Agreement in Goods (29 Nov 2004), ASEAN-China Trade Dispute Settlement Agreement (29 Nov 2004), ASEAN-China Trade in Services Agreement (14 Jan 2007), ASEAN-China Investment Agreement (15 Aug 2009) and Protocol to Incorporate Technical barriers to Trade and Sanitary & Phytosanitary Measures into the Agreement on Trade in Goods (19 Nov 2012).
Malaysia-New Zealand	Malaysia and New Zealand commenced negotiations on the bilateral FTA in May 2005. The Malaysia-New Zealand FTA (MNZFTA) negotiations were concluded on 30 May 2009 at the 10th round of negotiations in Kuala Lumpur. The Agreement was signed on 26 Oct 2009 in Kuala Lumpur. MNZFTA <b><u>entered into force on 1 August 2010</u></b> . The scope of the bilateral FTA covers trade in goods & services; rules of origin; customs procedure & cooperation; trade remedies; sanitary & phytosanitary measures; technical barriers to trade; movement of natural persons; investment; intellectual property; competition policy; economic cooperation; transparency; institutional provisions; dispute settlement; general exceptions; and final provisions.

Source: MITI ([fta.miti.gov.my](http://fta.miti.gov.my))

## Chronology of Key Bilateral & Multilateral Free Trade Agreements (FTAs) Signed by Malaysia (Continued)

FTAs	Key Dates & Other Details
Malaysia-India	Malaysia and India established the Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA) on 24 September 2010. MICECA <b><u>entered into force on 1 July 2011</u></b> . MICECA is a comprehensive agreement that covers trade in goods, trade in services, investments and movement of natural persons. It value-adds to the benefits shared from ASEAN-India Trade in Goods Agreement (AITIG) and will further facilitate and enhance two-way trade, services, investment and economic relations in general.
Malaysia-Chile	Negotiations concluded in May 2010 after the first round of negotiations which commenced in June 2007 & <b><u>entered into force on 25 Feb 2012</u></b> . Malaysia-Chile Free Trade Agreement (MCFTA) is the first bilateral FTA between Malaysia and a Latin American country.
Malaysia-Australia	Malaysia and Australia concluded negotiations on the Malaysia-Australia Free Trade Agreement (MAFTA) on 30 March 2012 & <b><u>entered into force on 1 Jan 2013</u></b> . MAFTA is a comprehensive agreement comprising 21 chapters encompassing trade in goods, services, investment, economic cooperation, intellectual property rights, e-commerce and competition policy. It complements the ASEAN-Australia-New Zealand FTA (AANZFTA).
Malaysia-Turkey	Negotiations on Malaysia-Turkey Free Trade Agreement (MTFTA) commenced on 31 May - 1 June 2010, concluded on 13-15 Jan 2014, signed on 17 Apr 2014 & <b><u>entered into force on 1 Aug 2015</u></b> . Both Parties agreed to focus negotiations on Trade in Goods first and agreed in principle that the negotiations on Trade in Services should resume one year after MTFTA's entry into force. The Agreement covers market access; rules of origin (ROO); customs cooperation; technical barrier to trade; sanitary and phytosanitary, trade remedy, economic & technical cooperation; and legal institution.
Trans-Pacific Partnership Agreement (TPPA)	Originated from the P4 FTAs signed by New Zealand, Singapore, Chile and Brunei. TPPA negotiations began with inclusion of the US, Australia, Peru and Vietnam in Mar 2010. Malaysia became the 9th TPP member in Oct 2010, Canada & Mexico joined in Dec 2012, and Japan in July 2013. Negotiations concluded on 5 Oct 2015, <b><u>agreement signed on 4 Feb 2016 and to enter into force within 18-24 months</u></b> . Comprehensive FTA with areas covered include market access; technical barriers to trade; sanitary & phytosanitary measures; rules of origin (ROO); customs cooperation; investment; services & financial services; telecommunications; e-commerce; business mobility; government procurement; competition; intellectual property (IP); labour; environment; capacity building; non-conforming measures; trade remedies; horizontal issues; and legal and institutional.

Source: MITI ([fta.miti.gov.my](http://fta.miti.gov.my))

## Taking Stock of Malaysia's Stock of FTAs

**Are FTAs beneficial to the Malaysian economy?** Clearly, Malaysia is not a new kid on the block when it comes to FTAs. But TPPA has elicited and courted controversies about Malaysia's involvement in FTAs like never before. The "comprehensive" nature of TPPA is not exactly new either as far as Malaysia is concerned, but it has spawned conspiracy theories, with allegations that the TPPA deal promotes the interests of businesses rather than consumers, as per the issue of pharmaceutical industry's patents that have led to claims of prospective surge in prices of medicines. There are also fears of TPPA undermining the country's sovereignty in view of the Investor-State Dispute Settlements (ISDS) issue. For Malaysia specifically, concerns have also been expressed over the implications on Bumiputera agenda, Government procurements, Government-linked companies and SMEs.

**Taking stock of Malaysia's stock of FTAs, especially in terms of trade and investment impact.** Rather than wade into the arguments and debates about TPPA's "cost and benefits" as well as "winners and losers", we look instead at what and how FTAs have benefited or impacted Malaysia by analysing the broad macroeconomic impact of the existing FTAs signed by Malaysia.

## ■ The trade effect

Broadly positive on Malaysia's trade performance with FTAs partners. The trade effect analysis is done by essentially looking at what happened to Malaysia's trade with its FTAs' partners or counterparts from the perspective of the impact on growth in exports, imports and total trade as well as the impact on trade balance - before and after the FTAs came into force.

Of particular interest is the impact on trade balance or net exports, which matters the most when it comes to assessing the impact on GDP. From the table summarizing the pre-FTA and post-FTA trade performance with Malaysia's FTA partners, with the exception of China and Australia, we see improvements in average post-FTA trade balances for Malaysia i.e. larger trade surpluses or smaller trade deficits, which are GDP "accretive". Indeed, cumulatively, we calculated that these FTAs resulted in positive impact on GDP growth post-FTAs compared with the negative impact on GDP growth pre-FTAs.

### Malaysia: Pre-FTA & Post-FTA Trade Performance with FTA Partners

FTA Partners	Exports (CAGR, %)		Imports (CAGR, %)		Total Trade (CAGR, %)		Average Trade Balance (MYRm p.a.)	
	Pre-FTA	Post-FTA	Pre-FTA	Post-FTA	Pre-FTA	Post-FTA	Pre-FTA	Post-FTA
ASEAN	22.5%	9.0%	25.9%	9.8%	23.8%	9.3%	7,247	22,050
China	29.7%	11.0%	37.0%	11.4%	33.4%	11.2%	-2,550	-6,662
Japan	3.4%	3.9%	3.4%	-1.9%	3.4%	1.0%	-12,984	11,546
South Korea	14.0%	1.9%	18.1%	2.0%	16.2%	2.0%	-4,113	-1,806
India	8.1%	3.0%	15.5%	10.4%	9.8%	5.1%	13,574	15,987
Australia	3.7%	-2.0%	7.1%	2.9%	4.8%	-0.2%	12,926	12,029
New Zealand	8.0%	6.1%	8.9%	8.9%	8.4%	7.2%	881	1,291
Chile	8.0%	26.7%	1.1%	5.3%	3.5%	14.7%	-384	-243
Pakistan	17.7%	-4.6%	19.7%	11.4%	17.8%	-2.9%	3,483	5,002

Sources: CEIC, MKE

Notes:

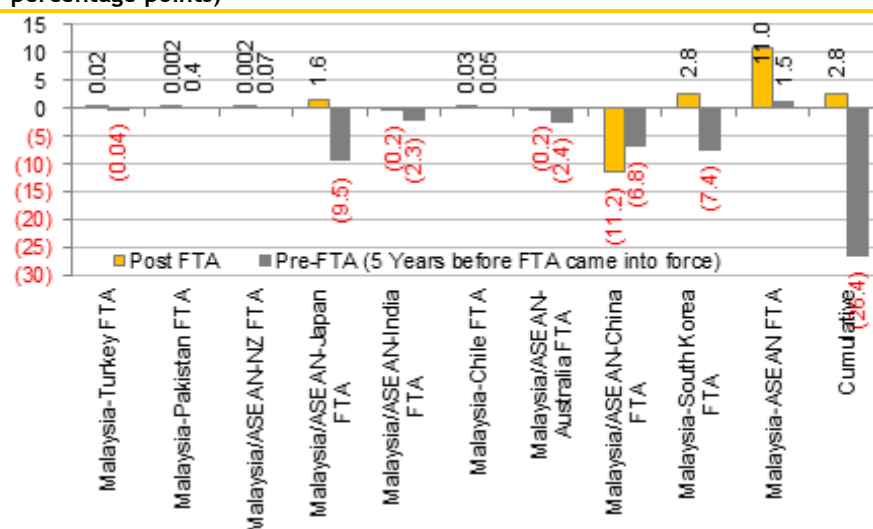
1/ Pre FTA calculations are based on 5 years prior to FTAs' Entry into Force Year; Post-FTA calculations are from FTAs' Entry into Force Year onwards

2/ Bilateral FTAs for Japan, India, Australia, New Zealand, Chile, Pakistan

3/ Multilateral FTAs for ASEAN (AFTA), China (ASEAN-China) & South Korea (ASEAN-South Korea)

4/ Exclude Turkey as FTA came into force on 1 Aug 2015 i.e. insufficient post-FTA data points

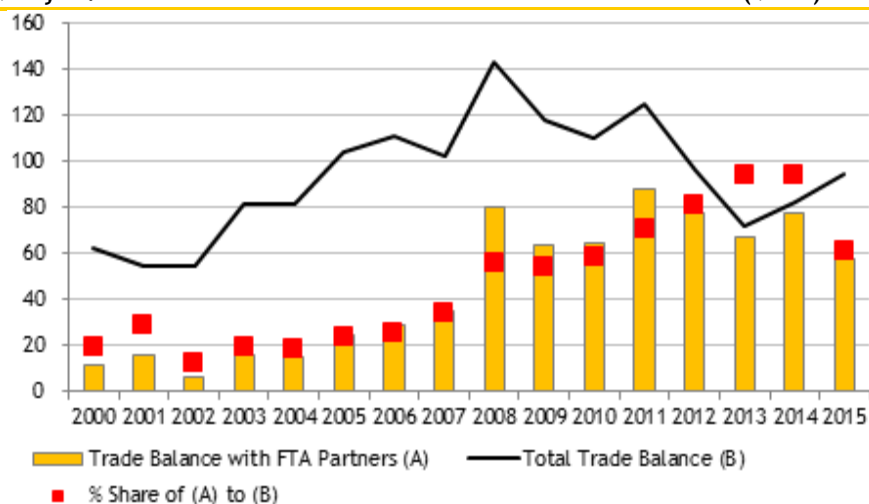
### Contributions of FTAs to Malaysia's GDP Growth via Trade Balance Effect (in percentage points)



Sources: CEIC, MKE

The impact of FTAs is further underscored by their contributions to Malaysia's total trade surplus and increased shares of trade with Malaysia. Since 2008, more than half of Malaysia's total trade surplus came from the combined trade balances (in surplus overall) between Malaysia and its Bilateral and Multilateral FTA partners. Further, trade activities between Malaysia and most of its FTA partners - except for Japan and Chile - have generally increased post-FTAs, as per their shares of Malaysia's exports, imports and total trade, indicating positive impact on market access and two-way trade, with China showing the biggest increases in its shares of Malaysia's exports, imports and total trade.

#### Malaysia: Total Trade Balance vs Trade Balance with FTA Partners (MYRb)



Sources: CEIC, MKE

#### Malaysia: Share of Exports, Imports and Total Trade with FTA partners

FTA Partners	Exports (as % of Total Exports)			Imports (as % of Total Imports)			Total Trade (as % of Total Trade)		
	Pre FTA	Post FTA	2015	Pre FTA	Post FTA	2015	Pre FTA	Post FTA	2015
ASEAN	27.4%	26.3%	28.1%	20.2%	25.1%	26.6%	23.9%	25.7%	27.4%
China	3.9%	10.9%	13.0%	4.8%	14.2%	18.9%	4.3%	12.4%	15.8%
Japan	11.6%	10.4%	9.5%	19.6%	10.7%	7.8%	15.3%	10.6%	8.7%
South Korea	3.3%	3.7%	3.2%	4.7%	4.7%	4.5%	4.0%	4.1%	3.8%
India	2.7%	4.0%	4.1%	1.2%	2.1%	2.2%	2.0%	3.1%	3.2%
Australia	3.1%	4.0%	3.6%	2.2%	2.7%	2.5%	2.7%	3.4%	3.1%
New Zealand	0.4%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%
Chile	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Pakistan	0.7%	0.8%	0.5%	0.1%	0.1%	0.1%	0.4%	0.5%	0.3%

Source: CEIC

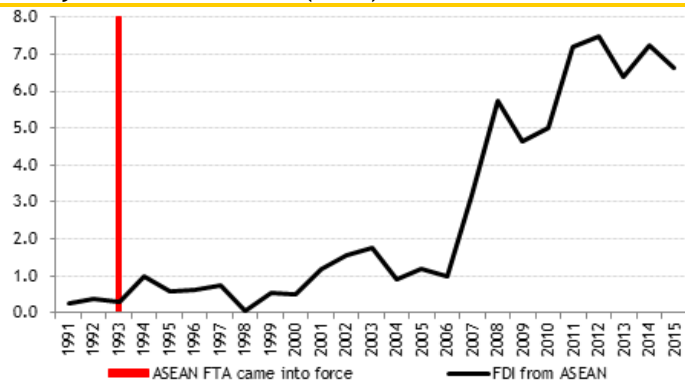
Note: Exclude Turkey as FTA came into force on 1 Aug 2015 i.e. insufficient post-FTA data points



▪ The investment effect

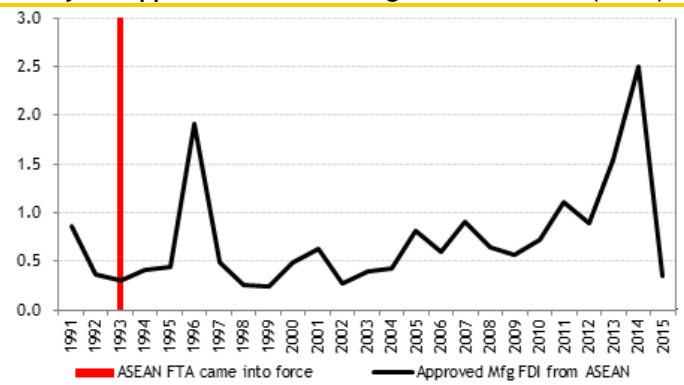
The investment effect - positive impact seen via higher FDI from FTAs partners, notably from within the region. Besides the trade impact, another often quoted key argument for and benefits of FTAs are that there is positive spillover onto investments, especially given the evolution towards comprehensive FTAs that include agreement on - and liberalization of - investment flows. The question here is does Malaysia's stock of FTAs resulted in any significant increase in investments into the country? Due to data constraints, we were only able to look at actual FDI inflows and MIDA's approved manufacturing FDI for a panel of five FTAs counterparts i.e. ASEAN, Japan, China, South Korea and Australia. There are indications that FTAs in general have positive effect on FTAs partners' FDI into Malaysia. In particular, actual FDIs from regional trade partners have increased post-FTAs i.e. from ASEAN, China, Japan and South Korea.

Malaysia: FDI from ASEAN (USDb)



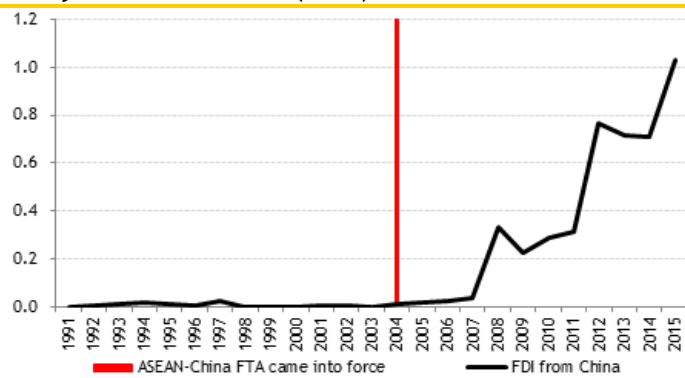
Sources: BNM, CEIC

Malaysia: Approved Manufacturing FDI from ASEAN (USDb)



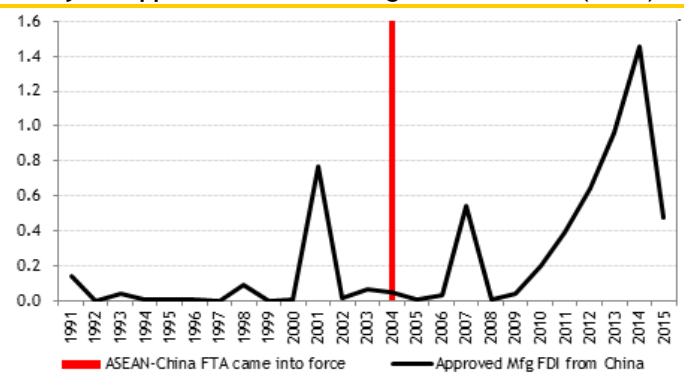
Source: CEIC

Malaysia: FDI from China (USDb)



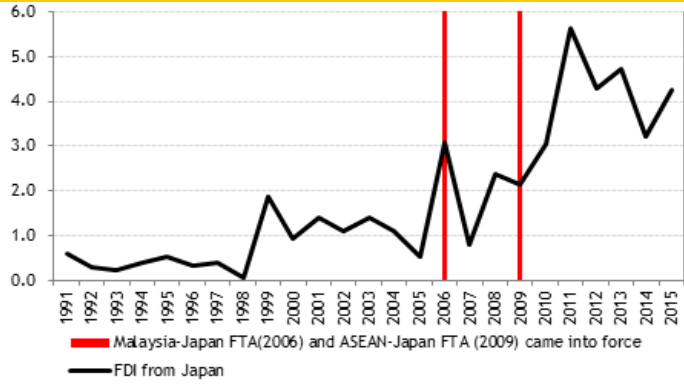
Sources: BNM, CEIC

Malaysia: Approved Manufacturing FDI from China (USDb)



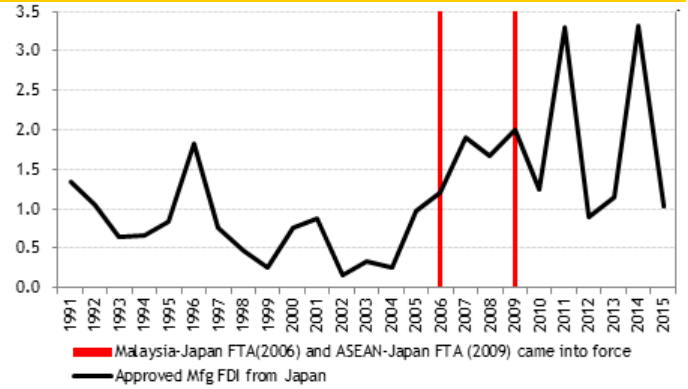
Source: CEIC

Malaysia: FDI from Japan (USDb)



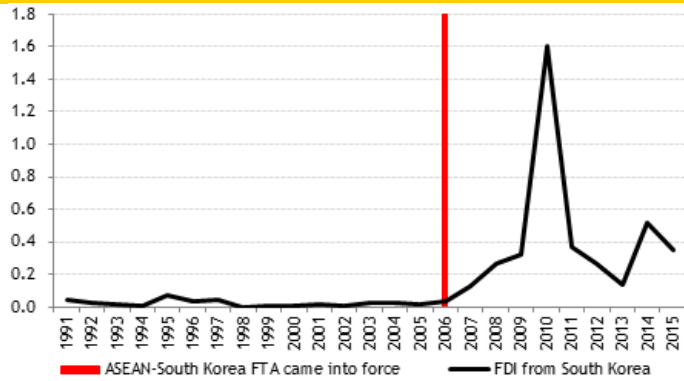
Sources: BNM, CEIC

Malaysia: Approved Manufacturing FDI from Japan (USDb)



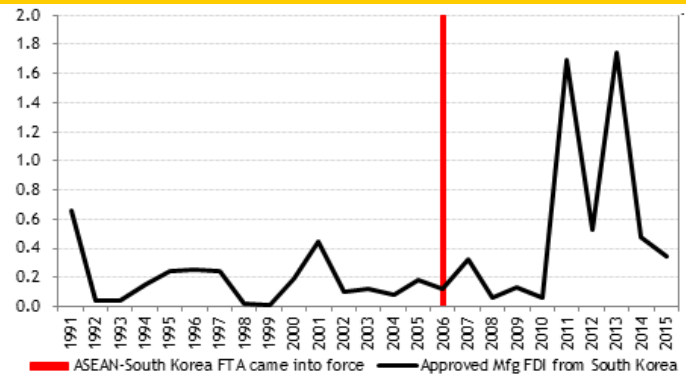
Source: CEIC

Malaysia: FDI from South Korea (USDb)



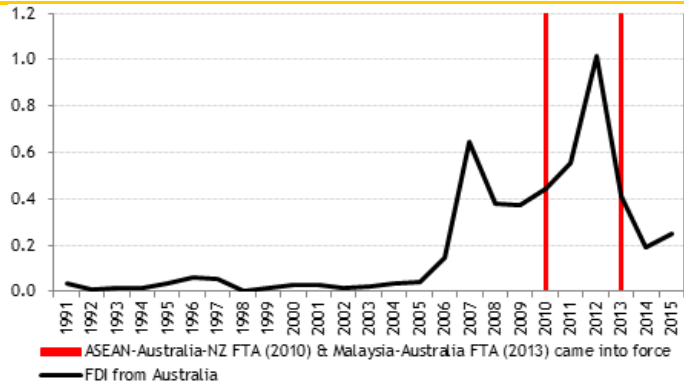
Sources: BNM, CEIC

Malaysia: Approved Manufacturing FDI from South Korea (USDb)



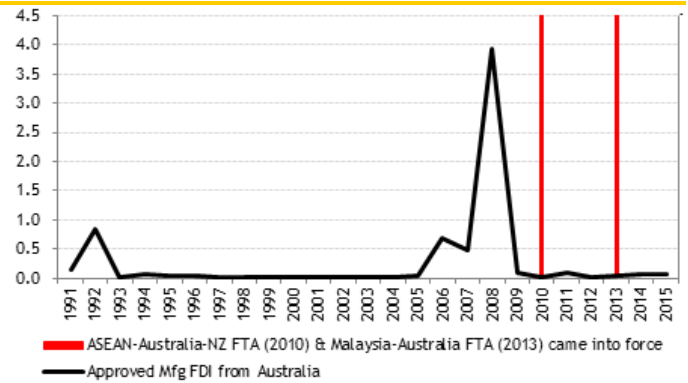
Source: CEIC

Malaysia: FDI from Australia (USDb)



Sources: BNM, CEIC

Malaysia: Approved Manufacturing FDI from Australia (USDb)



Source: CEIC

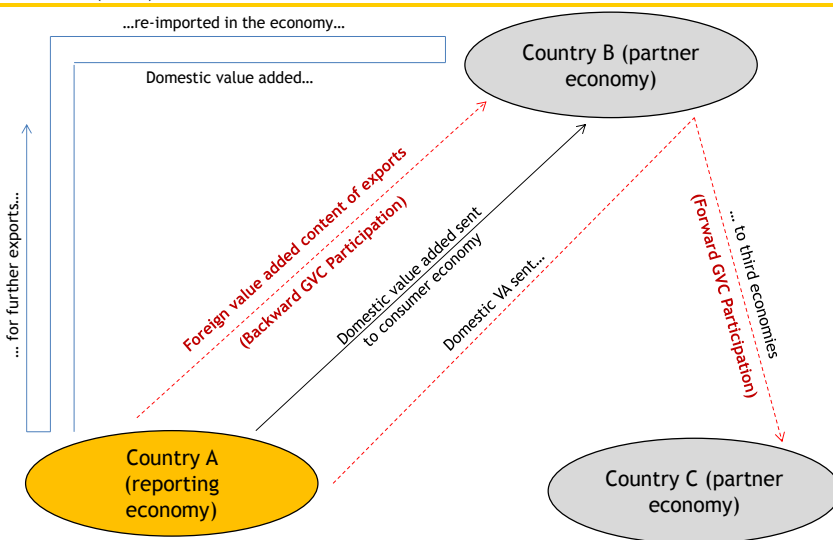
▪ The other benefits

**Strengthening Malaysia’s participation in the global value chain (GVC) trade flows.** GVC is an important element and key driver of trade and FDI as liberalization and globalization led to outsourcing and offshoring, allowing different stages of production being located across different countries as firms optimise their production processes - from sourcing raw materials to manufacturing finished products. Provision of and trade in services is also essential for the functioning of GVC by linking production activities and processes across different locations worldwide.

There are two types of GVC trade flows that a country is engaged in. One is the “backward GVC participation” where firms use foreign goods and services as inputs into their exports and is calculated as the share of foreign value added in the country’s total gross exports. The other is “forward GVC participation” where firms supply intermediate goods and services for other countries’ exports, and is measured by the ratio of domestic value added embodied in exported intermediate products to the country’s total gross exports. When the backward and forward GVC participation ratios are added together, we have the GVC participation index, which provides an indication of the overall GVC engagement of a country.

Malaysia sustained a high level of participation in GVC trade flows with around 80% of its gross exports involved in forward and backward GVC participations. This also benefitted the economy in terms of FDI flows and building the capacity and developing the capability of local firms to be part of the GVC, especially the SMEs in the manufacturing sector and services providers.

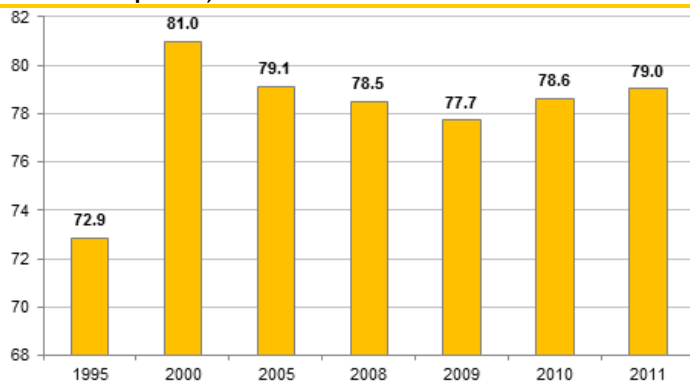
**Visualization of the value added (VA) components of gross exports and global value chain (GVC) trade flows**



-----> GVC participation trade flows

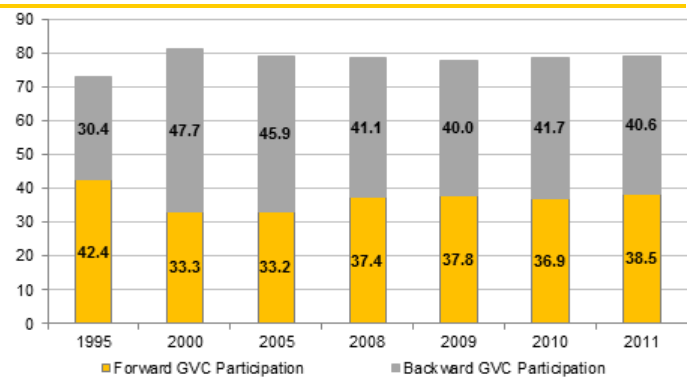
Source: World Trade Organisation (WTO)  
[https://www.wto.org/english/res\\_e/statis\\_e/miwi\\_e/Explanatory\\_Notes\\_e.pdf](https://www.wto.org/english/res_e/statis_e/miwi_e/Explanatory_Notes_e.pdf)

**Malaysia: GVC Participation Index (Forward & Backward GVC Participation)**



Source: OECD-TWO Trade In Value Added (TIVA) Statistics

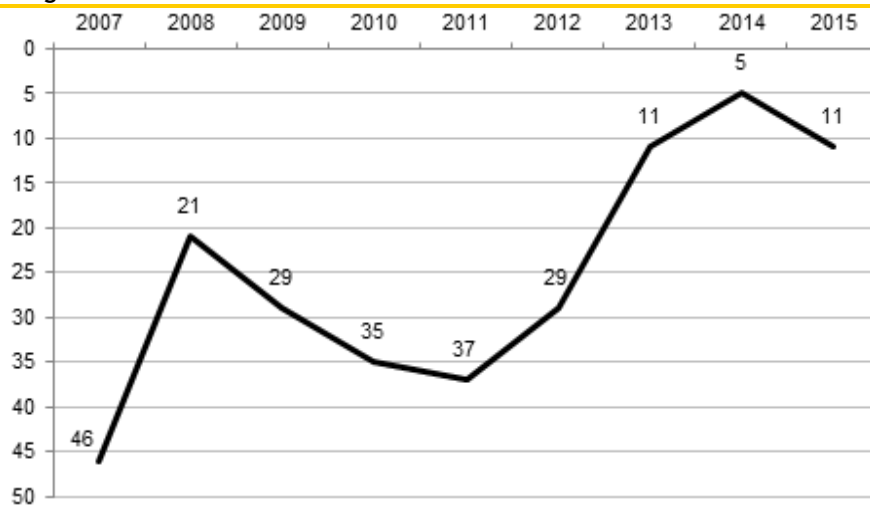
**Malaysia: Forward & Backward GVC Participation**



Source: OECD-TWO Trade In Value Added (TIVA) Statistics

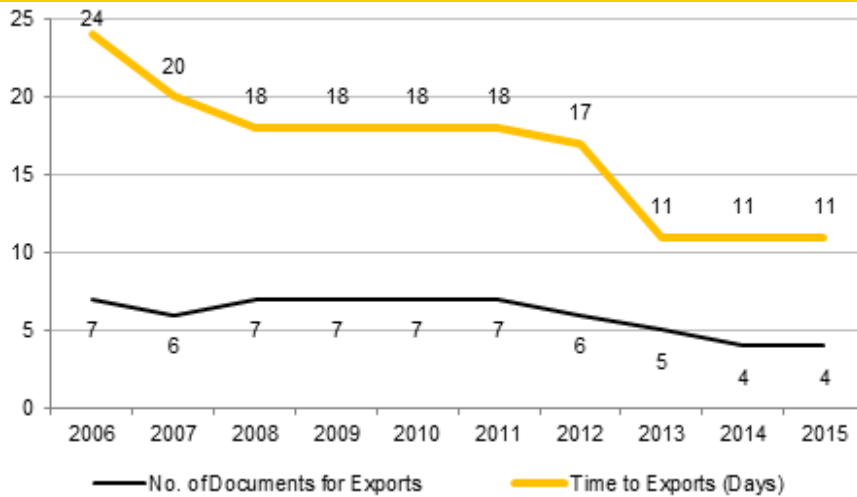
**Efficiency gains from trade facilitation.** Looking at the World Bank’s Doing Business Report database, and specifically zeroing on the “Trading Across Border” segment, Malaysia has improved its ranking on this segment over the past decade, aided by the reductions in the number of documents and days to export and import. This is indicative of FTAs’ positive spillover by making and prompting Malaysia to be more efficient in trade facilitation.

**Malaysia: Ranking on “Trading Across Border” segment of the World Bank’s Doing Business i.e. indicator on trade facilitation**



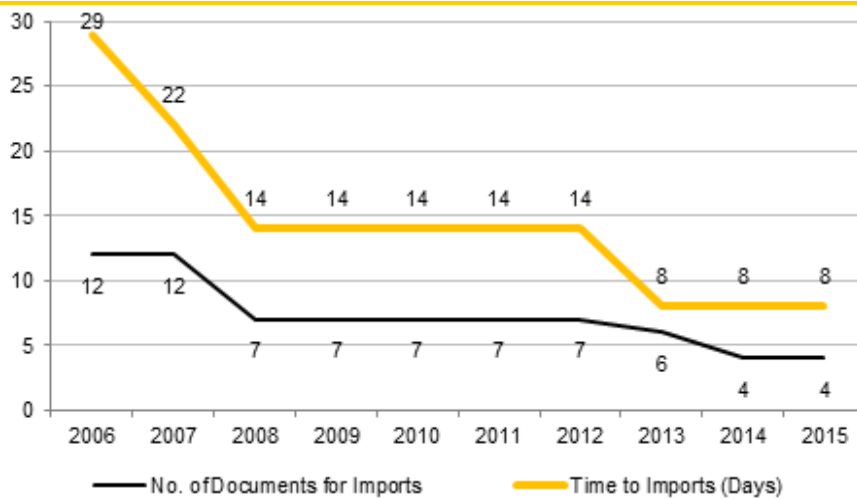
Source: World Bank’s Doing Business Reports

### Malaysia: Numbers of Documents & Days to Export



Source: World Bank's Doing Business Reports

### Malaysia: Numbers of Documents & Days to Import



Source: World Bank's Doing Business Reports

# Trade has - and can - spur global growth

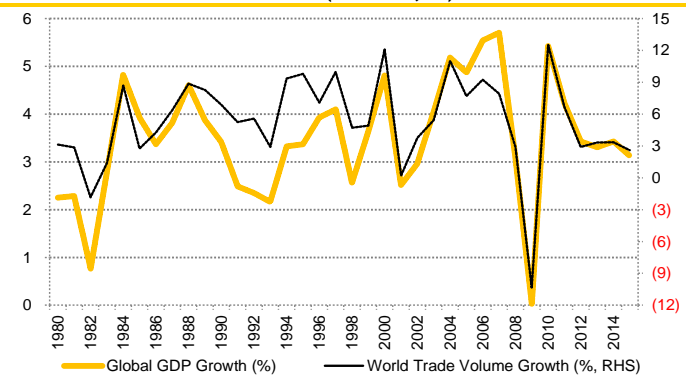
Boost to global trade can lift global economy, and vice versa. World trade performance is weak and a drag on global economy. World trade volume growth slowed to +2% last year (2014: +3.1%) and was just +1.1% YoY in Jan 2016. World trade value slumped -12.1% in 2015 (2014: +0.9%) and -12.6% YoY in Jan 2016. Last year's world trade's share of nominal global GDP was a post-Global Financial Crisis low of 45% (29% of GDP on purchasing power parity or PPP basis). World trade also contributed negatively to nominal global GDP growth last year i.e. -5.9 percentage points (-4.2 percentage points on PPP basis). We noted that historically, this has only occurred in recession or financial crisis years.

**World Trade (% YoY)**



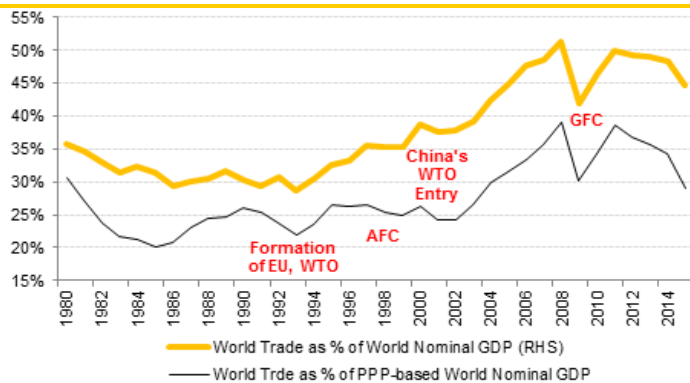
Note: World trade volume and value for goods (manufacturing & commodities) only  
Source: CEIC

**World Real GDP and Trade (Growth, %)**



Note: World trade volume in goods & services  
Source: IMF World Economic Outlook Database

**World Trade as % of Global GDP**



Note: World trade value in goods (manufacturing & commodities) only  
Sources: CEIC, MKE

**World Trade's Contribution to Global GDP Growth**



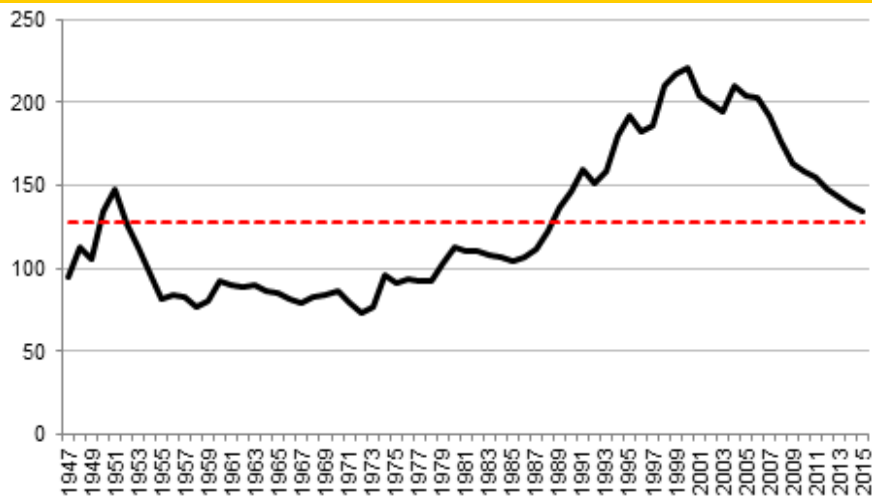
Note: World trade value in goods (manufacturing & commodities) only  
Sources: CEIC, MKE

**Via further progress in free trade.** In an environment where the impact and effectiveness of monetary policy - especially the quantitative easing as well as the zero and negative interest rate policies of the major central banks - on real economy are being put into question and doubt, there are scope and need for alternatives. Trade policy can come to the aid of the world economy. To note, the last big event on world trade was China's entry into the World Trade Organisation (WTO) in 11 Dec 2001 that integrated China with the world economy and boosted global economic growth via increased trade and investment flows. Prior to that, the European Union (EU) came into force on 1 Nov 1993 and the WTO was established on 15 Apr 1994; and these were also the major trade-related developments that lifted global economic growth. From this perspective, major multilateral FTAs like TPP and RCEP are potential catalysts in reviving world trade and economic growth.

**Not reversals in free trade progress e.g. protectionism, trade conflict.** Needless to say, the last thing we need at this juncture are "protectionism" and "trade conflict". The obvious risk to global trade is the deterioration in US-China trade relationship after the US Presidential Election in Nov 2016 that will see a new leader sworn into the White House. There is also the danger that the "war of words" between China and its Asian neighbours over the overlapping territorial claims could result in trade being used as the policy option or reaction to curb and counter China's aggressive territorial stance.

## Ultimately, trade is in Malaysia's economic DNA

**A long history of trade's role and contribution to the economy.** The role of trade in Malaysia's economy goes a very long way. It is deeply rooted in the country's history. We are not talking just about the prominence of Malacca port during the 15<sup>th</sup>-16<sup>th</sup> century given its strategic location in the Straits of Malacca that was the all-important maritime trade route between West Asia/India and China. Malaysia was opened for the trading business as far back as 110AD, based on the archeological evidence found in Bujang Valley, located in the present day northern state of Kedah, which not only revealed the oldest civilisation in South East Asia, but also the existence of maritime trading route as far back as the 2<sup>nd</sup> century. The contribution of trade in the economy continued all the way to the pre-/post-Independence and present day Malaysia. Exports and imports combined is equivalent to an average 1.3x of Malaysia's GDP over the past 7 decades. In short, trade is in Malaysia's economic DNA and is central to the evolution of the economy e.g. Malaysia's industrialization in the late-1980s and 1990s to diversify and transform the economy from its commodity-centric base was underpinned by the export-oriented investment into manufacturing.

**Malaysia: % Share of Trade to GDP (Exports and Imports of Goods and Services, 1947-2015)**


Source: BNM, DOSM, CEIC

Note: Below are links to Maybank Investment Bank's Research Reports on TPPA:

- [Strategy Research: TPP reached consensus in Atlanta, 6 Oct 2015](#)
- [Sector Research: Malaysia Plantations - Expect Minor TPPA Benefits, 9 Nov 2015](#)
- [Sector Research: Malaysia Construction - Positive vibes from TPPA, 16 Nov 2015](#)
- [Sector Research: Malaysia Plantations - Largely Neutral TPPA Impact, 3 Dec 2015](#)
- [Economics Research: Trans-Pacific Partnership \(TPP\): Cost-Benefit Impact Analysis, 7 Dec 2015](#)
- [Sector Research: Malaysia Banking - Market Access Under the TPPA, 14 Dec 2015](#)



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# Alliance Financial Group (AFG MK)

## Capitalizing on its SME niche

# BUY

Share Price MYR 4.12  
 12m Price Target MYR 4.60 (+12%)  
 Previous Price Target MYR 4.60

### Carving a niche for itself

Alliance Financial Group (AFG) may be the smallest conventional bank in the country in terms of total assets but what it lacks in size, it has compensated by carving out a niche for itself in the SME space. We like the group for this focus as well as management's emphasis on risk-adjusted returns (RAR). BUY maintained with a TP of MYR4.60; dividend yields of about 4% provide support.

### Emphasizing risk-adjusted returns

Management continues to give much emphasis to RAR and as such, the focus has been on driving the more profitable SME/commercial and unsecured consumer loan segments. It is with this strategy that AFG's SME loans now make up a higher 22% of its total loan book, versus just 17% for its peers.

### Looking to stabilize NIMs

Having secured longer term funding, funding costs should stabilize while management is hopeful that its RAR strategy should help to improve asset yields and stabilize NIMs into FY17. Overheads, meanwhile, are expected to expand at a slower single digit pace in FY17. Asset quality remains stable (gross impaired loan ratio of 1.1% end-2015) and loan loss coverage including regulatory reserves of 125% is comfortable. While there are no signs of any major asset quality stress, credit costs are expected to trend higher amid lower recoveries and guidance is for a charge rate of <30bps (MKE: 24bps) in FY17.

### Capital ratios among the highest

Having recently issued MYR1.2b of subordinated Tier 2 Medium Term Notes, the group's total capital ratio of 15.9% is comfortable, while its CET1 ratio is still among the highest at 11.3%. AFG continues to be a BUY with an unchanged TP of MYR4.60, pegged to a CY17 P/BV of 1.3x (CY16E ROE: 10.9%).

### Company Description

AFG offers integrated financial services through its consumer and business banking, investment banking, Islamic banking, and stockbroking businesses.

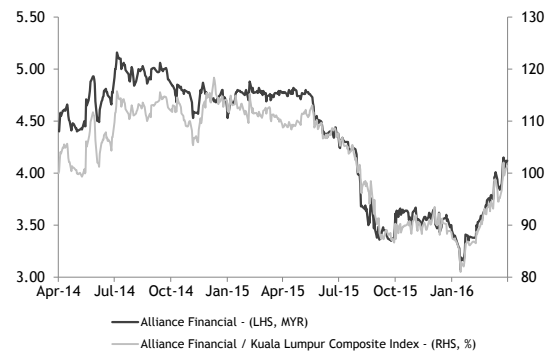
### Statistics

52w high/low (MYR)	4.82/3.07
3m avg turnover (USDm)	1.1
Free float (%)	61.3
Issued shares (m)	1,548
Market capitalisation	MYR6.4B USD1.6B

### Major shareholders:

Vertical Theme Sdn. Bhd.	29.1%
Employees Provident Fund	17.4%
Malaysia Focus Investment Fund Ltd.	4.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	10	18	(14)
Relative to index (%)	9	14	(7)

Source: FactSet

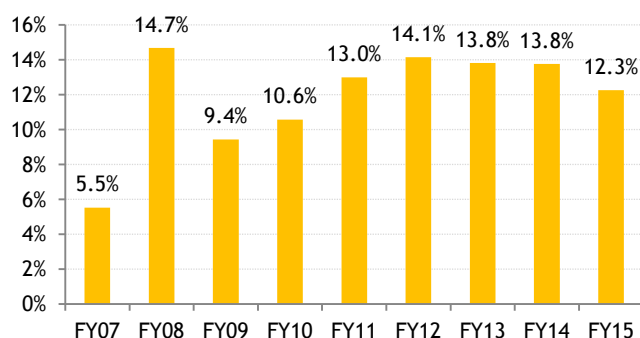
FYE Mar (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Operating income	1,349	1,383	1,429	1,484	1,550
Pre-provision profit	721	736	745	789	835
Core net profit	558	531	515	532	548
Core FDEPS (MYR)	0.37	0.35	0.34	0.35	0.36
Core FDEPS growth(%)	4.1	(5.3)	(3.0)	3.3	3.1
Net DPS (MYR)	0.30	0.15	0.16	0.17	0.17
Core FD P/E (x)	11.2	11.8	12.2	11.8	11.5
P/BV (x)	1.5	1.4	1.3	1.2	1.2
Net dividend yield (%)	7.2	3.7	3.9	4.0	4.1
Book value (MYR)	2.74	2.95	3.13	3.32	3.50
ROAE (%)	13.6	12.3	11.1	10.8	10.5
ROAA (%)	1.2	1.0	1.0	0.9	0.9
Consensus net profit	-	-	517	548	584
MKE vs. Consensus (%)	-	-	(0.4)	(3.0)	(6.1)

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 (603) 2297 8680

## Value Proposition

- Malaysia's smallest domestic financial institution in terms of asset size, but this allows the bank to be more nimble than most of its peers.
- Major shareholder is Vertical Theme with a 29% stake. Temasek of Singapore holds a 49% stake in Vertical Theme.
- Primary niche is in SME financing, particularly to the small- to mid-sized SMEs.
- The bank continues to enjoy one of the highest CASA ratios in the industry as well as one of the highest proportions of individual to total deposits.
- Capital ratios are comfortable and its CET1 ratio of more than 11% is higher than that of most peers.

### ROAE trends

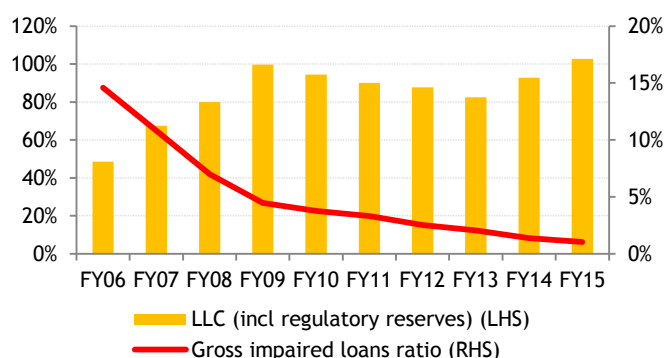


Source: Company

## Financial Metrics

- Loan growth is expected to hover around the mid-single digit range as management de-emphasizes lower RAR loans such as mortgages, commercial property lending, hire purchase and corporate loans.
- Positively, NIMs have held up better than expected due to the improvement in asset mix and asset utilization.
- Asset quality remains strong and guidance is for normalized credit costs of <30 bps.

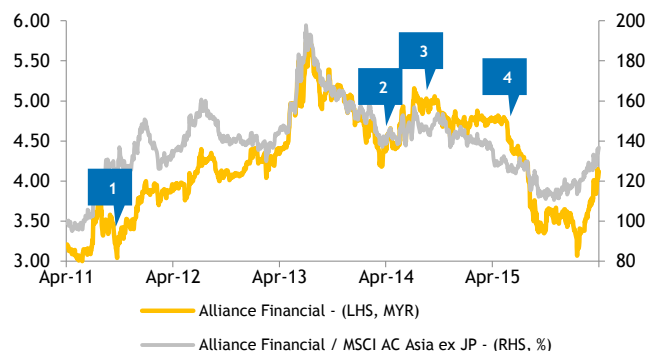
### Gross impaired loans ratio and loan loss coverage



Source: Company

## Price Drivers

### Alliance Financial Group's price chart



Source: Company, Maybank Kim Eng

- Strong FY11 results with a 36% jump in group net profit.
- Special DPS of 10.5sen and a future payout ratio of up to 60%.
- Announced the resignation of Mr Sng Seow Wah as CEO of the group.
- FY15 results below market expectations while its dividend payout ratio also came in lower than expected.

## Swing Factors

### Upside

- The group's above-industry capital ratios will allow it to better leverage up for growth.
- Focus on risk-adjusted returns could give rise to better-than-expected NIMs.

### Downside

- Stiffer-than-expected competition in the SME space could erode AFG's niche in this segment.
- Business sentiment remains weak and this could eventually impact asset quality particularly in the SME space.
- As the smallest bank in the industry, AFG lacks scale and this could limit its long-term potential.



FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
Core P/E (x)	11.2	11.8	12.2	11.8	11.4
Core FD P/E (x)	11.2	11.8	12.2	11.8	11.5
P/BV (x)	1.5	1.4	1.3	1.2	1.2
P/NTA (x)	1.7	1.5	1.4	1.4	1.3
Net dividend yield (%)	7.2	3.7	3.9	4.0	4.1

**INCOME STATEMENT (MYR m)**

Interest income	1,601.3	1,772.4	1,927.2	2,016.8	2,112.1
Interest expense	(822.7)	(951.8)	(1,069.7)	(1,133.6)	(1,194.0)
<b>Net interest income</b>	<b>778.6</b>	<b>820.6</b>	<b>857.5</b>	<b>883.2</b>	<b>918.1</b>
Islamic banking income	210.9	225.1	234.1	241.1	248.3
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	210.1	195.6	186.3	195.6	205.3
Other income	149.3	141.7	150.8	163.8	178.2
<b>Total non-interest income</b>	<b>359.4</b>	<b>337.3</b>	<b>337.0</b>	<b>359.4</b>	<b>383.6</b>
<b>Operating income</b>	<b>1,349.0</b>	<b>1,383.0</b>	<b>1,428.6</b>	<b>1,483.7</b>	<b>1,550.0</b>
Staff costs	(399.1)	(403.5)	(439.8)	(448.6)	(466.5)
Other operating expenses	(229.1)	(243.5)	(243.5)	(246.0)	(248.4)
<b>Operating expenses</b>	<b>(628.2)</b>	<b>(646.9)</b>	<b>(683.3)</b>	<b>(694.5)</b>	<b>(714.9)</b>
<b>Pre-provision profit</b>	<b>720.8</b>	<b>736.1</b>	<b>745.3</b>	<b>789.1</b>	<b>835.1</b>
Loan impairment allowances	13.6	(39.6)	(60.8)	(90.1)	(114.6)
Other allowances	14.9	6.7	0.0	0.0	0.0
Associates & JV income	0.0	0.0	0.0	0.0	0.0
<b>Pretax profit</b>	<b>749.4</b>	<b>703.2</b>	<b>684.5</b>	<b>699.0</b>	<b>720.5</b>
Income tax	(185.8)	(172.4)	(169.8)	(167.1)	(172.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>563.5</b>	<b>530.8</b>	<b>514.8</b>	<b>531.9</b>	<b>548.3</b>
<b>Core net profit</b>	<b>557.8</b>	<b>530.8</b>	<b>514.8</b>	<b>532.0</b>	<b>548.3</b>

**BALANCE SHEET (MYR m)**

Cash & deposits with banks	2,785.1	2,994.4	2,036.2	2,647.0	3,176.4
Sec. under resale agreements	0.0	0.0	0.0	0.0	0.0
Derivatives financial assets	39.7	132.5	130.0	130.0	130.0
Dealing securities	110.2	10.0	10.5	11.1	11.6
Available-for-sale securities	11,058.9	11,072.9	11,294.3	11,520.2	11,750.6
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	31,819.0	36,566.0	38,638.4	40,681.4	42,710.5
Central bank deposits	1,584.2	1,675.4	1,759.2	1,847.2	1,939.5
Investment in associates/JVs	0.0	0.0	0.0	0.0	0.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	92.6	97.7	100.6	103.7	106.8
Intangible assets	353.3	359.9	356.9	353.9	350.9
Other assets	231.8	232.7	246.6	258.2	270.3
<b>Total assets</b>	<b>48,074.7</b>	<b>53,141.5</b>	<b>54,572.8</b>	<b>57,552.6</b>	<b>60,446.7</b>
Deposits from customers	39,237.1	44,606.8	43,462.8	44,951.8	46,934.7
Deposits from banks & FIs	3,059.4	1,489.8	1,638.8	1,802.6	1,982.9
Derivatives financial instruments	44.8	62.8	124.9	124.9	124.9
Subordinated debt	0.0	0.0	0.0	0.0	0.0
Other securities in issue	612.7	613.3	1,815.5	1,815.5	1,815.5
Other borrowings	0.0	0.0	0.0	0.0	0.0
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	954.7	1,873.7	2,746.3	3,796.6	4,242.4
<b>Total liabilities</b>	<b>43,908.7</b>	<b>48,646.4</b>	<b>49,788.2</b>	<b>52,491.4</b>	<b>55,100.4</b>
Share capital	1,548.1	1,548.1	1,548.1	1,548.1	1,548.1
Reserves	2,617.9	2,947.0	3,236.5	3,513.1	3,798.3
Shareholders' funds	4,166.0	4,495.1	4,784.6	5,061.2	5,346.4
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	4,166.0	4,495.1	4,784.6	5,061.2	5,346.4
<b>Total liabilities &amp; equity</b>	<b>48,074.7</b>	<b>53,141.5</b>	<b>54,572.8</b>	<b>57,552.6</b>	<b>60,446.7</b>

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	6.6	5.4	4.5	3.0	4.0
Non-interest income	(0.3)	(6.1)	(0.1)	6.6	6.7
Operating expenses	(1.7)	3.0	5.6	1.6	2.9
Pre-provision profit	3.9	2.1	1.3	5.9	5.8
Core net profit	3.7	(4.9)	(3.0)	3.3	3.1
Gross loans	14.1	14.7	5.7	5.3	5.0
Customer deposits	9.0	13.7	(2.6)	3.4	4.4
Total assets	10.0	10.5	2.7	5.5	5.0
<b>Profitability (%)</b>					
Non-int. income/Total income	26.6	24.4	23.6	24.2	24.7
Average lending yields	4.14	4.14	4.21	4.23	4.20
Average cost of funds	2.76	2.94	3.13	3.20	3.25
Net interest margin	2.20	2.20	2.16	2.13	2.10
Cost/income	46.6	46.8	47.8	46.8	46.1
<b>Liquidity (%)</b>					
Loans/customer deposits	81.1	82.0	88.9	90.5	91.0
<b>Asset quality (%)</b>					
Net NPL	1.1	0.9	0.9	1.0	1.0
Gross NPL	1.4	1.0	1.1	1.2	1.2
(SP+GP)/average gross loans	(0.0)	0.1	0.2	0.2	0.3
Loan loss coverage	92.7	102.7	97.7	94.1	90.9
<b>Capital adequacy (%)</b>					
CET1	10.9	11.3	11.6	11.7	11.9
Tier 1 capital	12.0	11.3	11.6	11.7	11.9
Risk-weighted capital	14.2	13.2	13.4	13.5	13.6
<b>Returns (%)</b>					
ROAE	13.6	12.3	11.1	10.8	10.5
ROAA	1.2	1.0	1.0	0.9	0.9
Shareholders equity/assets	8.7	8.5	8.8	8.8	8.8

Source: Company; Maybank

# Astro Malaysia (ASTRO MK)

## Still have time to watch Astro

# HOLD

Share Price MYR 2.84  
 12m Price Target MYR 2.80 (-1%)  
 Previous Price Target MYR 2.80

### A safe refuge

While we do not doubt that the prevailing poor consumer sentiment will likely translate into net Pay-TV additions grinding to a halt and the weaker US\$MYR exchange rate inflating content cost, we forecast FY1/17 EBITDA to be only 7% lower YoY. ASTRO can still grow its earnings by upgrading its subscribers. More importantly, ASTRO is still evolving with the times by introducing its own on-demand product 'OD' and 'Tribe' to counter Netflix and iFlix.

### Still evolving with the times

Although the presently poor consumer sentiment will likely translate into minimal net additions to its Pay-TV subscribership base, ASTRO can still grow its earnings by upgrading NJOI viewers to Pay-TV subscribers and in turn, upgrading basic Pay-TV subscribers to HD Pay-TV subscribers. Furthermore, it introduced its own on-demand product called 'OD' in Oct 2015 and 'Tribe' in Indonesia recently to counter the entry of subscription-video-on-demand operators such as Netflix and iFlix.

### Challenging FY1/17 but not overly concerned

Subdued net Pay-TV additions in FY1/17 aside, ASTRO has guided for content cost to jump from MYR1.7b in FY1/16 to MYR1.9b-MYR2.0b in FY1/17, attributed to the weaker US\$MYR (adding MYR250m-MYR300m) and UEFA Euro Cup and Summer Olympics sports content (extra MYR100m), partially offset by content renegotiated at lower rates (less MYR150m).

### HOLD with MYR2.80 TP

We forecast FY1/18 EBITDA to grow 10% YoY as we forecast that net Pay-TV additions will resume to ~150k and content cost will normalise at MYR1.8b-MYR1.9b. We rate ASTRO a HOLD with a MYR2.80 DCF-TP. While we concede that its valuations are not cheap at >20x FY1/17 PER, we believe that it is justified as its subscribership based model is a lot more stable than the adex based model that other media companies employ.

### Company Description

Astro Malaysia is an integrated consumer media entertainment group in Malaysia with operations in Pay-TV, Radio, Publications and Digital Media.

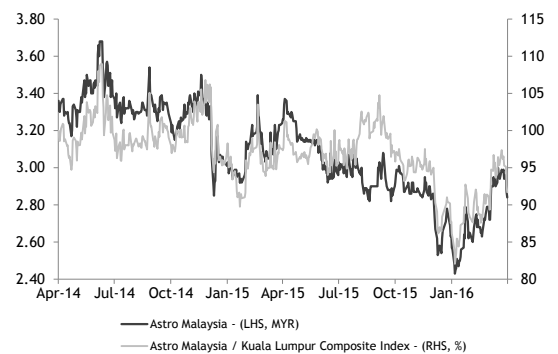
### Statistics

52w high/low (MYR)	3.37/2.43
3m avg turnover (USDm)	1.9
Free float (%)	29.4
Issued shares (m)	5,205
Market capitalisation	MYR14.8B USD3.8B

### Major shareholders:

KRISHNAN TATPARANANDAM ANANDA	40.2%
Pantai Cahaya Bulan Ventures Sdn. Bhd.	20.7%
Harapan Terus Sdn. Bhd.	8.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	8	(12)
Relative to index (%)	0	5	(6)

Source: FactSet

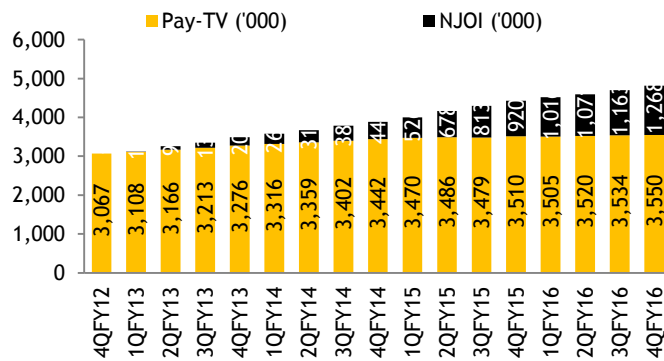
FYE Jan (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	5,231	5,475	5,499	5,734	6,117
EBITDA	1,808	1,941	1,803	1,978	2,116
Core net profit	519	673	593	776	862
Core FDEPS (sen)	10.0	12.9	11.4	14.9	16.5
Core FDEPS growth(%)	15.9	29.4	(11.9)	31.0	11.0
Net DPS (sen)	11.0	12.0	9.0	12.0	13.0
Core FD P/E (x)	28.5	22.0	25.0	19.1	17.2
P/BV (x)	21.3	24.7	20.5	16.9	14.0
Net dividend yield (%)	3.9	4.2	3.2	4.2	4.6
ROAE (%)	79.5	103.9	89.5	97.1	89.2
ROAA (%)	7.5	9.9	8.1	10.1	11.7
EV/EBITDA (x)	9.6	9.1	10.5	9.4	8.6
Net debt/equity (%)	309.9	nm	nm	446.2	327.4
Consensus net profit	-	-	658	784	879
MKE vs. Consensus (%)	-	-	(9.9)	(1.0)	(2.0)

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## Value Proposition

- Integrated media group with operations in Pay-TV (95% of revenue), radio, publications and digital media.
- Largest Pay-TV operator with 3.6m Pay-TV viewers and 1.3m subscription-free viewers (NJOI).
- Pay-TV penetration rate in Malaysia is ~50%. Growth driven by upgrading NJOI viewers to Pay-TV viewers.
- Challenge is to upsell HD products, diversify to IPTV and OTT while managing content cost.
- That said, a lot more resilient than the adex-based media groups due to its stable subscriber base.
- Highly FCF generative. Capex is mostly maintenance and set-top-boxes (STB) distribution largely complete.

### Number of viewers

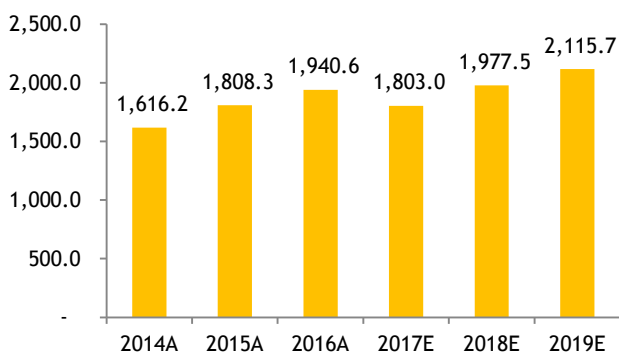


Source: Company

## Financial Metrics

- Key financial metrics is EBITDA because depreciation and amortisation is substantial at >MYR700m.
- Mismatch between net profit and FCF due to depreciation of STBs (3 years when useful life often longer).
- Forecast FY17E EBITDA to contract 7% YoY on strong USD causing content cost to inflate in MYR terms.
- Forecast FY18E EBITDA to grow 10% YoY on Pay-TV viewer additions of 150k (FY17E: 0k) and stabilising content cost.
- Net gearing high at >500% but net debt/EBITDA very manageable at ~2x.

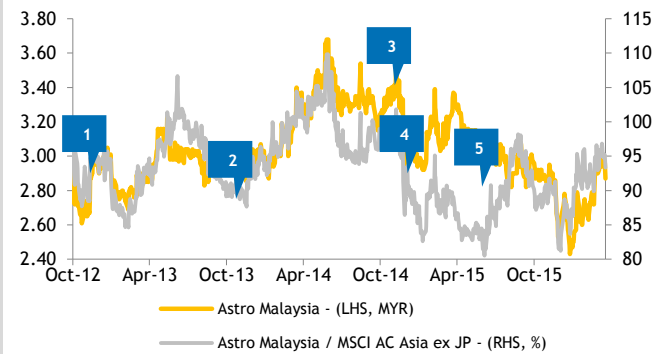
### EBITDA (MYRm)



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. Renewed Barclays Premier League TV broadcasting rights for the 2013/14 to 2015/2016 season.
2. Increased monthly subscription fees by MYR2 for Family Pack and MYR6 for Sports Pack.
3. Increased monthly subscription fees by MYR5 for HD products.
4. Number of Pay-TV monthly subscribers fell for the first time since listing.
5. Number of Pay-TV monthly subscribers fell for the second time since listing.

## Swing Factors

### Upside

- Number of Pay-TV subscribers - requires six to twelve months to break-even but they drive long-term growth.
- Number of HD products subscribers - drive ARPU growth due to their high monthly subscription fees.
- Average revenue per user (ARPU) - all else being equal, higher ARPUs translate into higher margins.

### Downside

- Content cost - accounts for ~30% of total cash expenses and has been on an upward trend.
- USDMYR exchange rate - STBs, satellite transponders and 2/3 of content cost are denominated in USD.
- New competitors - concession ends in Feb 2022 but monopoly on direct-to-home services ends in Feb 2017.





FYE 31 Jan	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Key Metrics</b>					
P/E (reported) (x)	28.4	24.0	24.9	19.0	17.1
Core P/E (x)	28.4	22.0	24.9	19.0	17.1
Core FD P/E (x)	28.5	22.0	25.0	19.1	17.2
P/BV (x)	21.3	24.7	20.5	16.9	14.0
P/NTA (x)	(11.7)	(10.6)	(11.6)	(13.1)	(15.7)
Net dividend yield (%)	3.9	4.2	3.2	4.2	4.6
FCF yield (%)	0.0	0.0	6.9	7.8	8.8
EV/EBITDA (x)	9.6	9.1	10.5	9.4	8.6
EV/EBIT (x)	18.9	15.9	18.6	14.9	13.5

**INCOME STATEMENT (MYR m)**

Revenue	5,231.4	5,475.4	5,499.1	5,734.5	6,116.5
EBITDA	1,808.3	1,940.6	1,803.0	1,977.5	2,115.7
Depreciation	(888.1)	(825.7)	(782.1)	(723.2)	(761.8)
EBIT	920.2	1,114.9	1,021.0	1,254.3	1,353.9
Net interest income / (exp)	(192.6)	(236.6)	(218.8)	(201.1)	(183.9)
Associates & JV	(6.6)	8.3	8.3	8.3	8.3
Exceptionals	0.0	(57.2)	0.0	0.0	0.0
Pretax profit	720.9	829.4	810.5	1,061.5	1,178.4
Income tax	(207.1)	(221.4)	(224.6)	(294.2)	(326.6)
Minorities	5.6	7.3	6.7	8.8	9.8
Reported net profit	519.4	615.3	592.6	776.1	861.6
Core net profit	519.4	672.5	592.6	776.1	861.6

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,353.6	635.7	461.4	228.1	71.2
Accounts receivable	769.4	955.3	959.4	1,000.5	1,067.2
Inventory	13.0	20.6	20.7	21.6	23.0
Property, Plant & Equip (net)	1,880.9	2,129.4	3,202.4	3,059.6	2,886.6
Intangible assets	1,955.9	2,001.5	2,001.5	2,001.5	2,001.5
Investment in Associates & JVs	48.9	30.1	38.4	46.7	55.0
Other assets	709.7	1,128.4	1,128.4	1,128.4	1,128.4
<b>Total assets</b>	<b>6,731.3</b>	<b>6,901.0</b>	<b>7,812.2</b>	<b>7,486.4</b>	<b>7,232.8</b>
ST interest bearing debt	400.1	519.5	561.8	593.7	615.1
Accounts payable	1,263.4	1,314.9	1,374.9	1,397.5	1,488.3
LT interest bearing debt	3,103.3	3,285.6	4,129.1	3,535.5	2,920.3
Other liabilities	1,250.0	1,167.0	1,016.0	1,088.0	1,163.0
<b>Total Liabilities</b>	<b>6,017.1</b>	<b>6,287.2</b>	<b>7,081.9</b>	<b>6,614.5</b>	<b>6,187.0</b>
Shareholders Equity	693.8	600.7	724.0	874.3	1,058.0
Minority Interest	20.4	13.1	6.4	(2.4)	(12.2)
<b>Total shareholder equity</b>	<b>714.2</b>	<b>613.8</b>	<b>730.3</b>	<b>871.9</b>	<b>1,045.8</b>
<b>Total liabilities and equity</b>	<b>6,731.3</b>	<b>6,901.0</b>	<b>7,812.2</b>	<b>7,486.4</b>	<b>7,232.8</b>

**CASH FLOW (MYR m)**

Pretax profit	720.9	829.4	810.5	1,061.5	1,178.4
Depreciation & amortisation	888.1	825.7	782.1	723.2	761.8
Adj net interest (income)/exp	150.8	174.8	218.8	201.1	183.9
Change in working capital	4.1	(59.4)	55.8	(19.3)	22.6
Cash taxes paid	(197.2)	(281.3)	(223.6)	(271.9)	(316.2)
Other operating cash flow	182.3	126.5	(8.3)	(8.3)	(8.3)
Cash flow from operations	2,071.2	1,943.7	2,006.6	2,042.1	2,202.0
Capex	(352.4)	(304.0)	(275.0)	(286.7)	(305.8)
Free cash flow	0.0	0.0	1,016.9	1,155.4	1,298.5
Dividends paid	(506.9)	(650.3)	(469.3)	(625.8)	(677.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(281.6)	(442.4)	(503.0)	(561.8)	(593.7)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(695.4)	(571.2)	(933.6)	(801.1)	(781.4)
Effect of exch rate changes	0.3	2.5	0.0	0.0	0.0
Net cash flow	235.2	(21.7)	(174.3)	(233.3)	(156.9)

FYE 31 Jan	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	9.2	4.7	0.4	4.3	6.7
EBITDA growth	11.9	7.3	(7.1)	9.7	7.0
EBIT growth	18.4	21.2	(8.4)	22.9	7.9
Pretax growth	26.6	15.1	(2.3)	31.0	11.0
Reported net profit growth	15.9	18.5	(3.7)	31.0	11.0
Core net profit growth	16.0	29.5	(11.9)	31.0	11.0
<b>Profitability ratios (%)</b>					
EBITDA margin	34.6	35.4	32.8	34.5	34.6
EBIT margin	17.6	20.4	18.6	21.9	22.1
Pretax profit margin	13.8	15.1	14.7	18.5	19.3
Payout ratio	nm	nm	79.0	80.4	78.5
<b>DuPont analysis</b>					
Net profit margin (%)	9.9	11.2	10.8	13.5	14.1
Revenue/Assets (x)	0.8	0.8	0.7	0.8	0.8
Assets/Equity (x)	9.7	11.5	10.8	8.6	6.8
ROAE (%)	79.5	103.9	89.5	97.1	89.2
ROAA (%)	7.5	9.9	8.1	10.1	11.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(70.6)	(72.9)	(66.3)	(69.3)	(67.0)
Days receivable outstanding	59.3	56.7	62.7	61.5	60.8
Days inventory outstanding	1.6	1.7	2.0	2.0	2.0
Days payables outstanding	131.5	131.3	131.0	132.8	129.8
Dividend cover (x)	0.9	1.0	1.3	1.2	1.3
Current ratio (x)	1.0	0.9	0.8	0.7	0.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.1	1.1	1.1	1.1	1.2
Net debt/equity (%)	309.9	nm	nm	446.2	327.4
Net interest cover (x)	4.8	4.7	4.7	6.2	7.4
Debt/EBITDA (x)	1.9	2.0	2.6	2.1	1.7
Capex/revenue (%)	6.7	5.6	5.0	5.0	5.0
Net debt/ (net cash)	2,149.8	3,169.4	4,229.6	3,901.1	3,464.3

Source: Company; Maybank

# Axiata Group (AXIATA MK)

## Earnings recovery

### Less Malaysia-centric earnings profile

While Celcom continues to face the challenge of regaining subscriber traction, earnings are unlikely to deteriorate further in 2016. Encouragingly, there is still positive growth momentum at Axiata's overseas entities, while the soon-to-be-completed Ncell acquisition could further boost earnings. We have a HOLD rating with a MYR6.10 TP.

### Celcom's woes hogged limelight

Having resolved its IT issues, Celcom's subsequent aggressive product pricing in 2015 eventually had a detrimental effect on monetisation, with service revenue contracting c.7% YoY. XL meanwhile had more success with its strategy shift, having posted consecutive quarters of sequential EBITDA growth. Axiata was also active in M&A, having announced the acquisitions of Myanmar Tower Co and Ncell in 2015.

### A better 2016

We believe Axiata's earnings would have likely bottomed in 2015. Celcom's earnings are unlikely to deteriorate further in 2016 now that it is fully functional on the IT front, although there is the still unknown 900/1800MHz spectrum fees to grapple with. Meanwhile, XL's strategy shift has yielded positive initial results, and growth momentum at the other overseas entities remains healthy. In addition, the soon-to-be-completed Ncell acquisition could further boost Axiata's earnings.

### Fairly valued

We value Axiata on a sum-of-parts, with each operating entity valued using DCF. Celcom and XL respectively account for MYR3.69 and MYR0.87 of Axiata's valuation. Our TP has yet to account for Celcom's incremental spectrum fees, and the contribution from Ncell (potentially an incremental c.MYR0.30/shr to our TP). Our target price implies 22.1x PER, 7.7x EV/EBITDA and 3.9% dividend yield in 2016.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	18,712	19,883	21,505	22,901	23,988
EBITDA	6,999	7,284	7,959	8,550	9,034
Core net profit	2,239	2,071	2,438	2,817	3,175
Core EPS (sen)	26.1	23.9	27.7	31.9	36.0
Core EPS growth (%)	(15.8)	(8.6)	15.8	15.5	12.7
Net DPS (sen)	22.0	20.0	23.5	27.2	30.6
Core P/E (x)	22.3	24.4	21.1	18.3	16.2
P/BV (x)	2.4	2.2	2.2	2.1	2.1
Net dividend yield (%)	3.8	3.4	4.0	4.7	5.2
ROAE (%)	11.1	9.4	10.3	11.7	12.9
ROAA (%)	4.8	3.9	4.3	4.9	5.4
EV/EBITDA (x)	10.1	9.4	8.2	7.7	7.2
Net debt/equity (%)	42.3	46.3	48.4	47.7	45.2
Consensus net profit	-	-	2,530	2,844	3,113
MKE vs. Consensus (%)	-	-	(3.6)	(0.9)	2.0

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# HOLD

Share Price MYR 5.84  
12m Price Target MYR 6.10 (+4%)  
Previous Price Target MYR 6.10

### Company Description

Axiata Group owns a portfolio of mobile telcos, network infrastructure and digital internet companies in 9 countries across Asia.

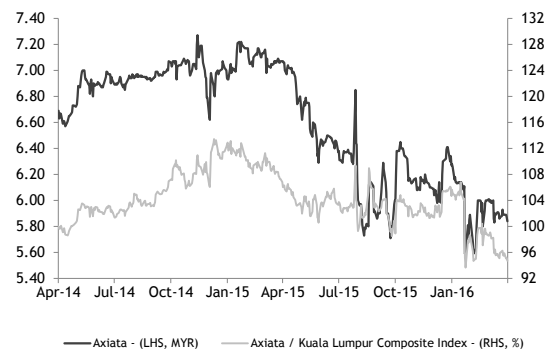
### Statistics

Shariah status	Yes
52w high/low (MYR)	7.07/5.59
3m avg turnover (USDm)	13.8
Free float (%)	60.2
Issued shares (m)	8,817
Market capitalisation	MYR51.5B USD13.1B

### Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	38.2%
Employees Provident Fund	14.4%
First State Investment Management (UK) L	2.8%

### Price Performance



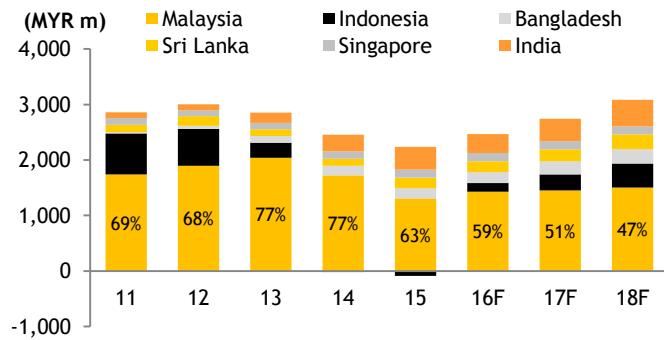
	-1M	-3M	-12M
Absolute (%)	(3)	(7)	(17)
Relative to index (%)	(4)	(10)	(11)

Source: FactSet

## Value Proposition

- A pan-Asia portfolio of mobile telcos, with each entity in a dominant position (top-3) within its respective country.
- While organic growth is preferred, Axiata is not adverse to M&A, particularly in relation to in-country consolidation.
- Axiata will consider expanding into new markets within Asia if the investment case is compelling (recent examples include Ncell in Nepal and Myanmar Tower Company).
- Axiata aims to sustain healthy long-term ROICs by maintaining a mix of income (Celcom and M1) and growth (Robi, Dialog, Smart and Idea) in its portfolio.
- Due to operational headwinds at Celcom and XL, Axiata's ROICs fell below 10% in 2014-15; we expect ROICs to recover as the respective restructuring efforts bear fruit.

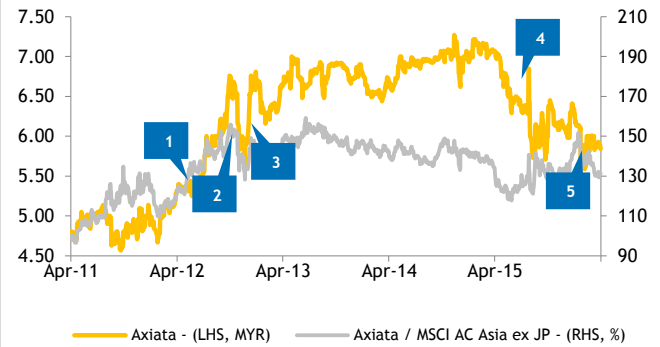
### Net profit split



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price



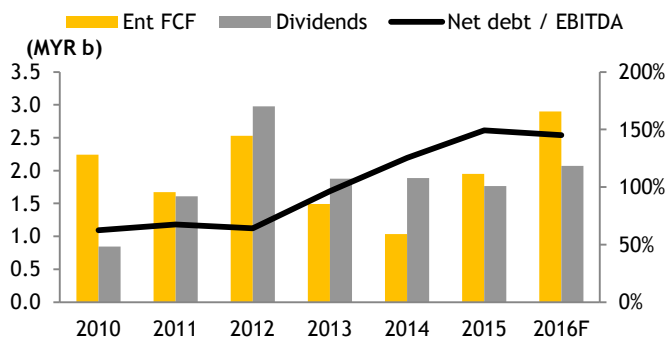
Source: Company, Maybank Kim Eng

1. Re-rating of Malaysian telcos on yield-compression, coupled with Axiata pledging to progressively raise payout ratios.
2. Concerns over XL's earnings outlook following sizable subscriber loss and higher capex guidance in 3Q12.
3. Restoration of expectations for a special dividend with 3Q12 results unexpectedly in-line with consensus.
4. Celcom's IT problems taking longer than expected to resolve, resulting in further loss of market share.
5. Concerns over Celcom incurring high spectrum fees from auctions, but auctions were subsequently ruled out by the regulator.

## Financial Metrics

- EBITDA has not grown meaningfully in the past five years, as declines at XL, and subsequently Celcom, were offset by increased contributions from Robi, Dialog and Smart.
- We expect Celcom/XL's restructuring efforts to bear fruit, and the other entities to continue delivering strong growth, thus leading to earnings growth going forward.
- DPS to trend up in tandem with net profit growth, although there is a risk that Axiata could review its dividend policy after completing the Ncell acquisition.

### FCF, dividends and gearing (excluding Ncell)



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Celcom's new products regain traction with subscribers, thus halting the ongoing slide in revenue share.
- The Malaysia regulator announces non-punitive 900/1800MHz spectrum fees.
- The completion of the Ncell acquisition in Nepal, with Ncell subsequently continuing to post strong earnings.

### Downside

- Celcom fails to recover in 2016, while XL's turnaround momentum falters.
- Competition intensifies, and spectrum fees become increasingly punitive in countries that Axiata's entities operate in.
- A lower payout ratio (presently at 85%), as the company reviews its dividend policy.
- The ongoing Ncell acquisition is unexpectedly aborted.

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	21.3	19.8	21.1	18.3	16.2
Core P/E (x)	22.3	24.4	21.1	18.3	16.2
P/BV (x)	2.4	2.2	2.2	2.1	2.1
P/NTA (x)	6.3	5.5	5.3	5.1	4.9
Net dividend yield (%)	3.8	3.4	4.0	4.7	5.2
FCF yield (%)	5.7	3.9	4.2	6.0	7.4
EV/EBITDA (x)	10.1	9.4	8.2	7.7	7.2
EV/EBIT (x)	21.2	22.0	17.5	15.7	14.1

**INCOME STATEMENT (MYR m)**

Revenue	18,711.8	19,883.5	21,504.9	22,901.1	23,988.5
Gross profit	18,711.8	19,883.5	21,504.9	22,901.1	23,988.5
EBITDA	6,998.6	7,284.1	7,959.1	8,550.1	9,033.5
Depreciation	(3,656.0)	(4,169.8)	(4,220.5)	(4,365.5)	(4,388.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	3,342.6	3,114.3	3,738.6	4,184.6	4,645.2
Net interest income / (exp)	(548.5)	(657.7)	(727.8)	(666.7)	(642.7)
Associates & JV	338.9	433.6	390.3	454.0	524.9
Exceptionals	(18.6)	441.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	3,114.5	3,331.1	3,401.1	3,971.9	4,527.4
Income tax	(770.0)	(695.1)	(796.6)	(912.8)	(1,028.3)
Minorities	4.3	(81.8)	(166.2)	(242.3)	(323.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,348.7	2,554.2	2,438.4	2,816.9	3,175.4
Core net profit	2,239.0	2,071.0	2,438.4	2,816.9	3,175.4

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	5,115.6	5,510.7	4,835.8	4,797.1	5,183.9
Accounts receivable	3,062.4	3,954.7	4,242.1	4,517.5	4,732.0
Inventory	79.5	155.1	146.0	153.8	159.0
Property, Plant & Equip (net)	19,933.5	23,133.6	24,426.2	25,061.7	25,194.4
Intangible assets	12,815.7	14,206.5	14,206.5	14,206.5	14,206.5
Investment in Associates & JVs	7,557.0	8,311.5	8,513.3	8,791.5	9,138.3
Other assets	563.8	846.1	846.1	846.1	846.1
<b>Total assets</b>	<b>49,127.4</b>	<b>56,118.3</b>	<b>57,215.9</b>	<b>58,374.3</b>	<b>59,460.2</b>
ST interest bearing debt	1,948.6	2,347.7	2,347.7	2,347.7	2,347.7
Accounts payable	8,374.6	9,642.8	10,221.7	10,768.4	11,129.0
LT interest bearing debt	11,944.7	14,044.7	14,044.7	14,044.7	14,044.7
Other liabilities	4,302.0	4,359.0	4,359.0	4,359.0	4,359.0
<b>Total Liabilities</b>	<b>26,569.7</b>	<b>30,393.9</b>	<b>30,972.8</b>	<b>31,519.5</b>	<b>31,880.1</b>
Shareholders Equity	20,744.5	23,525.3	23,891.0	24,313.6	24,789.9
Minority Interest	1,813.3	2,199.1	2,352.0	2,541.2	2,790.2
<b>Total shareholder equity</b>	<b>22,557.8</b>	<b>25,724.3</b>	<b>26,243.1</b>	<b>26,854.8</b>	<b>27,580.0</b>
<b>Total liabilities and equity</b>	<b>49,127.4</b>	<b>56,118.3</b>	<b>57,215.9</b>	<b>58,374.3</b>	<b>59,460.2</b>

**CASH FLOW (MYR m)**

Pretax profit	3,114.5	3,331.1	3,401.1	3,971.9	4,527.4
Depreciation & amortisation	3,656.0	4,169.8	4,220.5	4,365.5	4,388.3
Adj net interest (income)/exp	548.5	657.7	727.8	666.7	642.7
Change in working capital	1,866.6	300.2	300.7	263.4	141.0
Cash taxes paid	(909.2)	(809.6)	(796.6)	(912.8)	(1,028.3)
Other operating cash flow	(1,635.9)	(130.1)	0.0	0.0	0.0
Cash flow from operations	6,486.8	6,809.7	7,651.7	8,076.5	8,324.4
Capex	(3,632.9)	(4,839.6)	(5,513.0)	(5,001.0)	(4,521.0)
Free cash flow	2,853.9	1,970.1	2,138.7	3,075.5	3,803.4
Dividends paid	(1,885.0)	(722.2)	(2,072.6)	(2,394.3)	(2,699.1)
Equity raised / (purchased)	146.9	42.8	0.0	0.0	0.0
Change in Debt	(28.8)	207.1	0.0	0.0	0.0
Other invest/financing cash flow	(2,247.0)	(2,022.8)	(741.0)	(719.8)	(717.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1,160.0)	(525.0)	(674.9)	(38.6)	386.8

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	1.9	6.3	8.2	6.5	4.7
EBITDA growth	(3.7)	4.1	9.3	7.4	5.7
EBIT growth	(12.9)	(6.8)	20.0	11.9	11.0
Pretax growth	(11.8)	7.0	2.1	16.8	14.0
Reported net profit growth	(7.9)	8.8	(4.5)	15.5	12.7
Core net profit growth	(15.4)	(7.5)	17.7	15.5	12.7
<b>Profitability ratios (%)</b>					
EBITDA margin	37.4	36.6	37.0	37.3	37.7
EBIT margin	17.9	15.7	17.4	18.3	19.4
Pretax profit margin	16.6	16.8	15.8	17.3	18.9
Payout ratio	80.2	67.9	85.0	85.0	85.0
<b>DuPont analysis</b>					
Net profit margin (%)	12.6	12.8	11.3	12.3	13.2
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	2.4	2.4	2.4	2.4	2.4
ROAE (%)	11.1	9.4	10.3	11.7	12.9
ROAA (%)	4.8	3.9	4.3	4.9	5.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	55.2	63.5	68.6	68.8	69.4
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.2	1.5	1.2	1.2	1.2
Current ratio (x)	0.8	0.8	0.7	0.7	0.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	1.8	1.8	1.9	1.9
Net debt/equity (%)	42.3	46.3	48.4	47.7	45.2
Net interest cover (x)	6.1	4.7	5.1	6.3	7.2
Debt/EBITDA (x)	2.0	2.3	2.1	1.9	1.8
Capex/revenue (%)	19.4	24.3	25.6	21.8	18.8
Net debt/ (net cash)	8,777.8	10,881.7	11,556.6	11,595.3	11,208.5

Source: Company; Maybank

# Berjaya Auto (BAUTO MK)

## Rose among the thorns

# BUY

Share Price MYR 2.10  
 12m Price Target MYR 2.40 (+14%)  
 Previous Price Target MYR 2.40

### The best ride within the auto space

BAuto's exclusive distributorship of the Mazda cars in Malaysia and Philippines is on a growth trajectory, on the back of (i) increasing consumer preference for SUVs for the former and (ii) a double-digit TIV growth market for the latter. Its asset-light model and strong balance sheet are key differentiations from its peers. We value BAuto at MYR2.40, pegging it at 11.5x CY17 EPS (+1SD of mean). Coupled with decent yields of ~4% (50% DPR), BAuto is our only sector BUY.

### Earnings shortfall from a volatile JPY/MYR

BAuto is affected by a volatile JPY/MYR as all of its CBU car purchases are denominated in JPY (~29% of BAuto's FY16 COGS). Persistent MYR weakness (YTD JPY100/MYR averaged 3.63 vs 3.22 in 2015) had crimped BAuto's margins but this was partially cushioned by stronger translated revenue from its Philippines operation (~18% of FY16 revenue). Expansion of its CKD programmes (i.e. CX-3 CKD, Mazda6 in 4Q16) will reduce BAuto's forex exposure going forward.

### Commendable topline growth remains on track

BAuto's topline grew by double-digit p.a. over the past 6 years as its market share expanded from a small base (>1% in 2010 to 2% in 2015) in both Malaysia and Philippines, aided by popular launches in the SUV-segment. We expect this double-digit growth (+25%-27% YoY) to sustain in FY16/17 on the back of (i) new price-competitive CKD launches (i.e. CX-5 CKD facelift, CX-3 CKD) and (ii) high growth in the Philippines market (1M16 TIV: +28% YoY) where TIV grew 23%/29% in 2015/2014.

### Inexpensive valuations

BAuto trades at 12x CY16 PER (10x ex-cash); undemanding compared to the sector's (ex BAuto) 23x CY16 PER. Despite recent challenges (i.e. weak MYR, poor consumer sentiment), BAuto remains profitable compared to its peers (i.e. UMW and TCM). Its strong net cash balance of MYR326m at end-9MFY16 (29sen/shr) and low capex requirement (lean business model) are indicative of a potential increase in dividends.

FYE Apr (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,451	1,830	2,302	2,922	3,014
EBITDA	172	290	268	295	352
Core net profit	141	223	194	211	254
Core EPS (sen)	12.4	19.5	16.9	18.4	22.1
Core EPS growth (%)	186.4	58.0	(13.4)	8.8	20.3
Net DPS (sen)	3.8	12.1	8.5	9.2	11.1
Core P/E (x)	17.0	10.7	12.4	11.4	9.5
P/BV (x)	7.0	5.1	4.2	3.6	3.0
Net dividend yield (%)	1.8	5.8	4.0	4.4	5.3
ROAE (%)	56.0	54.5	37.1	33.8	34.3
ROAA (%)	25.6	32.9	23.3	21.0	21.9
EV/EBITDA (x)	8.8	10.4	8.0	7.3	5.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	194	223	247
MKE vs. Consensus (%)	-	-	(0.0)	(5.3)	2.6

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### Company Description

Franchise holder and sole distributor of Mazda vehicles in Malaysia and Philippines. Also owns 30% stake in Mazda Malaysia and 29% stake in Inokom.

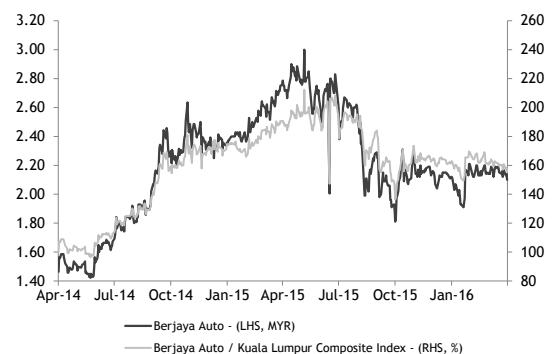
### Statistics

Shariah status	Yes
52w high/low (MYR)	3.00/1.81
3m avg turnover (USDm)	1.0
Free float (%)	59.8
Issued shares (m)	1,146
Market capitalisation	MYR2.4B USD615M

### Major shareholders:

Berjaya Corp. Bhd.	27.9%
Employees Provident Fund	6.5%
Podium Success Sdn. Bhd.	6.4%

### Price Performance



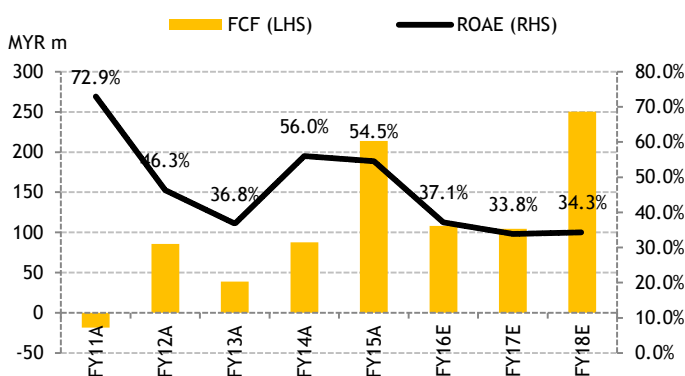
	-1M	-3M	-12M
Absolute (%)	(2)	(1)	(24)
Relative to index (%)	(4)	(4)	(18)

Source: FactSet

## Value Proposition

- Berjaya Auto is the exclusive distributor of Mazda cars, fast growing marque in both franchised countries of Malaysia and the Philippines.
- The business is largely cash generative. ROE of ~30% is sustainable, augmented by an asset-light operating model.
- Annual returns hinge on vehicle model line-up to drive volume sales growth while JPY/MYR forex fluctuations largely dictate margins.
- Its profitable foothold in the Philippines is a wild card and a growth engine. The Philippines TIV grew at a double digit pace over the past two years.

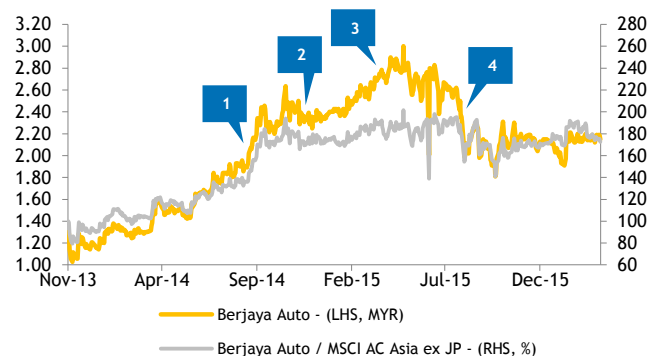
### FCF vs ROE



Source: Company

## Price Drivers

### Historical share price



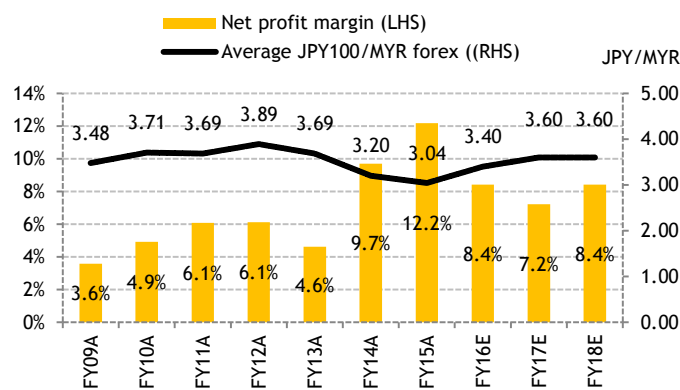
Source: Company, Maybank Kim Eng

1. Strong 1QFY4/15 results (driven by higher sales volume and weaker JPY against MYR) trounced consensus' expectations.
2. Profit-taking by investors following a good run in share price.
3. Launch of the all-new Mazda 3 CKD, a flagship model, to drive sales growth.
4. MYR's rapid weakening against JPY; negative implication on BAuto's profit margins.

## Financial Metrics

- Volume growth, helped by a low base, attractive new model pipeline, feature enhancements and stable JPY/MYR forex are key drivers of BAuto's earnings.
- Further economies of scale can be achieved as unit sales grow to a higher level with new CKD launches ahead. Sales are currently restricted by limited supply of CBU cars (restricted by approved permits).
- Stabilising JPY/MYR at 3.60 average would cap forward net margins at 8+%, ceteris paribus.
- Dividend payout could rise amid strong cashpile and low capex.

### Net profit margin vs JPY/MYR forex



Source: Company, Maybank KE

## Swing Factors

### Upside

- Forex: MYR's recovery against JPY - positive cost impact.
- Increased localisation of popular CKD models will reduce forex exposure and fluctuation in profit margins.
- Faster-than-expected penetration into the Philippines vehicle market.
- Potential entry into the Indonesian car market with Mazda Japan as its partner.

### Downside

- Aggressive competition in the form of better models or pricing by other marques.
- Drastic increase in hire purchase rates could dampen consumer sentiment and vehicle sales.
- MYR's further weakness against JPY would impact profit margins negatively. 1% change in our base assumption of JPY100/MYR3.60 for FY16-17 would impact earnings by 3%.
- Discontinuation of localisation incentive for its CKD programme under 30%-owned MMSB could raise cost of sales at group level as well as hamper earnings at the associate's level.



FYE 30 Apr	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	18.3	11.2	12.4	11.4	9.5
Core P/E (x)	17.0	10.7	12.4	11.4	9.5
P/BV (x)	7.0	5.1	4.2	3.6	3.0
P/NTA (x)	7.0	5.1	4.2	3.6	3.0
Net dividend yield (%)	1.8	5.8	4.0	4.4	5.3
FCF yield (%)	3.7	8.9	4.5	4.4	10.4
EV/EBITDA (x)	8.8	10.4	8.0	7.3	5.8
EV/EBIT (x)	9.1	10.7	8.3	7.6	6.0
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	1,450.8	1,830.4	2,301.8	2,922.2	3,013.9
Gross profit	266.1	429.4	434.6	497.1	592.2
EBITDA	172.1	290.1	268.3	295.0	352.5
Depreciation	(5.5)	(6.4)	(8.3)	(10.6)	(10.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	166.6	283.8	260.1	284.4	342.1
Net interest income / (exp)	2.3	6.1	9.7	9.9	10.3
Associates & JV	10.9	9.1	12.3	11.1	11.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	179.8	299.0	282.1	305.4	363.7
Income tax	(45.9)	(78.4)	(74.7)	(77.9)	(92.7)
Minorities	(3.2)	(7.1)	(13.5)	(16.6)	(17.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	130.6	213.5	193.9	210.9	253.7
Core net profit	140.9	222.9	193.9	210.9	253.7
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	186.2	280.8	288.7	297.9	431.7
Accounts receivable	53.8	103.5	69.9	86.9	89.4
Inventory	288.1	218.4	398.0	522.8	518.1
Property, Plant & Equip (net)	20.4	23.6	30.3	29.7	29.3
Intangible assets	0.5	0.5	0.5	0.5	0.5
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	65.3	112.8	138.1	149.2	160.5
<b>Total assets</b>	<b>614.2</b>	<b>739.6</b>	<b>925.4</b>	<b>1,086.9</b>	<b>1,229.5</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	134.4	118.5	194.0	233.4	231.9
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	125.0	129.0	129.0	129.0	129.0
<b>Total Liabilities</b>	<b>259.8</b>	<b>247.0</b>	<b>322.5</b>	<b>361.9</b>	<b>360.4</b>
Shareholders Equity	343.9	473.6	570.5	676.0	802.9
Minority Interest	10.5	18.9	32.4	49.0	66.2
<b>Total shareholder equity</b>	<b>354.4</b>	<b>492.5</b>	<b>602.9</b>	<b>725.0</b>	<b>869.1</b>
<b>Total liabilities and equity</b>	<b>614.2</b>	<b>739.6</b>	<b>925.4</b>	<b>1,086.9</b>	<b>1,229.5</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	179.8	299.0	282.1	305.4	363.7
Depreciation & amortisation	5.5	6.4	8.3	10.6	10.4
Adj net interest (income)/exp	2.3	6.1	9.7	9.9	10.3
Change in working capital	(97.8)	(68.2)	(70.4)	(102.4)	0.7
Cash taxes paid	(41.1)	(88.3)	(74.7)	(77.9)	(92.7)
Other operating cash flow	36.4	67.6	(31.7)	(31.0)	(31.9)
Cash flow from operations	85.0	222.6	123.1	114.7	260.4
Capex	2.5	(8.8)	(15.0)	(10.0)	(10.0)
Free cash flow	87.6	213.8	108.1	104.7	250.4
Dividends paid	(14.1)	(98.1)	(96.9)	(105.5)	(126.9)
Equity raised / (purchased)	57.6	(0.1)	0.0	0.0	0.0
Change in Debt	(129.1)	4.5	0.0	0.0	0.0
Other invest/financing cash flow	2.2	(29.7)	(3.3)	9.9	10.3
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	4.2	90.5	7.9	9.2	133.8

FYE 30 Apr	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	36.3	26.2	25.7	27.0	3.1
EBITDA growth	110.8	68.6	(7.5)	9.9	19.5
EBIT growth	122.8	70.3	(8.3)	9.3	20.3
Pretax growth	159.7	66.3	(5.7)	8.3	19.1
Reported net profit growth	156.8	63.4	(9.2)	8.8	20.3
Core net profit growth	186.4	58.3	(13.0)	8.8	20.3
<b>Profitability ratios (%)</b>					
EBITDA margin	11.9	15.8	11.7	10.1	11.7
EBIT margin	11.5	15.5	11.3	9.7	11.3
Pretax profit margin	12.4	16.3	12.3	10.5	12.1
Payout ratio	32.7	64.9	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	9.0	11.7	8.4	7.2	8.4
Revenue/Assets (x)	2.4	2.5	2.5	2.7	2.5
Assets/Equity (x)	1.8	1.6	1.6	1.6	1.5
ROAE (%)	56.0	54.5	37.1	33.8	34.3
ROAA (%)	25.6	32.9	23.3	21.0	21.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	46.4	48.0	42.9	46.3	53.3
Days receivable outstanding	12.5	15.5	13.6	9.7	10.5
Days inventory outstanding	73.2	65.1	59.4	68.3	77.4
Days payables outstanding	39.3	32.5	30.1	31.7	34.6
Dividend cover (x)	3.1	1.5	2.0	2.0	2.0
Current ratio (x)	2.7	3.3	2.9	3.0	3.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	3.0	2.9	3.0	3.4
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	nm	0.5	0.7	0.3	0.3
Net debt/ (net cash)	(186.2)	(280.8)	(288.7)	(297.9)	(431.7)

Source: Company; Maybank

# Bumi Armada (BAB MK)

# BUY

Share Price MYR 0.78  
 12m Price Target MYR 1.05 (+35%)  
 Previous Price Target MYR 1.05

## Inexpensive and high growth; risks attached

### Worst case scenario priced in

The market, in our view, has priced in the 'worst case scenario' with regards to the Balnaves issue. We see re-rating potential if BArmada is successful in its legal case against Woodside. BArmada's immediate target is the seamless delivery of 3 FPSOs/ 1 FSU in 2016-17. Successful execution could result in a significant jump in earnings from 2017. BUY and SOP-based TP of MYR1.05.

### Contesting FPSO Claire's termination

BArmada has filed a Writ of Summons in the Supreme Court of Western Australia against Woodside, claiming for damages for reneging on the contract (amount to be quantified at a later stage) and an additional sum of USD66m for variation orders pursuant to the contract. From an outsider's perspective looking in, we see the possibility of BArmada securing 'termination compensation' on this dispute. In a worst case scenario, a total loss from this abrupt termination is about MYR102m p.a. and 22sen/share in earnings and TP, based on our assessment. We reckon that there may also be a need for BArmada to write down the book value of this asset, in such a scenario.

### On fire, if execution of 4 projects turns out well

The legal contest aside, seamless execution of its 4 FPSO/FSU projects (Angola, Kraken & Madura FPSOs and Malta FSU) in hand will contribute to a significant jump in BArmada's 2017 earnings. Any commercial/cost setbacks will be detrimental to its cash flows and market reputation. For growth beyond 2018, BArmada targets to secure 1-2 new jobs this year. Among others, the Ca Rong Do FPSO tender remains one its key targets.

### Strong rebound in FY17 earnings expected

Our forecasts exclude the earnings and compensation effects from the Balnaves issue. As such, we see a 15% YoY drop in 2016 earnings before a 105% YoY jump in 2017 core net profit. Our TP imputes: (i) 100% NPV of its ongoing FPSO operations, 80% for FPSOs undergoing conversion - Kraken, Angola, Madura (50%) and Malta (FSU), (ii) BV for OSV and T&I ops, (iii) residual values for its floating assets and (iv) MYR7b net debt.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,397	2,180	1,898	2,905	3,303
EBITDA	1,029	1,102	1,185	1,599	1,768
Core net profit	400	361	306	626	797
Core EPS (sen)	7.9	6.1	5.2	10.7	13.6
Core EPS growth (%)	(48.4)	(22.2)	(15.3)	104.8	27.4
Net DPS (sen)	1.6	0.8	0.0	0.0	0.0
Core P/E (x)	9.8	12.6	14.9	7.3	5.7
P/BV (x)	0.6	0.6	0.6	0.6	0.5
Net dividend yield (%)	2.1	1.1	0.0	0.0	0.0
ROAE (%)	7.2	5.2	4.1	8.0	9.3
ROAA (%)	3.4	2.2	1.6	3.2	4.0
EV/EBITDA (x)	8.2	11.4	9.8	6.8	5.6
Net debt/equity (%)	43.2	89.6	93.3	77.4	59.6
Consensus net profit	-	-	323	516	538
MKE vs. Consensus (%)	-	-	(5.5)	21.3	48.3

### Company Description

A Top 5 FPSO operator in the world with OSV and T&I units complementing its business

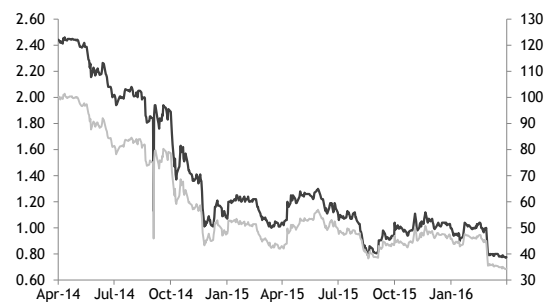
### Statistics

Shariah status	Yes
52w high/low (MYR)	1.30/0.78
3m avg turnover (USDm)	2.6
Free float (%)	51.2
Issued shares (m)	5,866
Market capitalisation	MYR4.6B
	USD1.1B

### Major shareholders:

KRISHNAN TATPARANANDAM ANANDA	34.9%
Permodalan Nasional Bhd.	12.5%
Employees Provident Fund	8.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(23)	(23)	(25)
Relative to index (%)	(24)	(25)	(20)

Source: FactSet

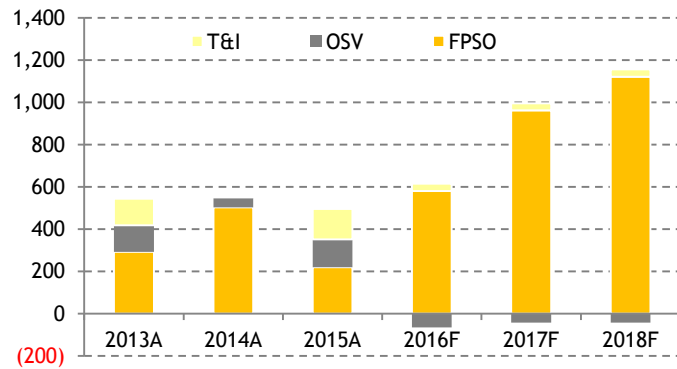
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## Value Proposition

- A Top 5 FPSO operator in the world by fleet size. Operating presence in Asia, Africa and Oceania, and soon Europe. OSV and T&I (loss-making) are complementary businesses.
- Unlike OSV and T&I operations, FPSO's contracts are more bankable, providing steady visibility (long-term charters, termination protection) with reasonable project IRRs.
- Commencement of 4 new FPSO/FSU charters from end-2016 will see a significant earnings jump in 2017 and expansion in the return on capital against cost of capital.

### Segmental EBIT breakdown (MYR'm)

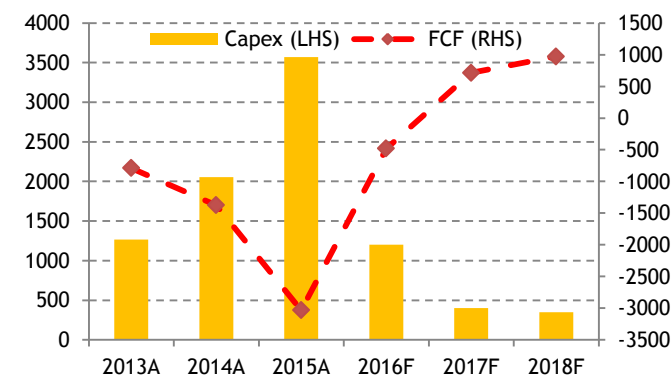


Source: Company

## Financial Metrics

- Bare-boat & O&M charters, utilisation and opex are BArmada's key earnings drivers. Variations in any of these parameters will impact profitability.
- With low oil prices, cost management and capital discipline are key emphases for 2016.
- Conversion of 4 FPSOs/FSU is ongoing and will commence charters from end-2016. Group's FCF will turn positive in 2017.
- Despite the heavy capex, net gearing has been manageable, reflective of prudent financial management and cashflow generation from its FPSO operations.

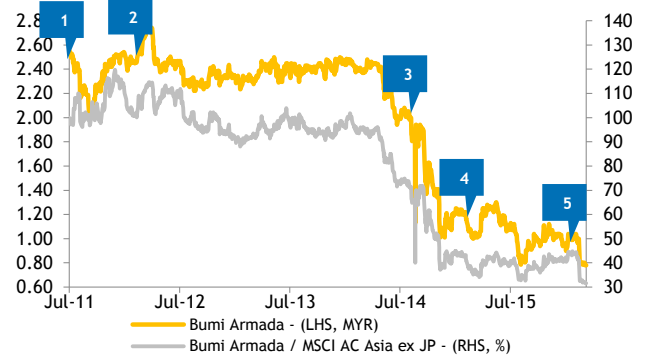
### Capex and FCF trend (MYR'm)



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. Re-listed in Jul 2011, IPO price was MYR3.03 (ex-rights)\*.
2. Bagged Petrobras PSV 4+4 year charter worth MYR115m and subsequently Lukoil's USD200m EPCIC job.
3. Undertook a rights issue exercise at MYR1.35/share and a secondary private placement of 215m shares.
4. CEO/Director Hassan Basma resigned, citing family reasons.
5. Talks of MISC potentially injecting some of its offshore assets into BArmada before being denied by both parties.

## Swing Factors

### Upside

- Rebound in crude oil price will be the most dominant near term stock driver.
- Seamless execution of its 4 FPSOs/FSU projects in hand will contribute to a significant jump in FY17 earnings.
- M&A action is not entirely ruled out as values are undemanding following the recent steep drop in share price.

### Downside

- Further weakness in oil price will hurt share price performance.
- Poor execution capabilities and/or contract(s) termination related to its FPSO operations and inferior cost management would have a detrimental effect on earnings and perception.
- Expansion of non-core operations (T&I and OSV) will not be well received at this point of the industry cycle.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	17.9	(19.4)	14.9	7.3	5.7
Core P/E (x)	9.8	12.6	14.9	7.3	5.7
P/BV (x)	0.6	0.6	0.6	0.6	0.5
P/NTA (x)	0.6	0.6	0.6	0.6	0.5
Net dividend yield (%)	2.1	1.1	0.0	0.0	0.0
FCF yield (%)	69.8	90.3	42.2	33.3	36.7
EV/EBITDA (x)	8.2	11.4	9.8	6.8	5.6
EV/EBIT (x)	15.2	25.3	21.2	11.5	8.9

**INCOME STATEMENT (MYR m)**

Revenue	2,397.3	2,179.7	1,898.4	2,904.6	3,303.3
Gross profit	684.1	413.5	526.3	979.7	1,159.9
EBITDA	1,029.4	1,101.7	1,185.1	1,598.7	1,767.6
Depreciation	(476.1)	(606.7)	(636.7)	(646.7)	(655.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	553.4	495.0	548.4	952.0	1,112.2
Net interest income / (exp)	(99.2)	(122.7)	(198.4)	(204.5)	(189.0)
Associates & JV	35.9	51.5	116.6	121.0	121.0
Exceptionals	(180.9)	(595.2)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	309.2	(171.4)	466.6	868.5	1,044.1
Income tax	(84.8)	(70.4)	(155.0)	(236.7)	(240.9)
Minorities	(5.7)	7.2	(6.0)	(6.0)	(6.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	218.7	(234.6)	305.6	625.8	797.3
Core net profit	399.6	360.7	305.6	625.8	797.3

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	3,303.2	1,525.7	2,204.6	2,246.5	2,545.0
Accounts receivable	704.4	513.3	557.8	853.5	970.6
Inventory	4.8	6.1	3.8	5.9	6.7
Property, Plant & Equip (net)	8,459.8	14,143.9	14,707.2	14,460.6	14,155.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	405.2	535.8	652.5	773.4	894.4
Other assets	1,574.4	1,347.8	1,347.8	1,347.8	1,347.8
<b>Total assets</b>	<b>14,451.9</b>	<b>18,072.6</b>	<b>19,473.7</b>	<b>19,687.7</b>	<b>19,919.6</b>
ST interest bearing debt	1,018.1	1,770.2	1,770.2	1,770.2	1,770.2
Accounts payable	605.6	550.7	479.6	733.8	834.5
LT interest bearing debt	5,174.7	6,259.4	7,456.0	6,784.0	6,112.0
Other liabilities	936.0	2,197.0	2,197.0	2,197.0	2,197.0
<b>Total Liabilities</b>	<b>7,734.4</b>	<b>10,776.9</b>	<b>11,902.4</b>	<b>11,484.6</b>	<b>10,913.3</b>
Shareholders Equity	6,685.2	7,257.5	7,527.0	8,152.7	8,950.0
Minority Interest	32.3	38.3	44.3	50.3	56.3
<b>Total shareholder equity</b>	<b>6,717.5</b>	<b>7,295.8</b>	<b>7,571.3</b>	<b>8,203.1</b>	<b>9,006.3</b>
<b>Total liabilities and equity</b>	<b>14,451.9</b>	<b>18,072.6</b>	<b>19,473.7</b>	<b>19,687.7</b>	<b>19,919.6</b>

**CASH FLOW (MYR m)**

Pretax profit	309.2	(171.4)	466.6	868.5	1,044.1
Depreciation & amortisation	476.1	606.7	636.7	646.7	655.4
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	281.6	548.7	(113.3)	(43.5)	(17.2)
Cash taxes paid	(84.8)	(70.4)	(155.0)	(236.7)	(240.9)
Other operating cash flow	(266.1)	(326.7)	0.0	0.0	0.0
Cash flow from operations	680.0	535.4	718.3	1,113.9	1,320.5
Capex	(2,055.9)	(3,568.0)	(1,200.0)	(400.0)	(350.0)
Free cash flow	2,736.0	4,103.4	1,918.3	1,513.9	1,670.5
Dividends paid	(71.4)	(61.8)	(36.1)	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	2,415.8	1,836.7	1,196.6	(672.0)	(672.0)
Other invest/financing cash flow	1,700.2	(519.7)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	2,668.7	(1,777.5)	678.9	41.9	298.5

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	15.6	(9.1)	(12.9)	53.0	13.7
EBITDA growth	7.2	7.0	7.6	34.9	10.6
EBIT growth	1.7	(10.5)	10.8	73.6	16.8
Pretax growth	(35.6)	nm	nm	86.1	20.2
Reported net profit growth	(49.3)	nm	nm	104.8	27.4
Core net profit growth	(10.9)	(9.7)	(15.3)	104.8	27.4
<b>Profitability ratios (%)</b>					
EBITDA margin	42.9	50.5	62.4	55.0	53.5
EBIT margin	23.1	22.7	28.9	32.8	33.7
Pretax profit margin	12.9	nm	24.6	29.9	31.6
Payout ratio	37.7	nm	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	9.1	nm	16.1	21.5	24.1
Revenue/Assets (x)	0.2	0.1	0.1	0.1	0.2
Assets/Equity (x)	2.2	2.5	2.6	2.4	2.2
ROAE (%)	7.2	5.2	4.1	8.0	9.3
ROAA (%)	3.4	2.2	1.6	3.2	4.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(1.7)	(16.2)	(32.3)	(25.1)	(31.3)
Days receivable outstanding	86.5	100.6	101.6	87.5	99.4
Days inventory outstanding	1.1	1.1	1.3	0.9	1.1
Days payables outstanding	89.3	117.8	135.2	113.5	131.7
Dividend cover (x)	2.7	(4.9)	nm	nm	nm
Current ratio (x)	2.2	0.9	1.2	1.2	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.9	1.7	1.6	1.7	1.8
Net debt/equity (%)	43.2	89.6	93.3	77.4	59.6
Net interest cover (x)	5.6	4.0	2.8	4.7	5.9
Debt/EBITDA (x)	6.0	7.3	7.8	5.4	4.5
Capex/revenue (%)	85.8	163.7	63.2	13.8	10.6
Net debt/ (net cash)	2,889.6	6,503.8	7,021.6	6,307.6	5,337.2

Source: Company; Maybank

# Bursa Malaysia (BURSA MK)

## Ensuring a fair, orderly market

# HOLD

Share Price MYR 8.71  
 12m Price Target MYR 8.25 (-5%)  
 Previous Price Target MYR 8.25

### Steady as it goes

Bursa has been delivering steady profits over FY14-15 despite the difficult environment brought on by volatility on the external front and domestic challenges. It has been actively managing its costs, which has enabled it to pay above-average dividends. We expect mid-single digit earnings growth this year, but keenly anticipate a special dividend. Its share price should have partially reflected the special dividend possibility with the stock having outperformed on a YTD basis. HOLD.

### Building a competitive market place

Bursa's four strategic intents are to: (i) create a more facilitative trading environment, (ii) facilitate more tradeable alternatives, (iii) reshape the market structure and framework, and (iv) build a regional market place with global access. Forward focus will be on two key areas: (i) value extraction (leveraging on ASEAN growth & domestic liquidity, improving microstructure), (ii) building for the future (reviewing macrostructure and market framework, developing regional presence and new business).

### Our base case

Monthly equities ADV averaged MYR2.07b in the first three months of 2016, holding well against MYR2.08b in 2015 and MYR2.16b in 2014. We expect market activity to remain volatile; our equity ADV forecasts for FY16/FY17 of MYR2.1b/MYR2.2b are realistic. Our 15%/12% derivatives growth forecasts take into account a higher base after a strong 18% CAGR over 2010-15. On aggregate, our net profit growth forecasts for FY16/FY17 are in the mid-single digit range of 6%. Our DPR forecast is 93%.

### Valuations

We continue to peg our TP to 21x FY16 PER, deriving a TP of MYR8.25. This is in line with average peers' PER at 20x 2016 earnings. Bursa remains a HOLD for its decent dividend yield of 4.2% for FY16. We estimate it has MYR175m cash end-Dec 2015, after setting aside 18sen final DPS for FY15 - a special dividend is keenly anticipated.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	504	519	541	569	601
EBITDA	297	302	315	333	355
Core net profit	198	199	210	223	238
Core EPS (sen)	37.2	37.2	39.3	41.7	44.5
Core EPS growth (%)	14.4	(0.0)	5.7	6.1	6.8
Net DPS (sen)	54.0	34.5	36.5	39.0	42.0
Core P/E (x)	23.4	23.4	22.2	20.9	19.6
P/BV (x)	6.2	5.8	5.7	5.6	5.5
Net dividend yield (%)	6.2	4.0	4.2	4.5	4.8
ROAE (%)	25.4	25.6	25.9	27.0	28.3
ROAA (%)	11.7	10.6	9.9	10.2	10.5
EV/EBITDA (x)	13.7	13.8	14.0	13.3	12.6
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	210	225	241
MKE vs. Consensus (%)	-	-	(0.0)	(1.1)	(1.2)

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### Company Description

Bursa Malaysia Bhd. is an exchange holding company, which engages in treasury management and provision of management and administrative services.

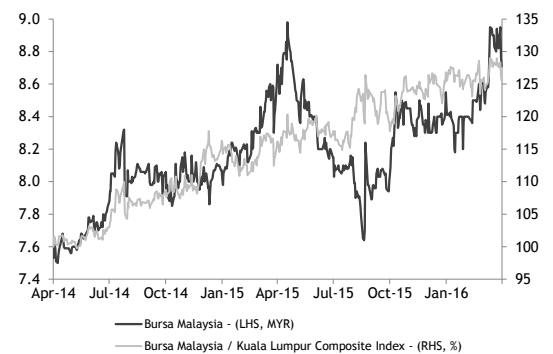
### Statistics

52w high/low (MYR)	8.98/7.64
3m avg turnover (USDm)	0.8
Free float (%)	79.3
Issued shares (m)	535
Market capitalisation	MYR4.7B
	USD1.2B

### Major shareholders:

Kumpulan Wang Persaraan	19.8%
Capital Market Development Fund	18.7%
Employees Provident Fund	7.3%

### Price Performance



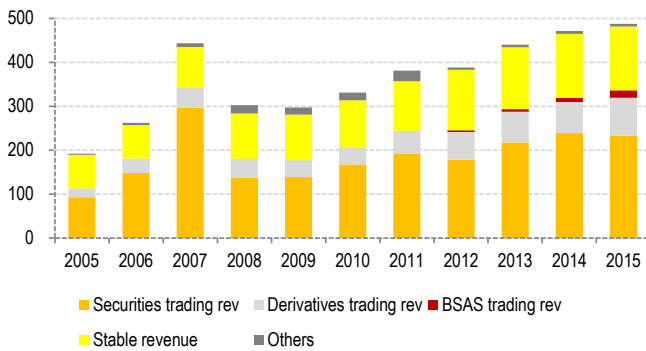
	-1M	-3M	-12M
Absolute (%)	1	2	1
Relative to index (%)	(0)	(1)	9

Source: FactSet

## Value Proposition

- One of the largest stock markets in ASEAN; also the global benchmark for CPO settlement price.
- Stable equities ADV over the last three years (2013-15) of ~MYR2.1b, with active foreign participation at 24%-27% (domestic institutions: 50%-52%, retail: 22%-26%).
- Strong derivatives trading growth, at 18% 5-year (2010-15) CAGR in terms of contracts traded, driven by FCPO (22% CAGR; 78% of total contracts in 2015).
- Active capital management with >90% DPR (for normal dividends) since FY05, and four special dividends in FY06, FY07, FY13, FY14.

### Operating revenue (segmental, MYR m)

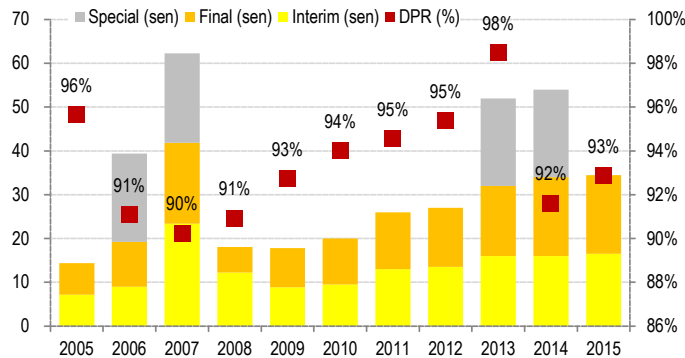


Source: Company

## Financial Metrics

- Revenue substantially from trading activities - 48%/18%/3% of FY15 operating revenue from equities/derivatives/BSAS trading - while stable revenues make up the balance 31%.
- Active cost management with stable 46% CIR (2014-15).
- Highly cash generative - estimated MYR175m cash balance end-2015 after setting aside final DPS for FY15 is a catalyst for a special dividend.

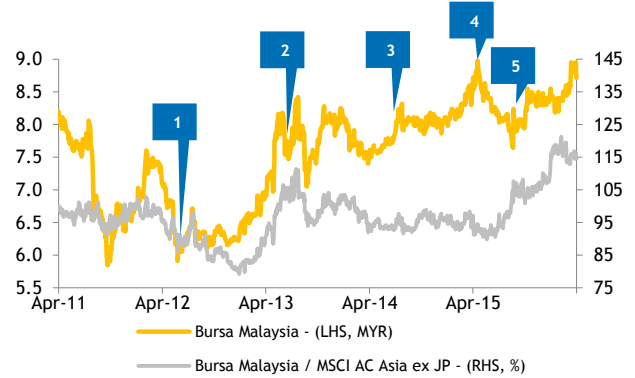
### Dividend history



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. Foreign funds sold down after the stock was reclassified from MSCI Mid Cap Index to Small Cap Index in Jun 2012; foreign shareholding fell to 10% end-Jun 2012, from 16.8% end-May 2012.
2. Special DPS of 20sen announced on 18 Jul 2013.
3. Special DPS of 20sen announced on 17 Jul 2014.
4. KLCI reached a year high of 1,863 on 21 Apr 2015.
5. KLCI fell to a year low of 1,532 on 24 Aug 2015.

## Swing Factors

### Upside

- Upsurge in liquidity leading to higher equities ADV.
- Increased volatility in commodity prices and FBM KLCI further driving derivatives market activities.
- A special dividend payout.

### Downside

- Drying up of liquidity leading to much smaller equities ADV.
- Derivatives market activities falling short.

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FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	23.4	23.4	22.2	20.9	19.6
Core P/E (x)	23.4	23.4	22.2	20.9	19.6
P/BV (x)	6.2	5.8	5.7	5.6	5.5
P/NTA (x)	6.6	6.1	6.0	5.9	5.8
Net dividend yield (%)	6.2	4.0	4.2	4.5	4.8
FCF yield (%)	2.8	4.7	4.5	4.5	4.7
EV/EBITDA (x)	13.7	13.8	14.0	13.3	12.6
EV/EBIT (x)	15.0	15.0	15.2	14.4	13.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	503.8	518.5	540.6	568.8	600.6
Gross profit	271.8	278.8	290.8	308.5	329.3
EBITDA	297.0	302.5	315.0	333.2	354.5
Depreciation	(25.3)	(23.7)	(24.2)	(24.7)	(25.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	271.8	278.8	290.8	308.5	329.3
Net interest income / (exp)	0.0	0.0	0.0	0.0	0.0
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	271.8	278.8	290.8	308.5	329.3
Income tax	(67.7)	(72.3)	(72.4)	(76.8)	(82.0)
Minorities	(5.8)	(7.8)	(8.3)	(8.8)	(9.4)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	198.2	198.6	210.1	222.9	237.9
Core net profit	198.2	198.6	210.1	222.9	237.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	256.3	301.2	273.4	259.8	237.0
Accounts receivable	58.7	71.7	74.8	78.7	83.1
Inventory	0.0	0.0	0.0	0.0	0.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	197.3	191.2	186.1	182.0	179.1
Intangible assets	43.0	43.0	43.0	43.0	43.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1,101.3	1,479.4	1,580.4	1,668.6	1,767.1
<b>Total assets</b>	<b>1,656.5</b>	<b>2,086.5</b>	<b>2,157.6</b>	<b>2,232.1</b>	<b>2,309.2</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	809.4	1,191.2	1,243.7	1,299.7	1,358.9
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	84.0	76.0	71.0	66.0	62.0
<b>Total Liabilities</b>	<b>893.8</b>	<b>1,267.0</b>	<b>1,314.9</b>	<b>1,366.2</b>	<b>1,420.5</b>
Shareholders Equity	748.7	803.5	818.4	832.8	846.2
Minority Interest	14.0	16.0	24.3	33.1	42.5
<b>Total shareholder equity</b>	<b>762.7</b>	<b>819.5</b>	<b>842.7</b>	<b>865.9</b>	<b>888.7</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,656.5</b>	<b>2,086.5</b>	<b>2,157.6</b>	<b>2,232.1</b>	<b>2,309.2</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	271.8	278.8	290.8	308.5	329.3
Depreciation & amortisation	25.3	23.7	24.2	24.7	25.2
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(80.2)	8.1	(3.0)	(16.2)	(22.3)
Cash taxes paid	(67.7)	(72.3)	(72.4)	(76.8)	(82.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	143.3	230.5	231.3	231.4	240.8
Capex	(11.9)	(13.4)	(21.1)	(22.6)	(24.3)
Free cash flow	131.4	217.0	210.2	208.7	216.6
Dividends paid	(288.1)	(184.4)	(195.1)	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(9.7)	(6.4)	(4.8)	(5.0)	(5.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(166.4)</b>	<b>26.2</b>	<b>10.2</b>	<b>203.8</b>	<b>211.3</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	6.1	2.9	4.3	5.2	5.6
EBITDA growth	5.9	1.8	4.1	5.8	6.4
EBIT growth	10.7	2.6	4.3	6.1	6.8
Pretax growth	10.7	2.6	4.3	6.1	6.8
Reported net profit growth	14.5	0.2	5.8	6.1	6.8
Core net profit growth	14.5	0.2	5.8	6.1	6.8
<b>Profitability ratios (%)</b>					
EBITDA margin	59.0	58.3	58.3	58.6	59.0
EBIT margin	53.9	53.8	53.8	54.2	54.8
Pretax profit margin	53.9	53.8	53.8	54.2	54.8
Payout ratio	nm	92.8	92.9	93.5	94.4
<b>DuPont analysis</b>					
Net profit margin (%)	39.3	38.3	38.9	39.2	39.6
Revenue/Assets (x)	0.3	0.2	0.3	0.3	0.3
Assets/Equity (x)	2.2	2.6	2.6	2.7	2.7
ROAE (%)	25.4	25.6	25.9	27.0	28.3
ROAA (%)	11.7	10.6	9.9	10.2	10.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	38.3	45.3	48.8	48.6	48.5
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	0.7	1.1	1.1	1.1	1.1
Current ratio (x)	1.4	1.3	1.3	1.3	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.9	1.6	1.6	1.6	1.6
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	nm	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	2.4	2.6	3.9	4.0	4.0
Net debt/ (net cash)	(256.3)	(301.2)	(273.4)	(259.8)	(237.0)

Source: Company; Maybank

# Cahaya Mata Sarawak (CMS MK)

## The Sarawak champion

# HOLD

Share Price MYR 4.74  
 12m Price Target MYR 4.60 (-3%)  
 Previous Price Target MYR 4.60

### Waiting for the next catalyst

CMS' core building materials businesses have grown strongly leveraging on the robust construction activities in Sarawak and would continue to benefit from Pan Borneo Highway Sarawak. Its strategic investments could provide a step-up in earnings in the long run. However, the stock has fairly priced in its near term positive fundamental prospects. We maintain our HOLD call with a SOP-based MYR4.60 TP.

### Key Pan Borneo Highway beneficiary

As the major building material supplier and contractor in Sarawak, CMS is poised to benefit from rising construction activities in Sarawak especially from the Pan Borneo Highway Sarawak. Meanwhile, its recently completed acquisition of Sacofa would contribute maiden full-year earnings in 2016, accounting for about 14% of our 2016 net profit forecast. However, this would be partly offset by potential losses from its ferrosilicon smelter, dragged down by weak commodity prices.

### Positive long-term potential

Longer term, CMS' core businesses would continue to benefit from the growth of Sarawak's construction industry. Meanwhile, earnings step-up could be led by its Sacofa expansion plans, leveraging on its telco infrastructure assets. Commodity prices recovery could lead to improved contribution from its 25%-owned ferrosilicon smelter. Earnings would be further driven by its 40%-owned phosphate plant that will start operations in 2019 and the monetisation of CMS' vast property landbank in Kuching.

### Fairly valued

However, these catalysts are longer term. In the near to medium term, we expect CMS to deliver lower 3-year (FY15-18) earnings CAGR of 13% as compared to its historical earnings CAGR of 21% (FY12-15). Given the stock is now fairly valued based on its near term prospects, we have a HOLD call on CMS.

### Company Description

Cahaya Mata Sarawak engages in cement manufacturing, construction, road maintenance, building materials and property development.

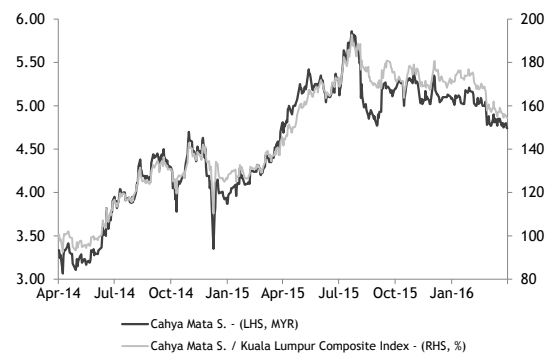
### Statistics

Shariah status	Yes
52w high/low (MYR)	5.86/4.69
3m avg turnover (USDm)	1.7
Free float (%)	45.3
Issued shares (m)	1,074
Market capitalisation	MYR5.1B USD1.3B

### Major shareholders:

Majaharta Sdn. Bhd.	12.7%
Estate of Lejla Taib	10.4%
TAIB SULAIMAN ABDUL RAHMAN	8.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(7)	(1)
Relative to index (%)	(2)	(9)	6

Source: FactSet

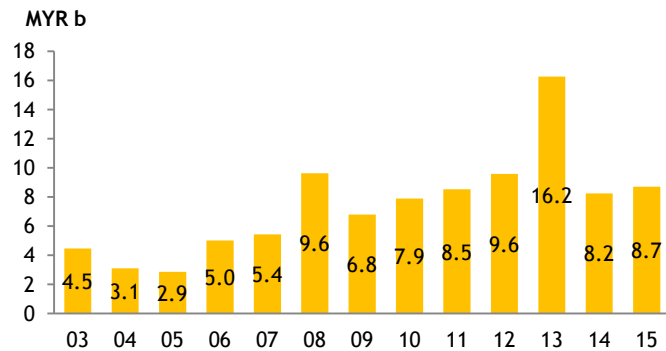
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,674	1,788	1,878	2,134	2,308
EBITDA	373	394	479	484	510
Core net profit	221	242	277	296	346
Core EPS (sen)	21.3	22.5	25.8	27.6	32.2
Core EPS growth (%)	23.9	5.6	14.8	6.8	16.7
Net DPS (sen)	8.5	4.5	10.3	11.0	3.6
Core P/E (x)	22.3	21.1	18.4	17.2	14.7
P/BV (x)	2.7	2.5	2.3	2.2	2.0
Net dividend yield (%)	1.8	0.9	2.2	2.3	0.8
ROAE (%)	12.8	12.6	13.2	13.0	14.0
ROAA (%)	8.5	8.0	7.9	7.6	8.1
EV/EBITDA (x)	9.8	14.3	11.5	11.5	10.9
Net debt/equity (%)	net cash	net cash	3.3	2.0	net cash
Consensus net profit	-	-	283	296	340
MKE vs. Consensus (%)	-	-	(2.0)	(0.0)	1.7

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## Value Proposition

- Sole cement manufacturer (capacity: 2.75mtpa) and building materials supplier with majority market share in Sarawak.
- As a Sarawak contractor as well, CMS rides on rising construction activities for urbanisation and Sarawak Corridor of Renewable Energy (SCORE).
- New investments, 25% stake in OMS' ferrosilicon smelter, 40% in integrated phosphate plant and 50% in a telco tower concessionaire are expected to step up its earnings.
- In the long run, CMS could unlock the value of its vast land bank in Kuching and Samalaju as population grows.

### Construction projects in Sarawak set to jump higher in 2016

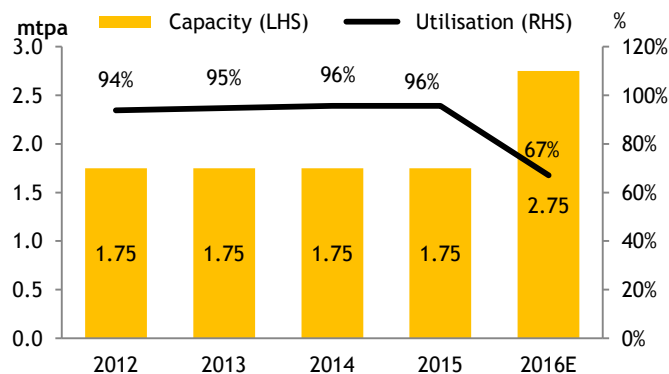


Source: CIDB

## Financial Metrics

- Biggest beneficiary of the MYR16b Pan Borneo Highway Sarawak construction that has started awarding contracts.
- Low cement plant utilization of 67% provides growth upside.
- Strategic investments should step up its earnings in the medium term.
- FCF generated in 2016 would be lower due to higher capex for capacity expansion and additional investments into its associate companies.
- 2015 dividend was below its 40% dividend policy as it plans to conserve cash for growth plans. Forward net cash would be adequate for dividend payments based on 40% payout.

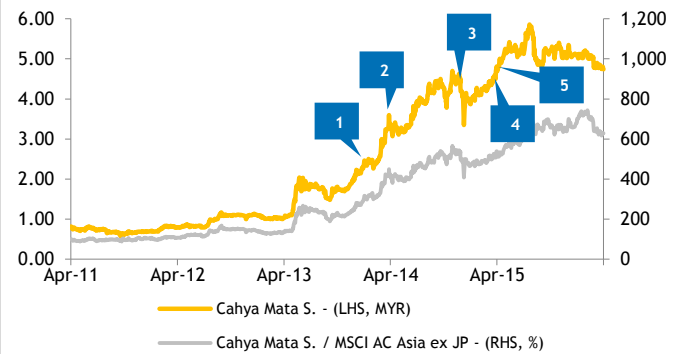
### Cement plant capacity and utilization



Source: Company

## Price Drivers

### Share price performance



Source: Company, Maybank Kim Eng

1. Signs JV for integrated phosphate plant with MPA.
2. Proposed a 2-for-1 share split and 1-for-2 bonus issue.
3. Raised dividend payout policy to 40% from 30%.
4. Proposed to buy additional 5% stake in OMS.
5. Announced acquisition of Sacofa.

## Swing Factors

### Upside

- Higher-than-expected construction job wins and building materials demand.
- Successful implementation of Sacofa expansion plans.
- Recovery in commodity prices that would improve its ferrosilicon smelter earnings.
- A strong pick-up in property demand in Sarawak.

### Downside

- Delay in implementation of key infrastructure projects.
- Further weakening of MYR against USD would impact its cement division that buys a portion of its raw materials in USD.

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	22.3	21.1	18.4	17.2	14.7
Core P/E (x)	22.3	21.1	18.4	17.2	14.7
P/BV (x)	2.7	2.5	2.3	2.2	2.0
P/NTA (x)	2.8	2.6	2.4	(8.1)	(9.0)
Net dividend yield (%)	1.8	0.9	2.2	2.3	0.8
FCF yield (%)	5.1	nm	1.6	4.7	4.9
EV/EBITDA (x)	9.8	14.3	11.5	11.5	10.9
EV/EBIT (x)	11.2	16.6	13.1	13.1	12.3

**INCOME STATEMENT (MYR m)**

Revenue	1,673.9	1,788.0	1,878.0	2,133.5	2,307.6
Gross profit	325.3	340.1	419.8	423.2	452.0
EBITDA	372.5	394.2	478.6	484.5	509.7
Depreciation	(47.2)	(54.1)	(58.8)	(61.3)	(57.7)
EBIT	325.3	340.1	419.8	423.2	452.0
Net interest income / (exp)	(1.7)	2.5	(16.3)	(24.9)	(24.6)
Associates & JV	17.8	39.1	24.6	56.9	89.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	341.5	381.7	428.1	455.1	517.0
Income tax	(75.8)	(84.0)	(96.8)	(95.6)	(102.6)
Minorities	(44.3)	(56.1)	(53.8)	(63.4)	(68.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	221.3	241.6	277.4	296.2	345.8
Core net profit	221.3	241.6	277.4	296.2	345.8

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	829.6	325.1	391.8	417.2	485.4
Accounts receivable	279.6	407.1	427.5	485.7	525.4
Inventory	121.5	143.7	139.9	164.9	179.8
Property, Plant & Equip (net)	597.2	729.0	941.3	1,010.8	1,083.9
Intangible assets	64.0	65.9	67.6	69.4	71.1
Investment in Associates & JVs	405.3	694.8	919.4	1,066.3	1,195.9
Other assets	502.8	865.7	865.7	865.7	865.7
<b>Total assets</b>	<b>2,800.1</b>	<b>3,231.2</b>	<b>3,753.4</b>	<b>4,080.0</b>	<b>4,407.1</b>
ST interest bearing debt	74.6	68.4	68.4	68.4	68.4
Accounts payable	520.4	477.5	479.4	564.9	615.9
LT interest bearing debt	30.2	95.3	395.3	395.3	395.3
Other liabilities	100.0	280.0	280.0	280.0	280.0
<b>Total Liabilities</b>	<b>725.6</b>	<b>921.1</b>	<b>1,223.0</b>	<b>1,308.5</b>	<b>1,359.6</b>
Shareholders Equity	1,811.7	2,015.2	2,181.7	2,359.4	2,566.8
Minority Interest	262.8	294.8	348.7	412.0	480.7
<b>Total shareholder equity</b>	<b>2,074.5</b>	<b>2,310.1</b>	<b>2,530.3</b>	<b>2,771.4</b>	<b>3,047.5</b>
<b>Total liabilities and equity</b>	<b>2,800.1</b>	<b>3,231.2</b>	<b>3,753.4</b>	<b>4,080.0</b>	<b>4,407.1</b>

**CASH FLOW (MYR m)**

Pretax profit	341.5	381.7	428.1	455.1	517.0
Depreciation & amortisation	47.2	54.1	58.8	61.3	57.7
Adj net interest (income)/exp	(1.2)	(2.4)	16.3	24.9	24.6
Change in working capital	142.1	(319.0)	(14.8)	2.4	(3.5)
Cash taxes paid	(75.0)	(93.0)	(96.8)	(95.6)	(102.6)
Other operating cash flow	(40.4)	(107.4)	(40.9)	(81.8)	(114.2)
Cash flow from operations	414.2	(86.1)	350.7	366.4	379.0
Capex	(164.8)	(273.0)	(270.0)	(129.6)	(129.6)
Free cash flow	249.5	(359.1)	80.7	236.8	249.5
Dividends paid	(57.0)	(90.9)	(111.0)	(118.5)	(138.3)
Change in Debt	4.7	58.9	300.0	0.0	0.0
Other invest/financing cash flow	18.7	(90.5)	(203.0)	(93.0)	(43.0)
<b>Net cash flow</b>	<b>215.9</b>	<b>(481.7)</b>	<b>66.8</b>	<b>25.4</b>	<b>68.2</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	18.1	6.8	5.0	13.6	8.2
EBITDA growth	(1.0)	5.8	21.4	1.2	5.2
EBIT growth	11.5	4.5	23.4	0.8	6.8
Pretax growth	15.8	11.8	12.2	6.3	13.6
Reported net profit growth	26.4	9.1	14.8	6.8	16.7
Core net profit growth	26.4	9.1	14.8	6.8	16.7
<b>Profitability ratios (%)</b>					
EBITDA margin	22.3	22.0	25.5	22.7	22.1
EBIT margin	19.4	19.0	22.4	19.8	19.6
Pretax profit margin	20.4	21.3	22.8	21.3	22.4
Payout ratio	39.9	20.0	40.0	40.0	11.2
<b>DuPont analysis</b>					
Net profit margin (%)	13.2	13.5	14.8	13.9	15.0
Revenue/Assets (x)	0.6	0.6	0.5	0.5	0.5
Assets/Equity (x)	1.5	1.6	1.7	1.7	1.7
ROAE (%)	12.8	12.6	13.2	13.0	14.0
ROAA (%)	8.5	8.0	7.9	7.6	8.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(22.3)	(21.9)	(3.1)	(0.8)	(2.2)
Days receivable outstanding	58.8	69.1	80.0	77.1	78.9
Days inventory outstanding	33.6	33.0	35.0	32.1	33.4
Days payables outstanding	114.8	124.1	118.1	109.9	114.5
Dividend cover (x)	2.5	5.0	2.5	2.5	8.9
Current ratio (x)	2.5	2.1	2.3	2.1	2.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.9	3.5	3.1	3.1	3.2
Net debt/equity (%)	net cash	net cash	3.3	2.0	net cash
Net interest cover (x)	nm	na	25.7	17.0	18.4
Debt/EBITDA (x)	0.3	0.4	1.0	1.0	0.9
Capex/revenue (%)	9.8	15.3	14.4	6.1	5.6
Net debt/ (net cash)	(724.8)	(161.4)	71.9	46.5	(21.7)

Source: Company; Maybank

# CIMB Group Holdings (CIMB MK)

## Better earnings prospects in 2016

### Higher capital ratio provides relief

With the group's fully-loaded CET1 ratio hitting 10.1% end-2015 and with a targeted ratio of 11% by end-2016 which would be comfortable, concerns over a potential cash call have dissipated. A recovery in earnings is on the cards but valuations are fair for now, in our view. We maintain a HOLD on the stock with a TP of MYR4.40.

### Earnings growth to pick up pace in 2016

CIMB Group's core net profit rose 8% YoY in 2015 and we expect a stronger 15% growth in 2016, led principally by lower credit costs at CIMB Niaga and MSS cost savings, for which we have imputed MYR400m per annum. The operating environment for CIMB Niaga, however, is expected to remain challenging on expectations of relatively subdued loan growth and NIM compression. Moreover, while credit costs may have peaked in Indonesia, provision levels are still expected to remain elevated in the near term.

### Targets for 2016

Management's targets for 2016 include loan growth of 10% (MKE: 8.5%), a cost/income ratio of <53% (MKE: 56.7%) and a loan loss charge of 60-70bps (MKE: 58bps) vs 73bps in FY15. Management also aims to achieve a CET1 ratio of 11% by end-2016, driven primarily by its risk-weighted assets optimization program.

### Much is in the price for now

Against management's 2016 ROE target of 10%, we estimate a lower 9.3%. The ability to surprise positively against our expectations would very much depend on (i) just how quickly asset quality at CIMB Niaga stabilizes and (ii) the ability to extract higher-than-expected cost savings from its ongoing productivity enhancement programme. Till then, we maintain a HOLD on the stock with an unchanged TP of MYR4.40, pegged to an FY16 P/BV of 0.9x.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Operating income	14,146	15,396	16,233	17,140	18,026
Pre-provision profit	5,854	6,147	7,033	7,569	8,068
Core net profit	3,159	3,411	3,917	4,164	4,431
Core EPS (MYR)	0.38	0.40	0.46	0.49	0.52
Core EPS growth (%)	(31.1)	5.6	14.2	6.3	6.4
Net DPS (MYR)	0.15	0.14	0.19	0.21	0.22
Core P/E (x)	12.6	12.0	10.5	9.9	9.3
P/BV (x)	1.1	1.0	0.9	0.9	0.8
Net dividend yield (%)	3.1	2.9	3.9	4.4	4.6
Book value (MYR)	4.53	4.87	5.10	5.39	5.69
ROAE (%)	9.3	8.7	9.3	9.4	9.4
ROAA (%)	0.8	0.8	0.8	0.8	0.8
Consensus net profit	-	-	3,945	4,598	4,853
MKE vs. Consensus (%)	-	-	(0.7)	(9.4)	(8.7)

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# HOLD

Share Price MYR 4.82  
 12m Price Target MYR 4.40 (-9%)  
 Previous Price Target MYR 4.40

### Company Description

CIMB Group Holdings engages in the provision of consumer and investment banking services. It holds a 97.9% stake in PT CIMB Niaga.

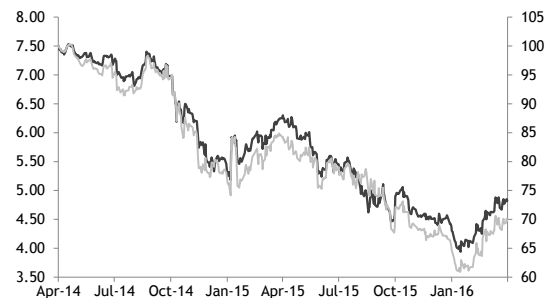
### Statistics

52w high/low (MYR)	6.30/3.94
3m avg turnover (USDm)	15.0
Free float (%)	94.4
Issued shares (m)	8,527
Market capitalisation	MYR41.1B
	USD10.5B

### Major shareholders:

Khazanah Nasional Bhd. (Investment Manag	29.3%
Employees Provident Fund	17.1%
Permodalan Nasional Bhd.	7.8%

### Price Performance



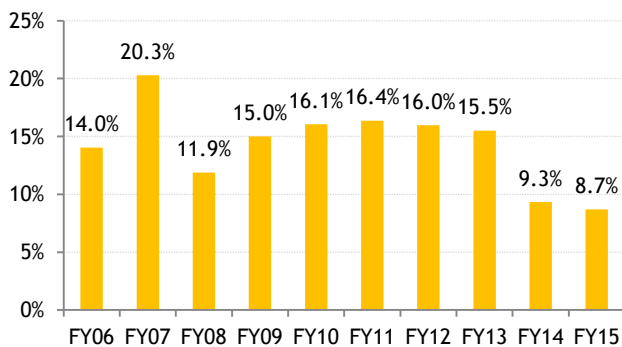
	-1M	-3M	-12M
Absolute (%)	4	10	(23)
Relative to index (%)	3	7	(17)

Source: FactSet

## Value Proposition

- Malaysia's second largest financial institution in terms of asset size.
- Overseas contributions account for about 21% of its pretax earnings, mainly from Indonesia, Thailand and Singapore.
- 97.9%-owned CIMB Niaga is presently the fifth largest bank in Indonesia, with an estimated 3.9% market share of total banking assets as at end-Nov 2015.
- ROEs in recent years have been impacted by asset quality issues in Indonesia - a recovery in future ROEs will hinge on lower credit costs and group-wide cost saving initiatives.

### ROAE trends

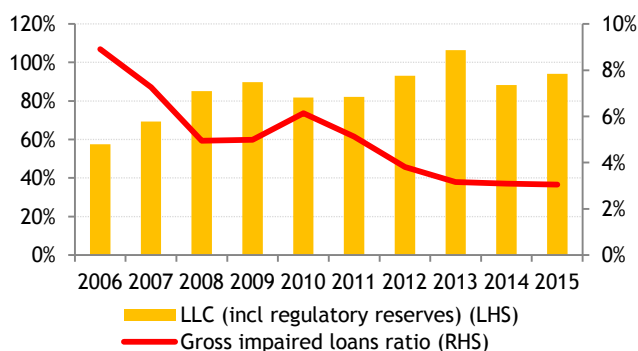


Source: Company

## Financial Metrics

- Reported loan growth was a strong 12.5% YoY in 2015, but would have been a more modest 6.6% excluding the forex impact. Management targets loan growth of 10% in FY16.
- Provision levels are expected to remain elevated in the near term due to ongoing weakness in commodity prices which is affecting CIMB Niaga's loan book.
- The group's Target 2018 (T18) initiative seeks to achieve the following targets, among others, by 2018: (i) ROAE >15%, (ii) CET1 >11% and (iii) CIR <50%. To this end, management will continue to focus on cost discipline, business acceleration and capital optimization. Further rationalization of operations outside ASEAN cannot be ruled out, nor the sale of non-core assets.

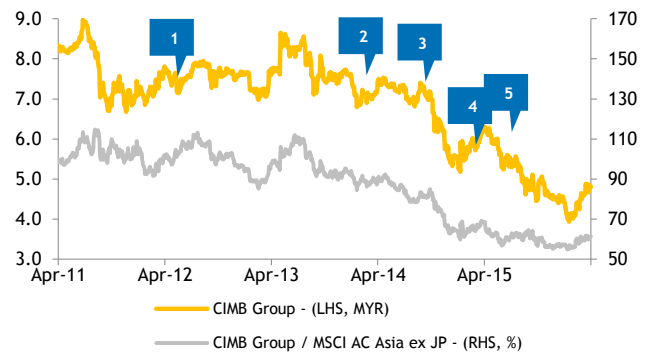
### Gross impaired loans ratio and loan loss coverage



Source: Company

## Price Drivers

### CIMB Group's price chart



Source: Company, Maybank Kim Eng

- Acquired Royal Bank of Scotland's Asian cash equities and ECM/M&A corporate finance businesses.
- Completed private placement of 500m new shares to raise MYR3.55b.
- Commenced discussions with RHB Capital and MBSB with the aim of merging the businesses.
- Potential merger with RHB Capital and MBSB officially called off.
- FY14 results below expectations as core net profit declined 25% YoY on weak capital markets and higher provisions at CIMB Niaga.

## Swing Factors

### Upside

- A recovery in commodity prices would pave the way for the stabilization of asset quality at CIMB Niaga and lower credit costs.
- Better-than-expected savings from the group's cost efficiency and cost savings efforts.
- A recovery in capital markets, which would improve contributions from the group's treasury and capital market divisions.

### Downside

- Further downward pressure on commodity prices would negatively impact CIMB Niaga's asset quality and provisioning requirements.
- Slower-than-expected recovery in Indonesia and Thailand's economies would impact earnings from overseas operations.
- The need for a cash call which would dilute ROEs and earnings.
- Foreign shareholding still high at >20% and the stock remains susceptible to any sell-down.





FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
Core P/E (x)	12.6	12.0	10.5	9.9	9.3
Core FD P/E (x)	12.9	14.3	10.5	9.9	9.3
P/BV (x)	1.1	1.0	0.9	0.9	0.8
P/NTA (x)	1.5	1.3	1.2	1.2	1.1
Net dividend yield (%)	3.1	2.9	3.9	4.4	4.6

**INCOME STATEMENT (MYR m)**

Interest income	16,059.0	18,098.6	19,959.7	21,441.8	22,914.9
Interest expense	(7,403.5)	(8,761.9)	(10,103.6)	(11,032.5)	(11,996.3)
<b>Net interest income</b>	<b>8,655.5</b>	<b>9,336.7</b>	<b>9,856.1</b>	<b>10,409.2</b>	<b>10,918.6</b>
Islamic banking income	1,461.3	1,569.0	1,694.5	1,830.1	1,976.5
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	1,903.0	1,968.9	2,067.4	2,170.7	2,279.3
Other income	2,126.1	2,521.1	2,614.9	2,730.1	2,852.0
<b>Total non-interest income</b>	<b>4,029.1</b>	<b>4,490.0</b>	<b>4,682.3</b>	<b>4,900.8</b>	<b>5,131.3</b>
<b>Operating income</b>	<b>14,145.9</b>	<b>15,395.8</b>	<b>16,233.0</b>	<b>17,140.1</b>	<b>18,026.4</b>
Staff costs	(4,609.6)	(5,322.0)	(5,481.6)	(5,646.1)	(5,815.4)
Other operating expenses	(3,682.4)	(3,927.0)	(3,718.1)	(3,925.1)	(4,143.2)
<b>Operating expenses</b>	<b>(8,292.0)</b>	<b>(9,249.0)</b>	<b>(9,199.7)</b>	<b>(9,571.2)</b>	<b>(9,958.6)</b>
<b>Pre-provision profit</b>	<b>5,854.0</b>	<b>6,146.8</b>	<b>7,033.3</b>	<b>7,568.9</b>	<b>8,067.8</b>
Loan impairment allowances	(1,522.1)	(2,168.6)	(1,801.2)	(2,010.9)	(2,155.9)
Other allowances	(178.8)	(149.8)	(40.0)	(40.0)	(40.0)
Associates & JV income	123.4	85.6	91.3	97.4	103.9
<b>Pretax profit</b>	<b>4,276.4</b>	<b>3,914.0</b>	<b>5,283.4</b>	<b>5,615.4</b>	<b>5,975.7</b>
Income tax	(1,101.9)	(1,018.0)	(1,310.3)	(1,392.6)	(1,482.0)
Minorities	(67.7)	(46.4)	(55.6)	(59.1)	(62.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>3,106.8</b>	<b>2,849.5</b>	<b>3,917.5</b>	<b>4,163.7</b>	<b>4,430.8</b>
<b>Core net profit</b>	<b>3,159.0</b>	<b>3,410.9</b>	<b>3,917.5</b>	<b>4,163.7</b>	<b>4,430.8</b>

**BALANCE SHEET (MYR m)**

Cash & deposits with banks	37,701.8	31,148.3	34,886.1	39,072.4	43,761.1
Sec. under resale agreements	4,758.3	9,714.1	10,685.5	11,754.1	12,929.5
Derivatives financial assets	7,182.8	11,708.8	13,113.9	14,687.6	16,450.1
Dealing securities	23,803.8	20,680.3	20,887.1	21,095.9	21,306.9
Available-for-sale securities	50,548.1	58,526.7	61,453.1	64,525.7	67,752.0
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	258,014.9	290,295.7	314,512.7	337,438.8	361,185.8
Central bank deposits	6,841.2	7,699.8	8,676.7	9,251.7	9,838.5
Investment in associates/JVs	1,086.4	1,037.4	1,139.6	1,249.0	1,366.0
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,470.6	2,404.1	2,524.3	2,650.6	2,783.1
Intangible assets	9,761.6	10,118.1	10,118.1	10,118.1	10,118.1
Other assets	12,987.0	18,243.7	19,314.5	20,248.6	21,229.3
<b>Total assets</b>	<b>414,156.4</b>	<b>461,577.1</b>	<b>497,311.7</b>	<b>532,092.4</b>	<b>568,720.3</b>
Deposits from customers	282,068.8	317,656.3	343,729.7	368,785.6	394,738.6
Deposits from banks & FIs	32,149.8	23,692.0	24,876.5	26,120.4	27,426.4
Derivatives financial instruments	7,712.8	12,139.8	13,596.6	15,228.2	17,055.6
Subordinated debt	12,582.5	13,694.9	13,694.9	13,694.9	13,694.9
Other securities in issue	7,666.0	11,277.2	11,277.2	11,277.2	11,277.2
Other borrowings	15,026.6	17,564.6	18,960.1	20,468.0	22,098.2
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	18,558.7	23,319.8	26,616.2	29,483.7	32,762.3
<b>Total liabilities</b>	<b>375,765.2</b>	<b>419,344.5</b>	<b>452,751.3</b>	<b>485,058.0</b>	<b>519,053.1</b>
Share capital	8,423.8	8,527.3	8,527.3	8,527.3	8,527.3
Reserves	28,936.7	32,523.5	34,795.6	37,210.6	39,780.4
Shareholders' funds	37,360.4	41,050.8	43,322.9	45,737.8	48,307.7
Preference shares	200.0	200.0	200.0	200.0	200.0
Minority interest	830.7	981.9	1,037.5	1,096.6	1,159.5
Total equity	38,391.1	42,232.6	44,560.4	47,034.4	49,667.2
<b>Total liabilities &amp; equity</b>	<b>414,156.4</b>	<b>461,577.1</b>	<b>497,311.7</b>	<b>532,092.4</b>	<b>568,720.3</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	8.8	7.9	5.6	5.6	4.9
Non-interest income	(21.4)	11.4	4.3	4.7	4.7
Operating expenses	(2.0)	11.5	(0.5)	4.0	4.0
Pre-provision profit	(5.8)	5.0	14.4	7.6	6.6
Core net profit	(24.6)	8.0	14.9	6.3	6.4
Gross loans	12.8	12.5	8.5	7.3	7.1
Customer deposits	7.2	12.6	8.2	7.3	7.0
Total assets	11.7	11.4	7.7	7.0	6.9
<b>Profitability (%)</b>					
Non-int. income/Total income	28.5	29.2	28.8	28.6	28.5
Average lending yields	4.91	5.01	5.08	5.08	5.08
Average cost of funds	2.74	2.91	3.12	3.24	3.29
Net interest margin	2.84	2.78	2.71	2.67	2.63
Cost/income	58.6	60.1	56.7	55.8	55.2
<b>Liquidity (%)</b>					
Loans/customer deposits	91.5	91.4	91.5	91.5	91.5
<b>Asset quality (%)</b>					
Net NPL	1.8	1.6	1.7	1.7	1.8
Gross NPL	3.1	3.0	3.2	3.3	3.4
(SP+GP)/average gross loans	0.6	0.8	0.6	0.6	0.6
Loan loss coverage	82.7	84.7	86.1	84.9	83.8
<b>Capital adequacy (%)</b>					
CET1	10.4	10.6	10.5	10.6	10.6
Tier 1 capital	11.0	11.2	10.8	10.8	10.8
Risk-weighted capital	17.2	18.4	17.6	17.3	17.0
<b>Returns (%)</b>					
ROAE	9.3	8.7	9.3	9.4	9.4
ROAA	0.8	0.8	0.8	0.8	0.8
Shareholders equity/assets	9.0	8.9	8.7	8.6	8.5

Source: Company; Maybank

# Cocoaland Holdings (COLA MK)

## More than just a gummy

# Not Rated

Share Price

MYR 2.25

### Leading manufacturer of fruit gummy

Cocoaland is a confectionary manufacturer and distributor. Its star product Fruit gummy accounts for about 42% of total revenue. Besides the domestic market, Cocoaland also exports to over 15 countries (eg. China, Hong Kong, Saudi Arabia) and this will continue to be one of its top priorities moving forward. Valuations wise, Cocoaland is now trading at a prospective FY16 PER of 15x, about in line with its 5-year mean. The stock is NOT RATED.

### Own label and OEM

Cocoaland manufactures, trades and distributes a range of foodstuffs which include snack food, chocolate and sugar confectionary, and soft drinks. Besides manufacturing for the OEM market, Cocoaland also builds on its proprietary brands (eg. Lot 100 Fruit Gummy, CocoPie). In terms of revenue mix, fruit gummy, the top contributor, accounts for about 42% (as of 12M15) of total revenue.

### Export sales to drive growth

In terms of sales by geographical segment, overseas sales (as of 12M15) account for about 58% of total sales, with the balance from the domestic market. As bulk of its export sales are denominated in USD (vs 40% raw material costs in USD), Cocoaland is a net beneficiary of a stronger USD. Going forward, one of its growth strategies is to increase its market penetration overseas via better distributorship. It will continue to focus on its key markets such as China, Hong Kong, Saudi Arabia, Singapore and Indonesia. Cocoaland is also targeting for more SKU extensions to better complete its portfolio. Additionally, with its readily available capacity, we understand that Cocoaland is also exploring new OEM/ODM business.

### Valuations: About in line with 5-year mean

At its current price, and based on consensus estimates, Cocoaland presently trades at a prospective FY16 PER of 15x (about in line with its 5-year mean).

FYE Dec (MYR m)	FY11A	FY12A	FY13A	FY14A	FY15A
Revenue	174	223	254	261	262
EBITDA	27	36	37	39	53
Core net profit	19	21	22	22	33
Core EPS (sen)	8.4	9.3	9.6	9.6	14.3
Core EPS growth (%)	51.3	10.6	4.0	(0.6)	49.3
Net DPS (sen)	2.9	6.0	4.7	4.9	6.3
Core P/E (x)	26.8	24.3	23.3	23.5	15.7
P/BV (x)	2.7	2.6	2.5	2.4	2.5
Net dividend yield (%)	1.3	2.7	2.1	2.2	2.8
ROAE (%)	10.5	11.0	10.9	10.3	15.5
ROAA (%)	9.1	9.3	9.0	8.5	12.8
EV/EBITDA (x)	11.4	9.6	8.5	5.5	8.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

### Company Description

*Cocoaland Holdings manufactures and trades processed and preserved foods, fruits, and other related food products.*

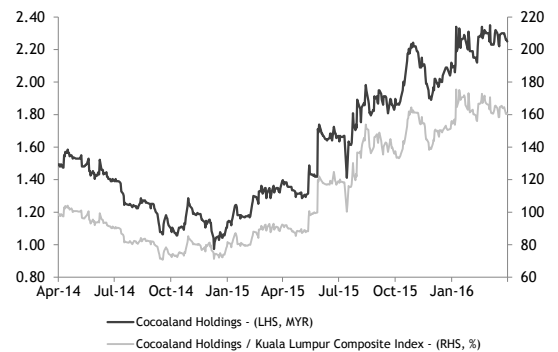
### Statistics

52w high/low (MYR)	2.35/1.29
3m avg turnover (USDm)	0.1
Free float (%)	21.6
Issued shares (m)	229
Market capitalisation	MYR514.8M USD131M

### Major shareholders:

Leverage Success Sdn. Bhd.	38.0%
Fraser & Neave Holdings Bhd.	27.2%
Public Mutual Bhd.	2.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	6	62
Relative to index (%)	(4)	3	74

Source: FactSet

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FYE 31 Dec	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Metrics</b>					
P/E (reported) (x)	26.8	24.3	23.3	23.5	15.7
Core P/E (x)	26.8	24.3	23.3	23.5	15.7
P/BV (x)	2.7	2.6	2.5	2.4	2.5
P/NTA (x)	2.7	2.6	2.5	2.4	2.5
Net dividend yield (%)	1.3	2.7	2.1	2.2	2.8
FCF yield (%)	nm	nm	nm	1.4	1.7
EV/EBITDA (x)	11.4	9.6	8.5	5.5	8.3
EV/EBIT (x)	16.0	13.2	12.4	7.5	10.8

**INCOME STATEMENT (MYR m)**

Revenue	174.0	223.2	254.4	260.8	261.6
Gross profit	43.3	53.7	55.2	62.6	82.1
EBITDA	26.8	35.5	37.3	38.9	52.6
Depreciation	(7.7)	(9.6)	(11.8)	(10.8)	(12.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	19.0	26.0	25.5	28.1	40.5
Net interest income / (exp)	(0.0)	(0.0)	0.0	0.0	0.0
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	21.7	28.0	29.3	30.6	44.8
Income tax	(2.5)	(6.8)	(7.2)	(8.7)	(12.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	19.2	21.2	22.1	21.9	32.7
Core net profit	19.2	21.2	22.1	21.9	32.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	43.0	26.1	23.9	31.3	40.4
Accounts receivable	42.6	43.5	40.2	52.1	42.7
Inventory	25.3	32.4	40.0	38.2	35.9
Property, Plant & Equip (net)	101.0	118.7	146.9	139.1	129.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	7.1	16.6	1.1	1.0	2.4
<b>Total assets</b>	<b>219.1</b>	<b>237.3</b>	<b>252.1</b>	<b>261.6</b>	<b>251.1</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	22.8	26.3	27.1	22.7	24.1
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	8.0	15.0	17.0	21.0	24.0
<b>Total Liabilities</b>	<b>30.4</b>	<b>41.2</b>	<b>44.5</b>	<b>43.3</b>	<b>48.4</b>
Shareholders Equity	188.7	196.2	207.6	218.3	202.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>188.7</b>	<b>196.2</b>	<b>207.6</b>	<b>218.3</b>	<b>202.7</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>219.1</b>	<b>237.3</b>	<b>252.1</b>	<b>261.6</b>	<b>251.1</b>

**CASH FLOW (MYR m)**

Pretax profit	21.7	28.0	29.3	30.6	44.8
Depreciation & amortisation	7.7	9.6	11.8	10.8	12.1
Adj net interest (income)/exp	(0.0)	(0.0)	(0.0)	(0.0)	0.0
Change in working capital	(18.1)	(12.6)	13.4	(26.7)	8.3
Cash taxes paid	1.8	1.7	4.4	5.8	8.5
Other operating cash flow	(9.0)	(14.6)	(16.4)	(4.2)	(5.0)
Cash flow from operations	2.3	10.3	38.0	10.5	60.1
Capex	(31.0)	(27.4)	(40.3)	(3.1)	(2.9)
Free cash flow	(28.7)	(17.1)	(2.3)	7.4	8.6
Dividends paid	0.0	0.0	0.0	0.0	(48.6)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(0.1)	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	0.6	0.2	0.0	(0.0)	0.0
Effect of exch rate changes	0.0	0.0	0.1	0.1	0.5
Net cash flow	(28.2)	(16.9)	(2.2)	7.4	9.1

FYE 31 Dec	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	22.3	28.3	14.0	2.5	0.3
EBITDA growth	88.6	32.8	5.1	4.2	35.1
EBIT growth	167.2	36.4	(1.7)	10.2	43.8
Pretax growth	154.2	29.2	4.6	4.7	46.1
Reported net profit growth	95.4	10.6	3.9	(0.6)	49.3
Core net profit growth	95.4	10.6	3.9	(0.6)	49.3
<b>Profitability ratios (%)</b>					
EBITDA margin	15.4	15.9	14.7	14.9	20.1
EBIT margin	10.9	11.6	10.0	10.8	15.5
Pretax profit margin	12.4	12.5	11.5	11.8	17.1
Payout ratio	35.1	64.7	48.6	50.9	43.7
<b>DuPont analysis</b>					
Net profit margin (%)	11.0	9.5	8.7	8.4	12.5
Revenue/Assets (x)	0.8	0.9	1.0	1.0	1.0
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
ROAE (%)	10.5	11.0	10.9	10.3	15.5
ROAA (%)	9.1	9.3	9.0	8.5	12.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	84.6	78.7	76.4	89.4	92.6
Days receivable outstanding	78.4	69.4	59.2	63.7	65.2
Days inventory outstanding	61.7	61.3	65.4	71.0	74.2
Days payables outstanding	55.5	52.1	48.2	45.2	46.9
Dividend cover (x)	2.8	1.5	2.1	2.0	2.3
Current ratio (x)	3.9	3.1	2.7	3.4	3.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	7.2	5.8	5.7	6.0	5.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	nm	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	17.8	12.3	15.8	1.2	1.1
Net debt/ (net cash)	(43.0)	(26.1)	(23.9)	(31.3)	(40.4)

Source: Company; Maybank

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# Dialog Group (DLG MK)

## Direct proxy to Pengerang play

# BUY

Share Price MYR 1.59  
 12m Price Target MYR 1.90 (+19%)  
 Previous Price Target MYR 1.90

### Sustainable growth stock

Dialog is a stable, long term, sustainable growth stock, capitalising on its Pengerang operations (tank terminals and regasification projects) that will contribute earnestly from FY19. It is net cash, which is atypical of the industry - a testament to its lean management and largely cash flow driven tank terminal businesses.

### Pengerang operations to drive long-term growth

Dialog's Phase 1 tank terminal operations will be running at full storage capacity (1.3m m<sup>3</sup>) in FY16. The currently under construction Phase 2 (SPV2: a 2.1m m<sup>3</sup> dedicated terminal) and Phase 3 (SPV3: a 3.5m tpa send out regasification capacity and 400,000m<sup>3</sup> LNG storage) will anchor Dialog's long-term growth prospects from 2019. Despite these developments, Dialog's tank terminal business is scalable and offers tangible growth prospects. These projects only take up less than 50% of its 500 acres of land. It remains committed to securing new, strategic tank terminal partners for the subsequent phases beyond Phase 3.

### No provisions/write-downs on its upstream ops

The recent termination of its 32%-owned Balai RSC by mutual consent was expected, given the decline in oil prices. Dialog will receive the remaining 1/3 of its capex reimbursement (e.USD30m) by 1HCY16 Its USD10m losses had been provided for earlier on. The impairment risk to its other upstream operations (Bayan OSC with Halliburton and D35 / D21/ J4 PSC) is low. Financially, Dialog's balance sheet is strong with the group in a net cash position of MYR191m (4 sen/shr) as at Dec 2015.

### Excitement in FY19

Earnings growth will be pedestrian over the next 2 years. The commencement of Pengerang Phase 2 and 3 operations will provide for a significant jump in earnings from FY19. Our TP of MYR1.90 is SOP-based, valuing the tank terminals and upstream businesses on NPV, and service providers operations (i.e. EPCC) on earnings multiples.

FYE Jun (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,552	2,358	2,640	2,640	2,690
EBITDA	281	292	295	296	299
Core net profit	211	253	263	277	303
Core EPS (sen)	4.3	5.1	5.3	5.6	6.1
Core EPS growth (%)	6.5	18.3	3.7	5.5	9.5
Net DPS (sen)	2.1	2.2	2.1	2.2	2.4
Core P/E (x)	36.9	31.2	30.1	28.5	26.0
P/BV (x)	5.0	4.0	3.7	3.4	3.2
Net dividend yield (%)	1.3	1.4	1.3	1.4	1.5
ROAE (%)	14.5	14.3	12.8	12.5	12.6
ROAA (%)	6.9	7.4	7.6	8.2	8.5
EV/EBITDA (x)	34.7	27.3	28.5	28.8	28.9
Net debt/equity (%)	29.3	net cash	20.4	23.1	25.9
Consensus net profit	-	-	293	327	379
MKE vs. Consensus (%)	-	-	(10.2)	(15.3)	(19.9)

### Company Description

Dialog Group Bhd provides technical services to the upstream and downstream sectors in the oil, gas and petrochemical industries.

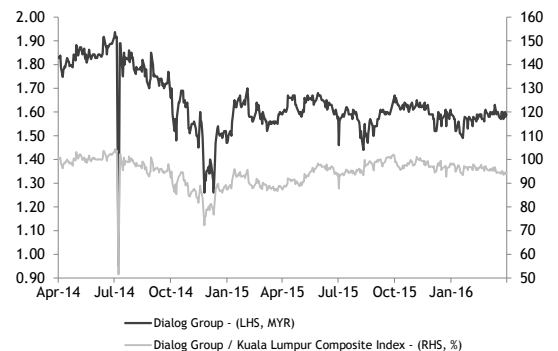
### Statistics

Shariah status	Yes
52w high/low (MYR)	1.68/1.44
3m avg turnover (USDm)	1.8
Free float (%)	72.8
Issued shares (m)	5,230
Market capitalisation	MYR8.3B USD2.1B

### Major shareholders:

Employees Provident Fund	11.3%
Azam Utama Sdn. Bhd.	9.0%
Wide Synergy Sdn. Bhd.	8.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(1)	0
Relative to index (%)	(2)	(4)	7

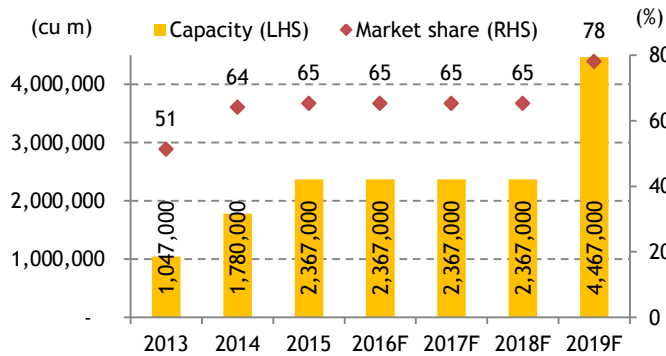
Source: FactSet

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## Value Proposition

- Malaysia's largest, most profitable and efficiently-run tank terminal operator with 2.3m m<sup>3</sup> capacity. Its independent E&P and O&G services are complementary businesses.
- Continues to focus on its tank terminal operations (which are cash generative, stable and scalable) and strategic tie-ups with PETRONAS.
- Commencement of new projects at Pengerang (regas, dedicated terminals) in FY19 will contribute to a big jump in earnings and expansion in return of capital against cost of capital.

### Malaysia's tank terminal capacity & Dialog's market share

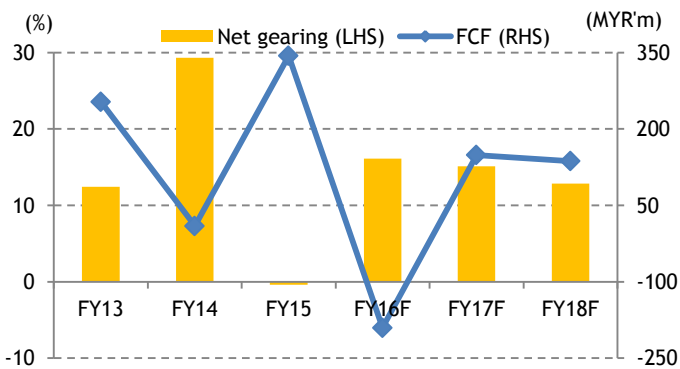


Source: Company

## Financial Metrics

- ASP, capacity, throughput and opex are Dialog's key earnings drivers for its tank terminal operations. Variation in any of these parameters will impact profitability.
- Earnings growth will be pedestrian until FY19 as focus is on the Pengerang operations.
- Net cash with consistent dividends, atypical in the O&G services industry.
- Execution of the planned tank terminal and regasification facilities will drive future earnings growth from FY18.

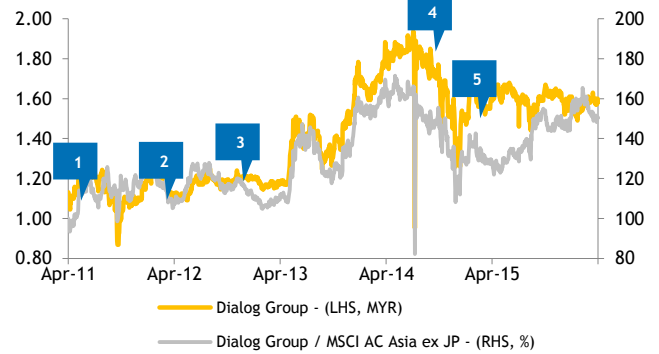
### Net gearing and FCF trend



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

- Entered into arbitration with Tanjung Langsat Port on a fire incident at the tank terminal facility (11 Apr 2011).
- Incorporation of Pengerang LNG and Pengerang Terminals (Two) S/B.
- Clinched Bayan redevelopment and Halliburton's Bayan field jobs.
- The beginning of the fall in crude oil price to sub-USD100/bbl.
- To build, own and operate dedicated tank terminals for PETRONAS' RAPID project; secured MYR5.5b EPCC works.

## Swing Factors

### Upside

- Rebound in crude oil prices will be a near-term share price driver.
- New tank terminal contracts will be a catalyst to sentiment and NAV.
- Special/higher dividend payment serves as a potential positive.

### Downside

- Further weakness in oil/gas price will hurt absolute share price performance.
- Execution delay/failure of new, planned tank terminal facilities.
- Ventures into new E&P assets/non-integrated operations will not be well received particularly at this point of the industry cycle.

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FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	36.1	28.7	30.1	28.5	26.0
Core P/E (x)	36.9	31.2	30.1	28.5	26.0
P/BV (x)	5.0	4.0	3.7	3.4	3.2
P/NTA (x)	5.1	4.2	3.9	3.6	3.3
Net dividend yield (%)	1.3	1.4	1.3	1.4	1.5
FCF yield (%)	3.2	5.8	nm	3.9	3.7
EV/EBITDA (x)	34.7	27.3	28.5	28.8	28.9
EV/EBIT (x)	42.4	21.9	29.9	30.2	30.4

**INCOME STATEMENT (MYR m)**

Revenue	2,551.7	2,358.2	2,640.0	2,640.0	2,690.0
Gross profit	268.8	287.8	301.8	301.8	304.3
EBITDA	280.9	292.0	294.9	295.7	299.0
Depreciation	(50.7)	(12.3)	(13.1)	(13.9)	(14.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	230.2	364.3	281.8	281.8	284.3
Net interest income / (exp)	(12.0)	(21.4)	(17.2)	(11.4)	(11.4)
Associates & JV	53.4	5.7	80.0	95.7	130.5
Exceptionals	4.9	21.9	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	276.5	370.5	344.7	366.2	403.4
Income tax	(47.7)	(85.2)	(68.9)	(76.9)	(88.8)
Minorities	(12.9)	(10.2)	(13.2)	(12.2)	(11.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	215.9	275.1	262.5	277.1	303.5
Core net profit	211.0	253.2	262.5	277.1	303.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	503.2	866.3	135.8	38.2	(77.6)
Accounts receivable	485.8	449.0	502.7	502.7	512.2
Inventory	106.3	89.6	150.9	150.9	153.8
Property, Plant & Equip (net)	892.4	672.3	759.2	845.4	930.7
Intangible assets	43.9	80.4	80.4	80.4	80.4
Investment in Associates & JVs	748.6	932.9	1,112.9	1,308.6	1,539.1
Other assets	470.0	542.2	542.2	542.2	542.2
<b>Total assets</b>	<b>3,250.3</b>	<b>3,632.7</b>	<b>3,284.2</b>	<b>3,468.5</b>	<b>3,680.8</b>
ST interest bearing debt	123.6	265.1	100.0	100.0	100.0
Accounts payable	507.9	672.7	447.4	447.4	455.9
LT interest bearing debt	836.7	593.8	470.0	470.0	470.0
Other liabilities	171.0	54.0	54.0	54.0	54.0
<b>Total Liabilities</b>	<b>1,639.6</b>	<b>1,586.1</b>	<b>1,071.9</b>	<b>1,071.9</b>	<b>1,080.3</b>
Shareholders Equity	1,559.5	1,979.8	2,132.2	2,304.3	2,497.0
Minority Interest	51.2	66.9	80.1	92.3	103.5
<b>Total shareholder equity</b>	<b>1,610.7</b>	<b>2,046.6</b>	<b>2,212.3</b>	<b>2,396.6</b>	<b>2,600.4</b>
<b>Total liabilities and equity</b>	<b>3,250.3</b>	<b>3,632.7</b>	<b>3,284.2</b>	<b>3,468.5</b>	<b>3,680.8</b>

**CASH FLOW (MYR m)**

Pretax profit	276.5	370.5	344.7	366.2	403.4
Depreciation & amortisation	50.7	12.3	13.1	13.9	14.7
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(124.5)	22.1	(340.3)	0.0	(3.9)
Cash taxes paid	(47.7)	(85.2)	(68.9)	(76.9)	(88.8)
Other operating cash flow	(24.9)	81.3	(80.0)	(95.7)	(130.5)
Cash flow from operations	130.2	401.0	(131.5)	207.4	195.0
Capex	(120.6)	(57.5)	(100.0)	(100.0)	(100.0)
Free cash flow	250.8	458.5	(31.5)	307.4	295.0
Dividends paid	(79.0)	105.2	(110.1)	(105.0)	(110.8)
Equity raised / (purchased)	0.0	167.3	0.0	0.0	0.0
Change in Debt	161.1	(114.3)	(288.9)	0.0	0.0
Other invest/financing cash flow	(219.2)	(138.7)	(100.0)	(100.0)	(99.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(127.7)	363.1	(730.5)	(97.6)	(114.9)

FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	14.1	(7.6)	12.0	0.0	1.9
EBITDA growth	17.6	3.9	1.0	0.3	1.1
EBIT growth	14.1	58.3	(22.6)	0.0	0.9
Pretax growth	19.0	34.0	(7.0)	6.2	10.2
Reported net profit growth	11.7	27.5	(4.6)	5.5	9.5
Core net profit growth	9.0	20.0	3.7	5.5	9.5
<b>Profitability ratios (%)</b>					
EBITDA margin	11.0	12.4	11.2	11.2	11.1
EBIT margin	9.0	15.4	10.7	10.7	10.6
Pretax profit margin	10.8	15.7	13.1	13.9	15.0
Payout ratio	47.3	40.0	40.0	40.0	40.0
<b>DuPont analysis</b>					
Net profit margin (%)	8.5	11.7	9.9	10.5	11.3
Revenue/Assets (x)	0.8	0.6	0.8	0.8	0.7
Assets/Equity (x)	2.1	1.8	1.5	1.5	1.5
ROAE (%)	14.5	14.3	12.8	12.5	12.6
ROAA (%)	6.9	7.4	7.6	8.2	8.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(9.6)	(14.3)	(2.8)	22.9	22.7
Days receivable outstanding	57.9	71.4	64.9	68.5	67.9
Days inventory outstanding	14.5	17.0	18.5	23.2	23.0
Days payables outstanding	82.0	102.6	86.2	68.9	68.2
Dividend cover (x)	2.1	2.5	2.5	2.5	2.5
Current ratio (x)	1.8	1.9	2.1	2.0	1.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	2.3	3.1	3.2	3.4
Net debt/equity (%)	29.3	net cash	20.4	23.1	25.9
Net interest cover (x)	19.2	17.0	16.4	24.7	24.9
Debt/EBITDA (x)	3.4	2.9	1.9	1.9	1.9
Capex/revenue (%)	4.7	2.4	3.8	3.8	3.7
Net debt/ (net cash)	457.0	(7.4)	434.2	531.8	647.6

Source: Company; Maybank

# Eco World Development (ECW MK)

## Young but aggressive

# BUY

Share Price MYR 1.40  
 12m Price Target MYR 1.67 (+19%)  
 Previous Price Target MYR 1.67

### An upcoming bellwether

A young real estate group backed by experienced hands. In our view, the management team's strong creative reputation and intimate knowledge of the property industry will form a solid backbone for ECW and take it from strength to strength. In <4 years, ECW has accumulated 4,077 acres of land (worth MYR59.7b in GDV) throughout major cities in Malaysia. Our RNAV-TP is MYR1.67 (based on 40% discount to our RNAV est.).

### On track to meet its ambitious sales target

The successful launch of 750 units of Karisma apartments at Eco Majestic with an 85% booking rate is a strong start to the year. ECW is confident of achieving its ambitious sales target of MYR4b for FY10/16 (vs. MYR3b locked-in sales in FY15), supported by existing and new projects - Bukit Bintang City Centre (BBCC) - and international projects, via an associate company. Management has signed the heads of terms agreements for its retail mall and live concert hall at BBCC with two Japanese partners.

### On aggressive acquisition mode

ECW has been aggressively acquiring new landbank since its corporate exercises announced in April 2014. It has announced 4 land deals (Bukit Bintang City Centre in KL city centre, Eco Forest in Semenyih, Eco Marina in Batu Kawan (BK), Penang and Eco Gardens in Mukim Ijok, Selangor) raising its total GDV twofold to MYR75b (MYR59.7b, excl. Mukim Ijok where ECW is now working on the JV structure). According to a media report, ECW is now in negotiation for another 300 acres of land in BK.

### A RNAV play

We have applied a 40% discount to our RNAV estimates for big cap property stocks under our coverage (except for SP Setia). Pegging a 40% discount to our RNAV estimate for ECW, our TP is MYR1.67. Near-term earnings visibility will be backed by MYR4.2b of unbilled sales (1.16x of FY16F revenue). Management is in talks with a potential JV partner for Eco Gardens' funding and the JV structure. Similar JV structure would be used for future landbanking given its highly-g geared position, we believe.

### Company Description

*Eco World Development Group Bhd is involved in the property development business.*

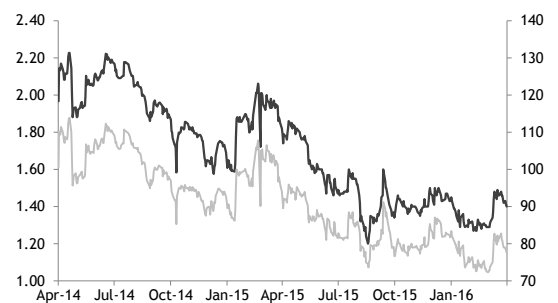
### Statistics

Shariah status	Yes
52w high/low (MYR)	1.86/1.20
3m avg turnover (USDm)	0.5
Free float (%)	30.5
Issued shares (m)	2,364
Market capitalisation	MYR3.3B USD843M

### Major shareholders:

Syabas Tropikal Sdn. Bhd.	32.0%
Eco World Development Holdings Sdn. Bhd.	21.3%
LIEW TIAN XIONG	13.7%

### Price Performance



— Eco World - (LHS, MYR) — Eco World / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	9	(3)	(23)
Relative to index (%)	7	(6)	(17)

Source: FactSet

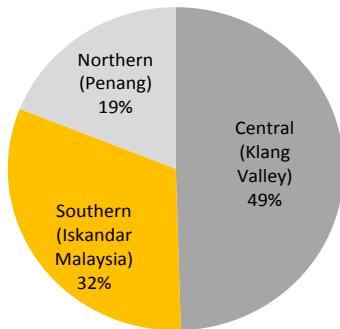
FYE Oct (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	148	1,712	3,583	4,700	5,114
EBITDA	42	412	563	751	794
Core net profit	7	44	98	207	233
Core EPS (sen)	2.8	2.6	4.2	8.8	9.9
Core EPS growth (%)	(70.4)	(6.9)	57.3	111.1	12.6
Net DPS (sen)	0.0	0.0	0.4	0.9	1.0
Core P/E (x)	49.4	53.0	33.7	16.0	14.2
P/BV (x)	1.1	1.0	1.1	1.0	1.0
Net dividend yield (%)	0.0	0.0	0.3	0.6	0.7
ROAE (%)	2.2	2.5	3.2	6.6	7.0
ROAA (%)	1.2	1.2	1.2	2.0	2.0
EV/EBITDA (x)	15.8	8.4	8.9	6.6	6.5
Net debt/equity (%)	60.5	37.5	56.6	52.0	53.4
Consensus net profit	-	-	109	212	249
MKE vs. Consensus (%)	-	-	(9.6)	(2.1)	(6.4)

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## Value Proposition

- Young real estate group backed by experienced hands.
- Management is led by former SP Setia executives with experience in township, commercial, and high-rise integrated mixed developments in Malaysia and overseas.
- In less than four years, management has managed to accumulate 4,077 acres of land (worth MYR59.7b in GDV) throughout major cities in Malaysia.
- 49% of the GDV is derived from its central zone projects, followed by Iskandar Malaysia (32%) and Penang (19%).
- ROEs are low since most of ECW's projects are in early stages of development. With critical mass and maturity, expect balance sheet and returns to improve.

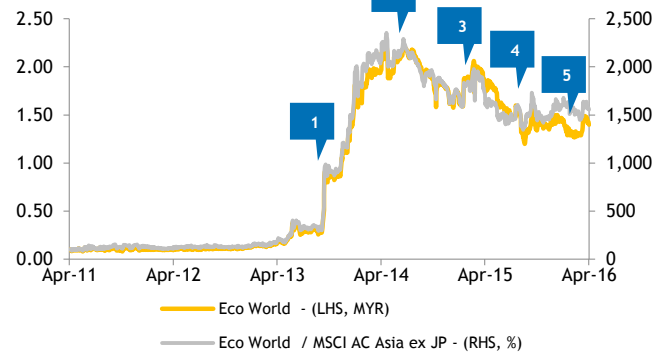
### GDV breakdown by location



Source: Company

## Price Drivers

### Historical share price trend



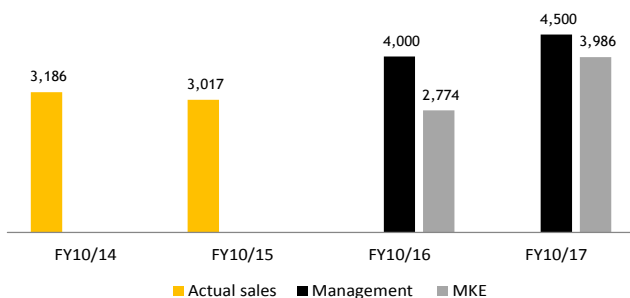
Source: Company, Maybank Kim Eng

1. The emergence of new controlling shareholders, Eco World and Liew Tian Xiong in Focal Aims Holdings, which was renamed Eco World Development in Dec 2013.
2. ECW unveiled its restructuring plan - development rights/land acquisitions and fundraising in Apr 2014.
3. Better-than-expected sales recorded for FY10/14.
4. Rising concerns over its aggressive landbanking and stretched balance sheet amid a weak prop sector outlook.
5. Entered into Head of Terms Agreements and MOU with foreign partners for the BBCC project.

## Financial Metrics

- ECW is an RNAV play. Catalysts include RNAV-accretive land acquisitions.
- Our robust +74% 3-year (FY15-18) net profit CAGR forecast is driven by property sales assumptions of MYR2.8b and MYR4.0b for 2016 and 2017, respectively.
- Net margins are likely to be unexciting in the near term due to high infrastructure, staff and marketing costs.
- Expect margins to improve gradually as the developments mature and when Eco World's brand name gains traction.
- At end-Oct 2015, ECW's net gearing stood at 0.37x.

### Actual sales and sales targets/assumptions (MYRm)



Source: Company

## Swing Factors

### Upside

- Potential RNAV-accretive land acquisitions in Batu Kawan, Klang Valley and Iskandar Malaysia.
- Stronger-than-expected take-ups for its ongoing and new projects.
- Better-than-expected operating margins on cost cutting measures.

### Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins on higher staff costs (for new projects) and marketing expenses.
- Its international projects (via its associate company) are subject to currency risks.

FYE 31 Oct	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	49.4	53.0	33.7	16.0	14.2
Core P/E (x)	49.4	53.0	33.7	16.0	14.2
P/BV (x)	1.1	1.0	1.1	1.0	1.0
P/NTA (x)	1.1	1.0	1.1	1.0	1.0
Net dividend yield (%)	0.0	0.0	0.3	0.6	0.7
FCF yield (%)	nm	5.5	42.0	27.5	12.8
EV/EBITDA (x)	15.8	8.4	8.9	6.6	6.5
EV/EBIT (x)	44.3	36.8	8.9	6.6	6.5

**INCOME STATEMENT (MYR m)**

Revenue	148.4	1,712.1	3,582.7	4,700.4	5,113.6
Gross profit	42.3	411.9	590.6	767.8	800.4
EBITDA	42.3	411.9	562.9	751.3	794.2
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	15.1	94.3	562.9	751.3	794.2
Net interest income / (exp)	(3.0)	(20.3)	(86.5)	(119.1)	(116.6)
Associates & JV	0.0	(2.1)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	12.1	73.9	130.9	276.3	311.1
Income tax	(4.9)	(30.1)	(32.7)	(69.1)	(77.8)
Minorities	0.0	0.1	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	7.2	44.0	98.1	207.2	233.3
Core net profit	7.2	44.0	98.1	207.2	233.3

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	43.4	517.2	517.2	517.2	517.2
Accounts receivable	232.0	734.8	1,537.6	2,017.3	2,194.6
Inventory	49.6	25.4	53.2	69.8	75.9
Property, Plant & Equip (net)	4.2	176.4	69.4	66.6	64.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	357.7	5,483.0	7,561.0	8,529.2	9,202.6
<b>Total assets</b>	<b>686.9</b>	<b>6,936.8</b>	<b>9,738.3</b>	<b>11,200.0</b>	<b>12,054.7</b>
ST interest bearing debt	99.3	436.0	436.0	436.0	436.0
Accounts payable	48.9	1,533.2	3,208.4	4,209.4	4,579.4
LT interest bearing debt	141.4	1,264.3	1,807.9	1,765.2	1,922.7
Other liabilities	71.0	546.0	1,236.0	1,553.0	1,670.0
<b>Total Liabilities</b>	<b>361.0</b>	<b>3,779.9</b>	<b>6,688.5</b>	<b>7,963.8</b>	<b>8,608.4</b>
Shareholders Equity	325.9	3,156.9	3,049.8	3,236.3	3,446.3
Minority Interest	(0.0)	0.0	(0.0)	(0.0)	(0.0)
<b>Total shareholder equity</b>	<b>325.9</b>	<b>3,156.9</b>	<b>3,049.8</b>	<b>3,236.3</b>	<b>3,446.3</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>686.9</b>	<b>6,936.8</b>	<b>9,738.3</b>	<b>11,200.0</b>	<b>12,054.7</b>

**CASH FLOW (MYR m)**

Pretax profit	12.1	73.9	130.9	276.3	311.1
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	(6.2)	(64.5)	(86.5)	(119.1)	(116.6)
Change in working capital	14.6	224.3	1,374.0	821.0	303.5
Cash taxes paid	(21.2)	(64.1)	(32.7)	(69.1)	(77.8)
Other operating cash flow	2.8	27.2	0.0	0.0	0.0
Cash flow from operations	2.0	197.0	1,399.0	921.8	432.5
Capex	(3.5)	(69.3)	(10.0)	(10.0)	(10.0)
Free cash flow	(1.5)	127.7	1,389.0	911.8	422.5
Dividends paid	(2.5)	0.0	0.0	(9.8)	(20.7)
Equity raised / (purchased)	0.0	2,798.1	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(168.4)	(3,440.3)	(1,932.6)	(859.3)	(559.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(172.5)</b>	<b>(514.5)</b>	<b>(543.6)</b>	<b>42.7</b>	<b>(157.5)</b>

FYE 31 Oct	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(5.1)	1,053.7	109.3	31.2	8.8
EBITDA growth	(12.4)	873.4	36.7	33.5	5.7
EBIT growth	(68.8)	525.7	497.1	33.5	5.7
Pretax growth	(59.2)	511.3	77.0	111.1	12.6
Reported net profit growth	(70.4)	512.1	123.3	111.1	12.6
Core net profit growth	(70.4)	512.1	123.3	111.1	12.6
<b>Profitability ratios (%)</b>					
EBITDA margin	28.5	24.1	15.7	16.0	15.5
EBIT margin	10.2	5.5	15.7	16.0	15.5
Pretax profit margin	8.1	4.3	3.7	5.9	6.1
Payout ratio	0.0	0.0	10.0	10.0	10.0
<b>DuPont analysis</b>					
Net profit margin (%)	4.8	2.6	2.7	4.4	4.6
Revenue/Assets (x)	0.2	0.2	0.4	0.4	0.4
Assets/Equity (x)	2.1	2.2	3.2	3.5	3.5
ROAE (%)	2.2	2.5	3.2	6.6	7.0
ROAA (%)	1.2	1.2	1.2	2.0	2.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	335.3	(107.0)	(166.4)	(197.8)	(212.4)
Days receivable outstanding	316.7	101.6	114.2	136.1	148.3
Days inventory outstanding	151.2	10.4	4.7	5.6	6.1
Days payables outstanding	132.6	219.0	285.3	339.5	366.8
Dividend cover (x)	nm	nm	10.0	10.0	10.0
Current ratio (x)	2.6	1.5	1.3	1.4	1.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.9	1.8	1.5	1.4	1.4
Net debt/equity (%)	60.5	37.5	56.6	52.0	53.4
Net interest cover (x)	5.1	4.6	6.5	6.3	6.8
Debt/EBITDA (x)	5.7	4.1	4.0	2.9	3.0
Capex/revenue (%)	2.4	4.0	0.3	0.2	0.2
Net debt/ (net cash)	197.3	1,183.2	1,726.8	1,684.1	1,841.5

Source: Company; Maybank

# Genting Bhd (GENT MK)

# HOLD

Share Price MYR 9.40  
 12m Price Target MYR 8.90 (-5%)  
 Previous Price Target MYR 8.90

## Firing on all cylinders in 2016

### Multi-pronged growth strategy

Even without Resorts World Las Vegas (RWLV) and TauRX, we forecast earnings to grow at 28% CAGR from FY16 to FY18, thanks to the Genting Integrated Tourism Plan (GITP) and Banten independent power plant (IPP). While it is not easy to value RWLV at this point, we estimate that the potential listing of 20.7%-owned TauRX could add MYR2.55/sh to our GENT SOP valuation. HOLD call with MYR8.90 SOP-based TP. Awaiting news on RWLV and TauRX for further upside potential.

### Banking on GENM expansion and Banten IPP

49%-owned Genting Malaysia (GENM) is investing MYR10.4b (Phase 1: MYR8.1b, Phase 2: MYR2.3b) to expand Resorts World Genting (RWG) via the GITP. Phase 1 involves the construction of 1,286 new hotel rooms, 20th Century Fox World, a mall, plaza and new cable car line. Phase 2 involves the construction of 2,300 additional hotel rooms. We are also bullish on GENT's power segment as we estimate that 95%-owned Banten IPP will generate a whopping -MYR800m EBITDA p.a. post-FY17.

### 'Call option' in Resorts World Las Vegas and TauRX

Recall that GENT acquired an 87-acre property in Las Vegas for USD350m in Mar 2013, which it intends to develop into Resorts World Las Vegas (RWLV) in 2H16. Furthermore, *The Wall Street Journal* reported that 20.7%-owned TauRX (a developer of Alzheimer's drugs) could be listed at a valuation of -USD15b (MYR60b) in 2017. At -USD15b, we estimate that TauRX will add USD2.4b (MYR9.6b) or MYR2.55/sh to our GENT SOP valuation. Our estimates and TP have not accounted for RWLV or TauRX.

### HOLD with MYR8.90 TP

Even ex-RWLV and TauRX, we forecast earnings to grow at 28% CAGR from FY16 to FY18 thanks to the GITP and Banten IPP. Our 17% FY16 earnings growth forecast imputes normalising VIP hold rates and bad debts at Genting UK (GENUK) and Resorts World Sentosa (RWS). GENT's share price discount to our estimated SOP/sh has narrowed to 16% and it is now 5ppts above the LT average discount to SOP/sh of 21%. RWLV and TauRX should provide further upside; we await clarity.

### Company Description

*Genting Bhd. engages in the leisure and hospitality, oil palm plantations, property development, biotechnology, and oil and gas businesses.*

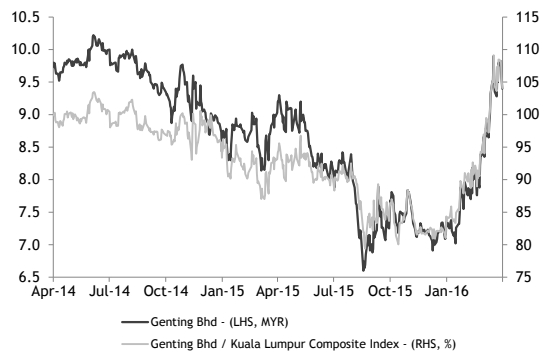
### Statistics

52w high/low (MYR)	9.90/6.60
3m avg turnover (USDm)	7.7
Free float (%)	58.8
Issued shares (m)	3,743
Market capitalisation	MYR35.2B
	USD9.0B

### Major shareholders:

LIM FAMILY	36.4%
OppenheimerFunds, Inc.	7.1%
Northern Cross LLC	3.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	12	27	4
Relative to index (%)	11	23	12

Source: FactSet

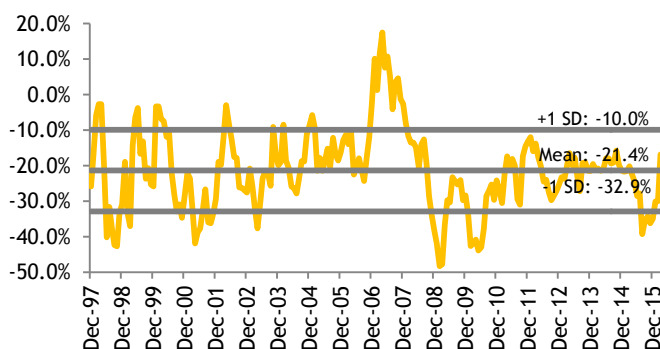
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	18,216	18,100	19,368	21,874	22,932
EBITDA	6,628	5,685	6,794	8,525	9,048
Core net profit	1,777	1,524	1,785	2,671	2,920
Core FDEPS (sen)	46.2	40.9	43.4	63.2	68.8
Core FDEPS growth(%)	1.5	(11.5)	6.1	45.8	8.8
Net DPS (sen)	4.0	3.5	3.7	5.4	5.9
Core FD P/E (x)	20.4	23.0	21.7	14.9	13.7
P/BV (x)	1.3	1.1	1.0	1.0	0.9
Net dividend yield (%)	0.4	0.4	0.4	0.6	0.6
ROAE (%)	6.8	5.1	5.3	7.5	7.7
ROAA (%)	2.5	1.9	2.0	2.9	3.1
EV/EBITDA (x)	7.3	7.9	8.0	6.4	5.7
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1,794	2,087	2,383
MKE vs. Consensus (%)	-	-	(0.5)	28.0	22.5

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## Value Proposition

- Largest casino-based conglomerate in South East Asia with interests in power, plantations, property and oil & gas.
- 49%-owned Genting Malaysia (GENM) operates Resorts World Genting (RWG) and 53%-owned Genting Singapore (GENS) operates Resorts World Sentosa (RWS).
- RWG is being expanded via the Genting Integrated Tourism Plan. RWG is Malaysian centric and especially resilient.
- 21%-owned TauRX, which is developing treatments for Alzheimer’s disease, intends to list on the NASDAQ.
- ROEs have fallen from >10% pre-2012 to ~5% in 2015 due to RWS being pressured by the weak Chinese economy.
- We expect better performance from major subsidiaries to drive reversion to mean discount to SOP/share.

### Historical (discount)/premium to SOP/sh

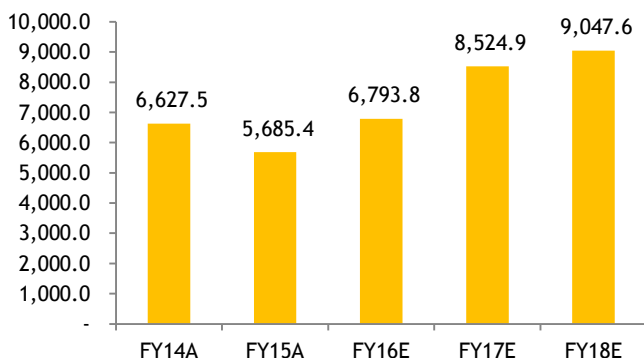


Source: Company, Maybank KE, Bloomberg

## Financial Metrics

- Most casino operators are valued on EV/EBITDA basis. FY15A EBITDA fell 14% YoY on poor VIP hold rates at GENUK and RWS, and record bad debts at RWS.
- Forecast FY16E EBITDA to recover on normalising VIP hold rate and bad debts.
- Forecast FY17E EBITDA to grow strongly on (i) maiden contributions from Banten power plant, (ii) new capacity from the GITP, and (iii) less bad debts at RWS.
- Due to the aforementioned, we estimate that the FY17E ROE will return to 7-8%.

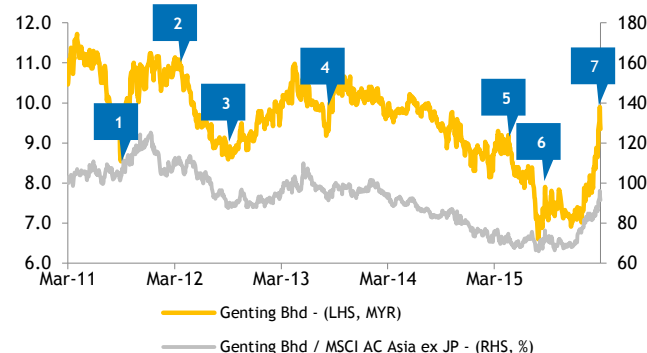
### EBITDA (MYRm)



Source: Company, Maybank KE

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. GENS’ 2Q11 EBITDA fell 35% QoQ as VIP volume fell 13% QoQ and VIP hold rate fell 30% QoQ.
2. CRA issued two junket licenses to GENS but they did not positively impact VIP volumes.
3. Disposed Genting Sanyen and entered into 25-year PPA with PT PLN for a 660MW coal-fired Banten IPP.
4. Announced 50sen special DPS and offered 1 warrant at MYR1.50 for every 4 existing shares.
5. Foreign fund outflows driven by the weak MYR pressured GENT’s share price due to its high foreign shareholding.
6. GENS reported 2Q16 net loss due to derivative and foreign exchange losses.
7. Foreign fund inflows on renewed confidence in Malaysia lifted GENT’s share price.

## Swing Factors

### Upside

- VIP volume and hold rate - tend to be volatile especially at GENS and can greatly influence GENT earnings.
- VIP-to-mass market mix - tilt towards mass market will expand margins due to less commissions and rebates.
- Higher visitor arrivals to RWG - the purpose of the GITP is to attract more high margin mass market gamblers.
- USDMYR exchange rate - most of GENT’s financial assets are denominated in USD.

### Downside

- VIP volume and hold rate - tend to be volatile especially at GENS and can greatly influence GENT earnings.
- Bad debts - Chinese account for 33-50% of GENS VIP volume but gambling debts are not enforceable in China.
- CPO and oil prices - plantations and oil & gas account for <10% of group EBITDA but low CPO and oil prices can negatively impact earnings nonetheless.
- Regional expansion - new jurisdictions often require high capex commitments without guaranteeing returns.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	23.3	25.2	19.6	13.1	12.0
Core P/E (x)	19.6	22.9	19.6	13.1	12.0
Core FD P/E (x)	20.4	23.0	21.7	14.9	13.7
P/BV (x)	1.3	1.1	1.0	1.0	0.9
P/NTA (x)	1.6	1.3	1.3	1.2	1.1
Net dividend yield (%)	0.4	0.4	0.4	0.6	0.6
FCF yield (%)	4.4	3.1	2.4	10.7	16.6
EV/EBITDA (x)	7.3	7.9	8.0	6.4	5.7
EV/EBIT (x)	10.1	11.8	11.4	8.8	7.8

**INCOME STATEMENT (MYR m)**

Revenue	18,216.5	18,100.4	19,368.0	21,874.1	22,932.1
EBITDA	6,627.5	5,685.4	6,793.8	8,524.9	9,047.6
Depreciation	(1,824.2)	(1,904.6)	(2,011.0)	(2,339.6)	(2,413.0)
EBIT	4,803.3	3,780.8	4,782.9	6,185.3	6,634.6
Net interest income / (exp)	(50.7)	22.0	(212.2)	(154.9)	(90.3)
Associates & JV	49.3	94.7	49.3	49.3	49.3
Exceptionals	(539.6)	(451.5)	0.0	0.0	0.0
Pretax profit	4,262.3	3,446.0	4,620.0	6,079.7	6,593.6
Income tax	(1,108.7)	(848.3)	(1,084.1)	(1,364.0)	(1,455.8)
Minorities	(1,338.5)	(848.6)	(1,388.1)	(1,682.7)	(1,855.4)
Perpetual securities	(311.5)	(361.1)	(362.4)	(362.4)	(362.4)
Discontinued operations	(7.5)	0.0	0.0	0.0	0.0
Reported net profit	1,496.1	1,388.0	1,785.4	2,670.6	2,919.9
Core net profit	1,777.4	1,524.2	1,785.4	2,670.6	2,919.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	16,975.4	24,239.2	21,193.3	20,507.2	22,392.8
Accounts receivable	4,083.8	3,848.4	4,117.9	4,650.7	4,875.6
Inventory	419.5	480.6	514.3	580.8	608.9
Property, Plant & Equip (net)	25,887.6	31,139.4	33,856.4	34,753.9	34,111.5
Intangible assets	5,414.0	6,666.6	6,666.6	6,666.6	6,666.6
Investment in Associates & JVs	1,701.8	2,319.5	3,456.3	4,593.1	5,186.1
Other assets	18,809.7	20,738.8	20,738.8	20,738.8	20,738.8
<b>Total assets</b>	<b>73,291.8</b>	<b>89,432.5</b>	<b>90,543.5</b>	<b>92,491.1</b>	<b>94,580.4</b>
ST interest bearing debt	1,837.7	1,487.3	1,914.7	1,914.7	1,914.7
Accounts payable	4,347.3	5,009.3	5,073.5	5,386.3	5,602.2
LT interest bearing debt	10,714.9	17,017.4	15,102.7	13,188.0	11,273.3
Other liabilities	3,333.0	3,127.0	3,208.0	3,304.0	3,336.0
<b>Total Liabilities</b>	<b>20,233.1</b>	<b>26,641.5</b>	<b>25,299.3</b>	<b>23,793.4</b>	<b>22,126.1</b>
Shareholders Equity	26,830.9	32,617.7	34,265.2	36,734.6	39,435.6
Minority Interest	20,128.9	23,101.8	23,907.6	24,891.6	25,947.2
<b>Total shareholder equity</b>	<b>46,959.8</b>	<b>55,719.5</b>	<b>58,172.8</b>	<b>61,626.3</b>	<b>65,382.8</b>
Perpetual securities	6,098.9	7,071.5	7,071.5	7,071.5	7,071.5
<b>Total liabilities and equity</b>	<b>73,291.8</b>	<b>89,432.5</b>	<b>90,543.5</b>	<b>92,491.1</b>	<b>94,580.4</b>

**CASH FLOW (MYR m)**

Pretax profit	4,262.3	3,446.0	4,620.0	6,079.7	6,593.6
Depreciation & amortisation	1,824.2	1,904.6	2,011.0	2,339.6	2,413.0
Adj net interest (income)/exp	82.1	(22.0)	212.2	154.9	90.3
Change in working capital	(1,476.0)	(928.7)	(239.0)	(286.6)	(37.1)
Cash taxes paid	(1,136.3)	(998.4)	(1,003.2)	(1,267.9)	(1,424.3)
Other operating cash flow	843.0	1,342.0	(49.3)	(49.3)	(49.3)
Cash flow from operations	4,399.3	4,743.5	5,551.7	6,970.3	7,586.3
Capex	(2,853.0)	(3,647.7)	(4,728.0)	(3,237.1)	(1,770.6)
Free cash flow	1,546.3	1,095.8	823.7	3,733.2	5,815.7
Dividends paid	(37.2)	(111.5)	(138.0)	(201.2)	(219.0)
Equity raised / (purchased)	(1.6)	(422.8)	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,276.8)	4,243.5	(1,487.3)	(1,914.7)	(1,914.7)
Perpetual securities distribution	(311.5)	(361.1)	(362.4)	(362.4)	(362.4)
Other invest/financing cash flow	(2,316.9)	(104.4)	(1,882.0)	(1,941.0)	(1,434.0)
Effect of exch rate changes	480.2	2,882.2	0.0	0.0	0.0
Net cash flow	(1,917.5)	7,221.7	(3,046.0)	(686.1)	1,885.6

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	6.5	(0.6)	7.0	12.9	4.8
EBITDA growth	8.4	(14.2)	19.5	25.5	6.1
EBIT growth	8.6	(21.3)	26.5	29.3	7.3
Pretax growth	(1.9)	(19.2)	34.1	31.6	8.5
Reported net profit growth	(17.3)	(7.2)	28.6	49.6	9.3
Core net profit growth	5.7	(14.2)	17.1	49.6	9.3
<b>Profitability ratios (%)</b>					
EBITDA margin	36.4	31.4	35.1	39.0	39.5
EBIT margin	26.4	20.9	24.7	28.3	28.9
Pretax profit margin	23.4	19.0	23.9	27.8	28.8
Payout ratio	9.9	9.4	7.7	7.5	7.5
<b>DuPont analysis</b>					
Net profit margin (%)	8.2	7.7	9.2	12.2	12.7
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	2.7	2.7	2.6	2.5	2.4
ROAE (%)	6.8	5.1	5.3	7.5	7.7
ROAA (%)	2.5	1.9	2.0	2.9	3.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(39.1)	(43.7)	(56.1)	(54.1)	(52.3)
Days receivable outstanding	79.6	78.9	74.0	72.2	74.8
Days inventory outstanding	12.5	13.1	14.2	14.8	15.4
Days payables outstanding	131.2	135.7	144.3	141.0	142.5
Dividend cover (x)	10.1	10.7	12.9	13.3	13.3
Current ratio (x)	3.7	4.7	3.9	3.7	3.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.6	3.4	3.6	3.9	4.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	94.7	na	22.5	39.9	73.4
Debt/EBITDA (x)	1.9	3.3	2.5	1.8	1.5
Capex/revenue (%)	15.7	20.2	24.4	14.8	7.7
Net debt/ (net cash)	(4,422.8)	(5,734.5)	(4,175.9)	(5,404.5)	(9,204.8)

Source: Company; Maybank

# Genting Malaysia (GENM MK)

## No place like home

### Re-investing in Malaysia

GENM is investing heavily to expand Resorts World Genting (RWG). Visitor arrivals to RWG will also likely be boosted by the recent granting of visa free access to Mainland Chinese. Abroad, GENM is currently rationalising losses at Resorts World Bimini (RWB). Longer term, it has property in Miami that may be developed into a destination resort. It may derive income from the First Light Resort & Casino and may expand RWG even further. HOLD with a MYR4.55 SOP-based TP.

### Expanding aggressively at home

GENM is investing MYR10.4b (Phase 1: MYR8.1b, Phase 2: MYR2.3b) to expand RWG under its Genting Integrated Tourism Plan (GITP). Phase 1 involves the construction of 1,286 additional hotel rooms, 20th Century Fox World, a mall, plaza and new cable car line. Phase 2 involves the construction of 2,300 additional hotel rooms. Visitor arrivals to RWG will also likely be boosted by the recent granting of visa free access to Mainland Chinese for trips of <15 days.

### Keeping options open abroad

Thanks to the GITP, we expect RWG to drive earnings growth going forward. Earnings contraction in 2015 was due to poor VIP hold rate at Genting UK (GENUK) which we expect to normalise in 2016. Losses at RWB are also being rationalised with the discontinuation of the Bimini Superfast ferry operations. GENM also owns 30 acres of prime freehold water-fronting property in Miami that may be developed into a destination resort going forward, legislation permitting.

### HOLD with MYR4.55 TP

We forecast 2016-2018 EPS CAGR of 11% driven by the GITP at RWG. 2018 EPS may be augmented by interest income and management fees derived from the USD1b First Light Resort & Casino that will be opened by the Mashpee Wampanoag tribe of Massachusetts. Construction of the casino just commenced. Post-2018 EPS may also be augmented by GITP Phase 2. Our current estimates assume only Phase 1.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	8,229	8,396	9,677	11,088	11,600
EBITDA	2,248	2,153	2,769	3,173	3,373
Core net profit	1,358	1,256	1,391	1,599	1,723
Core EPS (sen)	23.9	22.2	24.5	28.2	30.4
Core EPS growth (%)	(20.8)	(7.4)	10.6	15.0	7.7
Net DPS (sen)	6.5	7.1	7.9	9.0	9.7
Core P/E (x)	19.1	20.6	18.6	16.2	15.0
P/BV (x)	1.6	1.4	1.3	1.2	1.2
Net dividend yield (%)	1.4	1.6	1.7	2.0	2.1
ROAE (%)	8.6	7.1	7.1	7.8	7.9
ROAA (%)	6.7	5.2	5.0	5.6	5.8
EV/EBITDA (x)	9.7	11.5	8.8	7.7	6.8
Net debt/equity (%)	net cash	0.1	net cash	net cash	net cash
Consensus net profit	-	-	1,391	1,595	1,782
MKE vs. Consensus (%)	-	-	(0.0)	0.3	(3.3)

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# HOLD

Share Price MYR 4.57  
12m Price Target MYR 4.55 (-0%)  
Previous Price Target MYR 4.55

### Company Description

Owns and operates Resorts World Genting, the only integrated resort in Malaysia. Also owns casinos in the UK, US and Bahamas.

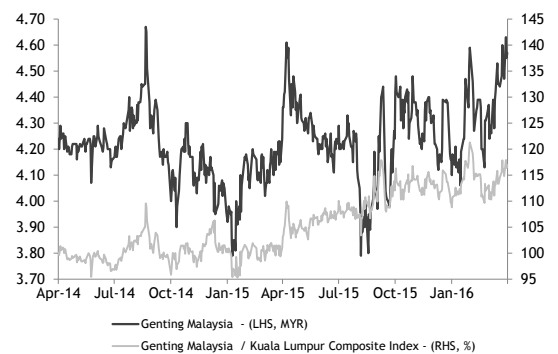
### Statistics

52w high/low (MYR)	4.63/3.79
3m avg turnover (USDm)	6.0
Free float (%)	48.4
Issued shares (m)	5,938
Market capitalisation	MYR27.1B USD6.9B

### Major shareholders:

Genting Bhd.	47.1%
Genting Malaysia Bhd.	4.5%
International Value Advisers LLC	4.1%

### Price Performance



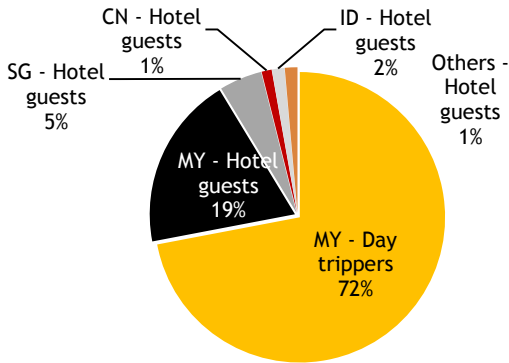
	-1M	-3M	-12M
Absolute (%)	6	10	8
Relative to index (%)	4	7	16

Source: FactSet

## Value Proposition

- Owns and operates RWG, Msia's only integrated resort. Also owns GENUK, Resorts World New York City (RWNYC) and RWB.
- RWG is ~80% of group earnings and the key source of earnings growth via the GITP. Phase 1 of GITP involves 1,286 additional hotel rooms, 20<sup>th</sup> Century Fox World, a mall, plaza and new cable car line.
- ROE < WACC but should inch higher due to the GITP and rationalised RWB operations.

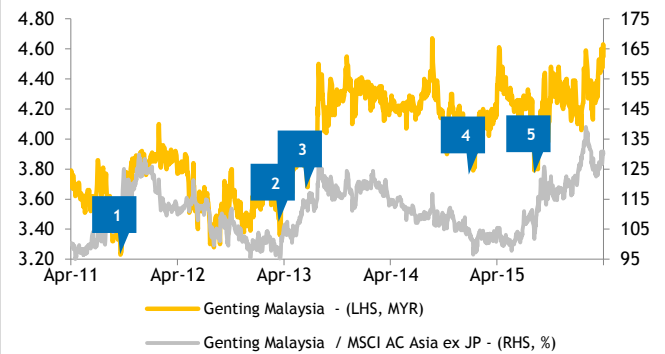
### 2014 RWG visitor arrivals breakdown



Source: Company

## Price Drivers

### Historical share price trend



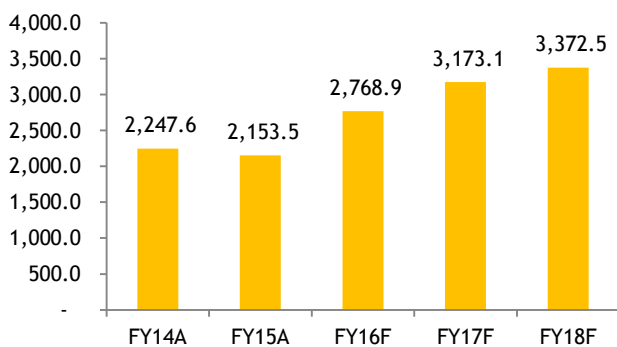
Source: Company, Maybank Kim Eng

- RWNYC opened with 2,486 video gaming machines (VGM). Expanded to 5,000 VGMS by Jan 2012.
- Announced plans to revamp Outdoor Theme Park into 20<sup>th</sup> Century Fox World as part of the MYR5b GITP.
- Bimini Superfast and Resorts World Bimini, both in the Bahamas, opened.
- Failed to secure an upstate New York casino license despite submitting two bids.
- 2Q15 results were below expectations due to low VIP hold rate and bad debts at GENUK.

## Financial Metrics

- Key financial metric is EBITDA. Most casino operators are valued on EV/EBITDA basis.
- FY15 EBITDA fell 5% YoY on poor VIP hold rates and bad debts at GENUK.
- Forecast FY16E EBITDA to grow 29% YoY on normalising VIP hold rate and bad debts at GENUK and expansion at RWG.
- Forecast FY17E EBITDA to grow 15% YoY on continued expansion of amenities at RWG.
- Forecast FY18E EBITDA to grow 6% YoY on all new amenities at RWG operating on full year basis.
- That said, expect balance sheet to be net cash/marginally net debt due to OCF of >MYR2b p.a..

### EBITDA (MYRm)



Source: Company, Maybank KE

## Swing Factors

### Upside

- VIP volume and hold rate - tend to be volatile especially GENUK and can influence GENM earnings.
- VIP: mass market mix - tilt towards mass market will expand margins due to less commissions and rebates.
- Higher visitor arrivals to RWG - the purpose of the GITP is to attract more high margin mass market gamblers.

### Downside

- VIP volume and hold rate - tend to be volatile especially at GENUK and can influence GENM earnings.
- Bad debts - Mainland Chinese account for the majority of GENUK's VIPs but gambling debts are not enforceable in China.
- Regional expansion - new jurisdictions often require high capex commitments without guaranteeing returns.

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	21.8	20.6	18.6	16.2	15.0
Core P/E (x)	19.1	20.6	18.6	16.2	15.0
P/BV (x)	1.6	1.4	1.3	1.2	1.2
P/NTA (x)	2.2	1.9	1.8	1.6	1.5
Net dividend yield (%)	1.4	1.6	1.7	2.0	2.1
FCF yield (%)	nm	nm	8.1	2.1	7.9
EV/EBITDA (x)	9.7	11.5	8.8	7.7	6.8
EV/EBIT (x)	13.3	16.9	12.5	11.2	9.9
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	8,229.4	8,395.9	9,677.2	11,087.6	11,600.3
EBITDA	2,247.6	2,153.5	2,768.9	3,173.1	3,372.5
Depreciation	(607.8)	(684.1)	(829.0)	(999.3)	(1,070.1)
EBIT	1,639.8	1,469.4	1,939.9	2,173.7	2,302.4
Net interest income / (exp)	54.1	59.1	(61.7)	(27.3)	0.6
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(169.4)	1.5	0.0	0.0	0.0
Pretax profit	1,524.5	1,530.0	1,878.2	2,146.5	2,303.0
Income tax	(384.2)	(287.0)	(520.4)	(571.8)	(596.4)
Minorities	48.4	14.9	33.0	24.7	16.5
Reported net profit	1,188.7	1,257.9	1,390.7	1,599.3	1,723.1
Core net profit	1,358.1	1,256.4	1,390.7	1,599.3	1,723.1
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	2,789.4	4,599.7	5,415.3	5,020.1	6,124.5
Accounts receivable	787.9	1,242.8	1,432.5	1,641.3	1,717.1
Inventory	100.3	119.8	138.1	158.2	165.5
Property, Plant & Equip (net)	7,426.5	10,475.1	11,899.8	13,162.3	12,864.5
Intangible assets	4,482.2	5,367.3	5,367.3	5,367.3	5,367.3
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	5,210.9	5,716.1	3,720.1	3,720.1	3,720.1
<b>Total assets</b>	<b>20,797.2</b>	<b>27,520.7</b>	<b>27,973.0</b>	<b>29,069.2</b>	<b>29,959.1</b>
ST interest bearing debt	207.1	784.0	401.7	401.7	401.7
Accounts payable	1,851.9	2,647.7	2,930.2	3,357.0	3,489.8
LT interest bearing debt	1,411.1	3,840.9	3,439.2	3,037.5	2,635.8
Other liabilities	1,053.0	1,142.0	1,184.0	1,193.0	1,197.0
<b>Total Liabilities</b>	<b>4,523.5</b>	<b>8,414.4</b>	<b>7,954.8</b>	<b>7,989.1</b>	<b>7,724.6</b>
Shareholders Equity	16,304.3	19,080.4	20,025.3	21,111.9	22,282.6
Minority Interest	(30.6)	25.9	(7.0)	(31.7)	(48.2)
<b>Total shareholder equity</b>	<b>16,273.7</b>	<b>19,106.4</b>	<b>20,018.3</b>	<b>21,080.2</b>	<b>22,234.4</b>
<b>Total liabilities and equity</b>	<b>20,797.2</b>	<b>27,520.7</b>	<b>27,973.0</b>	<b>29,069.2</b>	<b>29,959.1</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	1,524.5	1,530.0	1,878.2	2,146.5	2,303.0
Depreciation & amortisation	607.8	684.1	829.0	999.3	1,070.1
Adj net interest (income)/exp	(127.6)	(143.8)	61.7	27.3	(0.6)
Change in working capital	(60.6)	126.4	2,070.5	197.9	49.6
Cash taxes paid	(454.5)	(339.2)	(478.5)	(562.6)	(592.0)
Other operating cash flow	51.1	(0.4)	0.0	0.0	0.0
Cash flow from operations	1,540.7	1,857.0	4,360.8	2,808.4	2,830.2
Capex	(1,948.3)	(2,502.8)	(2,253.6)	(2,261.9)	(772.3)
Free cash flow	(407.6)	(645.8)	2,107.2	546.4	2,057.9
Dividends paid	(391.3)	(356.7)	(445.8)	(512.7)	(552.4)
Equity raised / (purchased)	(4.2)	(61.6)	0.0	0.0	0.0
Change in Debt	(113.0)	2,606.2	(784.0)	(401.7)	(401.7)
Other invest/financing cash flow	(130.1)	(110.0)	(61.7)	(27.3)	0.6
Effect of exch rate changes	96.5	316.6	0.0	0.0	0.0
Net cash flow	(949.7)	1,748.7	815.7	(395.3)	1,104.4

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(1.2)	2.0	15.3	14.6	4.6
EBITDA growth	(7.4)	(4.2)	28.6	14.6	6.3
EBIT growth	(12.6)	(10.4)	32.0	12.1	5.9
Pretax growth	(13.7)	0.4	22.8	14.3	7.3
Reported net profit growth	(25.8)	5.8	10.6	15.0	7.7
Core net profit growth	(20.8)	(7.5)	10.7	15.0	7.7
<b>Profitability ratios (%)</b>					
EBITDA margin	27.3	25.6	28.6	28.6	29.1
EBIT margin	19.9	17.5	20.0	19.6	19.8
Pretax profit margin	18.5	18.2	19.4	19.4	19.9
Payout ratio	31.0	32.0	32.1	32.1	32.1
<b>DuPont analysis</b>					
Net profit margin (%)	14.4	15.0	14.4	14.4	14.9
Revenue/Assets (x)	0.4	0.3	0.3	0.4	0.4
Assets/Equity (x)	1.3	1.4	1.4	1.4	1.3
ROAE (%)	8.6	7.1	7.1	7.8	7.9
ROAA (%)	6.7	5.2	5.0	5.6	5.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(70.9)	(79.9)	(88.9)	(86.4)	(90.6)
Days receivable outstanding	27.8	43.5	49.8	49.9	52.1
Days inventory outstanding	5.7	6.3	6.7	6.7	7.1
Days payables outstanding	104.4	129.7	145.3	143.0	149.8
Dividend cover (x)	3.2	3.1	3.1	3.1	3.1
Current ratio (x)	2.2	2.3	2.1	1.8	2.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.6	3.3	3.5	3.6	3.9
Net debt/equity (%)	net cash	0.1	net cash	net cash	net cash
Net interest cover (x)	na	na	31.4	79.7	na
Debt/EBITDA (x)	0.7	2.1	1.4	1.1	0.9
Capex/revenue (%)	23.7	29.8	23.3	20.4	6.7
Net debt/ (net cash)	(1,171.2)	25.2	(1,574.5)	(1,580.9)	(3,087.0)

Source: Company; Maybank

# Globetronics Technology (GTB MK)

# BUY

Share Price MYR 5.45  
 12m Price Target MYR 6.90 (+27%)  
 Previous Price Target MYR 6.90

## Tale of two halves

### 3D-imaging sensor: The game changer

2016 will be a year of two halves with a weak 1H to be compensated by a strong 2H after the launch of the 3D-imaging sensor. The ambiguity now lies in the adoption of the 3D-imaging sensor in either the entire range or only the premium variant of the next generation smartphone, to be launched in 3Q16. We have conservatively imputed adoption of the 3D-imaging sensor only in the premium smartphone variant. Maintain BUY with an unchanged TP of MYR6.90 on 16x CY17 PER target.

### A weak 1Q16 has been priced in

Orders for proximity sensors will likely weaken further to ~14m units/month in 1Q16 before picking up again in 2Q16 to accommodate the launch of the new generation premium smartphone in Sep 2016; weak 1H16 results are expected before picking up in 2H16, boosted by a half-year contribution from its 3D-imaging sensors (tax-exempt), which are expected to hit full volume loading (~15m units/month) from May 2016 onwards. Conservatively imputing the adoption of the 3D-imaging sensor in the premium range of the next generation smartphones, we estimate this product alone to contribute ~MYR46m to FY16's revenue.

### Beyond the 3D-imaging sensor

Looking to diversify its end-client base from just reliance on a single premium smartphone brand for the demand of its sensors, Globetronics, along with its Swiss client, is now developing another optics-related sensor product for a prominent Korean smartphone brand. While adoption of this sensor will likely to only take place in 1Q17, we are positive on this development as a means of earnings diversification and further strengthening of its foothold in the micro-optics sensor space.

### Undemanding valuation for 30% earnings growth

Net cash continues to strengthen to MYR178m (63sen/sh) at end-4Q15, translating into an ex-cash FY16 PER of 15x. Maintain BUY with a TP of MYR6.90. FY16 yield is attractive at 5.4%.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	355	344	415	525	565
EBITDA	109	94	125	157	170
Core net profit	64	68	93	122	130
Core FDEPS (sen)	22.9	24.2	32.8	43.1	46.1
Core FDEPS growth(%)	20.7	5.5	35.6	31.2	7.0
Net DPS (sen)	23.0	23.0	29.6	38.8	41.6
Core FD P/E (x)	23.8	22.5	16.6	12.7	11.8
P/BV (x)	5.4	5.1	5.0	4.8	4.6
Net dividend yield (%)	4.2	4.2	5.4	7.1	7.6
ROAE (%)	23.0	23.3	30.4	38.6	39.7
ROAA (%)	18.5	19.1	25.3	31.6	32.4
EV/EBITDA (x)	9.7	17.6	11.0	8.9	8.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	102	122	128
MKE vs. Consensus (%)	-	-	(9.1)	0.0	2.0

### Company Description

Largest OSAT player for Epson Toyocom for Quartz Cryst & Timing devices. Also exclusive OSAT provider for Swiss customer in micro-optics sensors.

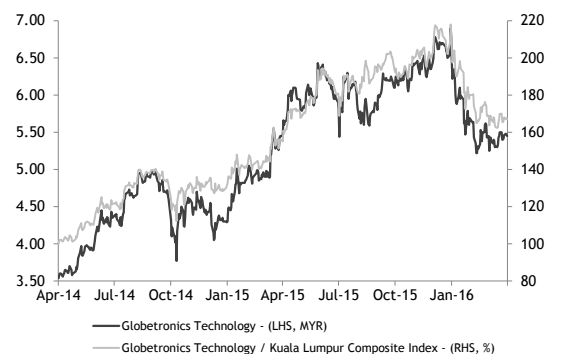
### Statistics

Shariah status	Yes
52w high/low (MYR)	6.90/5.22
3m avg turnover (USDm)	1.4
Free float (%)	80.1
Issued shares (m)	282
Market capitalisation	MYR1.5B USD392M

### Major shareholders:

Employees Provident Fund	10.0%
General Produce Agency Sdn. Bhd.	7.3%
Wiserite Sdn. Bhd.	7.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(20)	0
Relative to index (%)	(1)	(22)	7

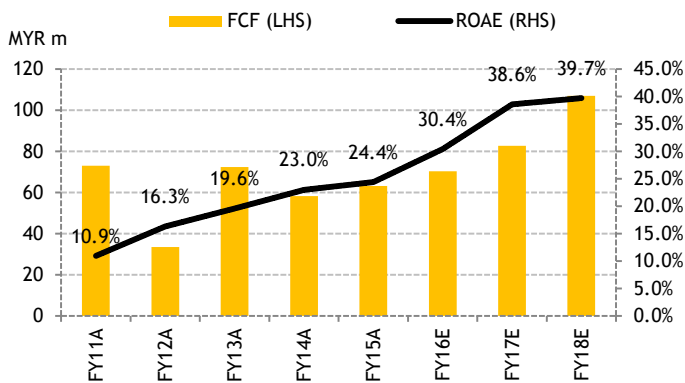
Source: FactSet

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## Value Proposition

- Largest OSAT player for Epson Toyocom for Quartz Crystal & Timing devices. Also exclusive semiconductor vendor for a Swiss customer in micro-optics sensors.
- Products in high demand due to rapid adoption of multi-function sensors in smart devices as device makers try to differentiate their products - decent growth visibility.
- Forward earnings growth hinges on new product rollout for sensor division and potential growth in customers.
- Product has high intellectual content. Business is highly cash generative with low capex requirement which allows for good dividend payout (5-year avg of 89%).

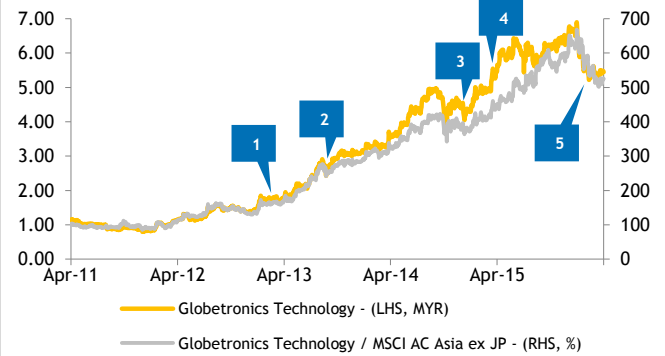
### FCF vs ROE



Source: Company, Maybank KE

## Price Drivers

### Historical share price



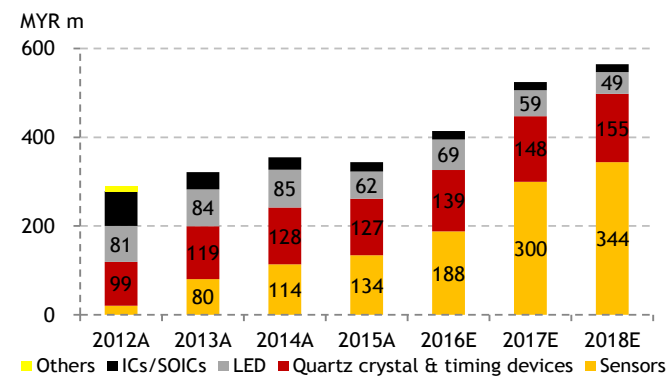
Source: Company, Maybank Kim Eng

1. Maiden contribution of sensor division in 4Q12 results announcement.
2. Strong results on higher volume sales to meet demand of end-client's premium smartphone.
3. Profit-taking by investors driven by a (i) good run in share price and (ii) general exit by foreign investors from the Malaysian stock market.
4. Strong earnings growth momentum driven by higher volume loading and positive USD exposure. Management also guided for the launch of 3D-imaging sensor.
5. Potential delay in adoption of 3D-imaging sensor in the 4.7" variant of next generation of premium smartphone.

## Financial Metrics

- Sales volume of end customers' smart devices is a critical financial metric. Medium term demand hinges on the rate of adoption for multi-function sensors in smart devices.
- Stable USD/MYR (~65%/70% of revenue/COGS is in USD) would influence Globetronics margins.
- New sensor product rollout for existing and potential clients - a wild card.
- Stronger contribution by the sensor division (7% in FY12 to 39% FY15) which enjoys tax exemption should sustain net margin above 20% level.

### Revenue breakdown



Source: Company, Maybank KE

## Swing Factors

### Upside

- Forex: MYR's further weakness against USD - positive revenue impact. 1% change in our base assumption of USD1/MYR4.10 for FY16-17 will impact earnings by ~0.7%.
- New customer wins for its sensor division which would result in diversification from just one end-client presently.
- Potential new contract wins for backend semiconductor services from Osram which has earmarked EUR3b investment in Kulim (~60km away from Globetronics' plants in Penang) by 2020.

### Downside

- Drastic fall in end-client's smartphone shipment will hamper orders for sensor products and weaken Globetronics' earnings visibility.
- Failure to renew pioneer status by end-2017 would see lower profitability on higher tax charges.
- Single customer risk; ~39%/37% of group revenue is derived from a Swiss customer/Epson Toyocom. Failure to deliver may see this partnership revoked.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	23.8	22.5	16.6	12.6	11.8
Core P/E (x)	23.8	22.5	16.6	12.6	11.8
Core FD P/E (x)	23.8	22.5	16.6	12.7	11.8
P/BV (x)	5.4	5.1	5.0	4.8	4.6
P/NTA (x)	5.4	5.1	5.0	4.8	4.6
Net dividend yield (%)	4.2	4.2	5.4	7.1	7.6
FCF yield (%)	3.8	3.9	4.6	5.4	7.0
EV/EBITDA (x)	9.7	17.6	11.0	8.9	8.2
EV/EBIT (x)	14.5	22.1	13.2	10.4	9.8

**INCOME STATEMENT (MYR m)**

Revenue	355.0	343.7	414.5	524.5	564.6
Gross profit	96.6	102.4	138.8	176.0	187.1
EBITDA	108.6	94.4	125.0	157.4	170.2
Depreciation	(36.1)	(19.1)	(21.0)	(23.2)	(27.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	72.5	75.2	104.0	134.2	142.8
Net interest income / (exp)	3.5	3.0	5.0	4.7	4.1
Associates & JV	0.2	0.1	0.1	0.1	0.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	76.2	78.4	109.1	139.0	147.0
Income tax	(11.8)	(10.3)	(16.5)	(17.5)	(17.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	64.4	68.2	92.6	121.5	130.0
Core net profit	64.4	68.2	92.6	121.5	130.0

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	155.7	177.9	169.9	148.0	142.1
Accounts receivable	81.7	53.3	70.4	88.5	95.1
Inventory	19.0	17.9	18.9	23.9	25.9
Property, Plant & Equip (net)	75.2	83.8	92.9	109.6	122.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	26.5	23.5	23.7	23.8	24.0
<b>Total assets</b>	<b>358.2</b>	<b>356.5</b>	<b>375.8</b>	<b>393.9</b>	<b>409.3</b>
ST interest bearing debt	1.7	10.6	10.6	10.6	10.6
Accounts payable	67.3	42.8	52.8	58.8	61.2
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	5.0	3.0	3.0	3.0	3.0
<b>Total Liabilities</b>	<b>73.6</b>	<b>56.8</b>	<b>66.8</b>	<b>72.8</b>	<b>75.2</b>
Shareholders Equity	284.6	299.7	308.9	321.1	334.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>284.6</b>	<b>299.7</b>	<b>308.9</b>	<b>321.1</b>	<b>334.1</b>
<b>Total liabilities and equity</b>	<b>358.2</b>	<b>356.5</b>	<b>375.8</b>	<b>393.9</b>	<b>409.3</b>

**CASH FLOW (MYR m)**

Pretax profit	76.2	78.4	109.1	139.0	147.0
Depreciation & amortisation	36.1	19.1	21.0	23.2	27.4
Adj net interest (income)/exp	(3.5)	(3.0)	(5.0)	(4.7)	(4.1)
Change in working capital	(4.6)	5.1	(8.1)	(17.1)	(6.2)
Cash taxes paid	(17.5)	(8.9)	(16.5)	(17.5)	(17.0)
Other operating cash flow	(5.0)	(5.0)	(0.1)	(0.1)	(0.1)
Cash flow from operations	81.7	85.8	100.4	122.8	147.0
Capex	(23.4)	(25.8)	(30.0)	(40.0)	(40.0)
Free cash flow	58.3	60.0	70.4	82.8	107.0
Dividends paid	(61.8)	(64.7)	(83.4)	(109.4)	(117.0)
Equity raised / (purchased)	8.8	2.0	0.0	0.0	0.0
Change in Debt	1.0	12.3	0.0	0.0	0.0
Other invest/financing cash flow	1.8	7.1	5.0	4.7	4.1
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>8.2</b>	<b>16.7</b>	<b>(8.0)</b>	<b>(21.9)</b>	<b>(5.9)</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	10.5	(3.2)	20.6	26.5	7.6
EBITDA growth	10.7	(13.1)	32.5	25.9	8.1
EBIT growth	21.6	3.8	38.3	29.0	6.4
Pretax growth	21.9	2.9	39.1	27.4	5.8
Reported net profit growth	22.4	5.8	35.9	31.2	7.0
Core net profit growth	22.4	5.8	35.9	31.2	7.0
<b>Profitability ratios (%)</b>					
EBITDA margin	30.6	27.5	30.2	30.0	30.1
EBIT margin	20.4	21.9	25.1	25.6	25.3
Pretax profit margin	21.5	22.8	26.3	26.5	26.0
Payout ratio	nm	95.0	90.0	90.0	90.0
<b>DuPont analysis</b>					
Net profit margin (%)	18.1	19.8	22.3	23.2	23.0
Revenue/Assets (x)	1.0	1.0	1.1	1.3	1.4
Assets/Equity (x)	1.3	1.2	1.2	1.2	1.2
ROAE (%)	23.0	23.3	30.4	38.6	39.7
ROAA (%)	18.5	19.1	25.3	31.6	32.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	14.9	16.2	15.3	19.0	25.0
Days receivable outstanding	75.9	70.7	53.7	54.6	58.5
Days inventory outstanding	23.1	27.5	24.0	22.1	23.7
Days payables outstanding	84.0	82.1	62.4	57.7	57.2
Dividend cover (x)	1.0	1.1	1.1	1.1	1.1
Current ratio (x)	3.7	4.6	4.0	3.7	3.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.9	6.3	5.6	5.4	5.4
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.1	0.1	0.1	0.1
Capex/revenue (%)	6.6	7.5	7.2	7.6	7.1
Net debt/ (net cash)	(154.0)	(167.3)	(159.3)	(137.5)	(131.5)

Source: Company; Maybank

# Glomac (GLMC MK)

## A township play

### Townships to provide some stability in sales

Glomac should be able to weather the current property slowdown as 88% of its remaining GDV is derived from township developments secured at low land costs, providing pricing and product flexibility. Management remains confident of achieving its MYR510m sales target for FY4/16 supported by aggressive launches in 2HFY16. Our TP is MYR0.96, based on a 50% discount to RNAV - HOLD maintained.

### Expect flat growth in sales

Management remains confident of its MYR510m sales target for FY16 (+0.8% YoY) despite the lackluster 9MFY16 sales performance. This will be supported by more aggressive launches worth MYR627m in GDV in 2HFY16 (13% launched in 3QFY16, 87% in 4QFY16). To recap, 9MFY16 locked-in property sales of MYR131m accounted for just 26% of management's sales target for FY16.

### Focus remains on affordable landed properties

Glomac's near-term focus continues to be on affordable / landed properties given the relatively stronger demand in this property market segment, driven by Malaysia's young population. The planned launches in 4QFY16 include its township developments such as: i) Saujana Aman (MYR56m) and Saujana Utama 5 (MYR22m), ii) Saujana KLIA (MYR217m) and iii) a high-rise apartment project - Centro V (MYR263m).

### A good dividend payer

Our earnings forecasts include a net land sale gain of MYR84m arising from the disposal of the *Suria Residen* land in Cheras, to be completed in FY17, and potential en-bloc sale of Glo Damansara retail mall in FY18. Our RNAV estimate is MYR1.92/sh. Glomac has been paying more than 30% of its net profit as dividends since FY11. At current pricing, its FY16 net yield is decent at 4.3%.

FYE Apr (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	676	472	668	726	1,291
EBITDA	156	173	162	264	326
Core net profit	93	87	84	101	209
Core EPS (sen)	12.9	12.0	11.6	13.9	28.9
Core EPS growth (%)	(13.3)	(7.0)	(3.1)	20.3	107.1
Net DPS (sen)	4.9	4.3	3.5	4.2	8.7
Core P/E (x)	6.3	6.8	7.0	5.8	2.8
P/BV (x)	0.7	0.6	0.6	0.5	0.5
Net dividend yield (%)	6.0	5.2	4.3	5.1	10.6
ROAE (%)	11.1	9.5	8.7	9.4	17.1
ROAA (%)	5.6	4.8	4.1	4.5	8.1
EV/EBITDA (x)	6.7	6.4	6.3	3.6	3.4
Net debt/equity (%)	21.6	38.0	37.7	26.8	34.6
Consensus net profit	-	-	84	91	117
MKE vs. Consensus (%)	-	-	0.0	103.2	78.7

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# HOLD

Share Price MYR 0.82  
 12m Price Target MYR 0.96 (+18%)  
 Previous Price Target MYR 0.96

### Company Description

Glomac Bhd is principally involved in the property development business.

### Statistics

Shariah status	Yes
52w high/low (MYR)	0.98/0.74
3m avg turnover (USDm)	0.0
Free float (%)	44.0
Issued shares (m)	728
Market capitalisation	MYR593.2M USD151M

### Major shareholders:

BIN FATEH DIN MOHAMED MANSOR	20.0%
FONG LOONG TUCK	16.2%
BIN MOHAMED MANSOR FATEH ISKANDAR	15.9%

### Price Performance



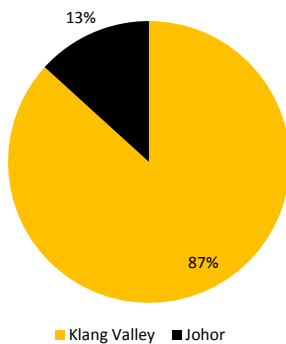
	-1M	-3M	-12M
Absolute (%)	(4)	(7)	(17)
Relative to index (%)	(6)	(10)	(11)

Source: FactSet

## Value Proposition

- One of the few listed bumi developers in Malaysia. It has large exposure to township developments (88% of total GDV). Reputable projects include Bandar Saujana Utama.
- Focus will remain on landed residential and affordable townships over the medium term given the relatively strong demand in these segments.
- 87% of its GDV is derived from the Klang Valley, followed by Johor (13%).
- Surprises could come from potential en-bloc sales of Glo Damansara retail mall.
- ROE to improve to 17% in FY18 from 9% in FY16 due to the potential enbloc sale of Glo Damansara retail mall in FY18.

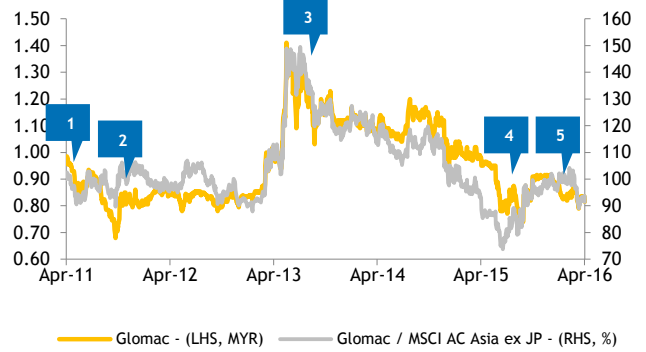
### GDV breakdown by location



Source: Company

## Price Drivers

### Historical Share Price Trend



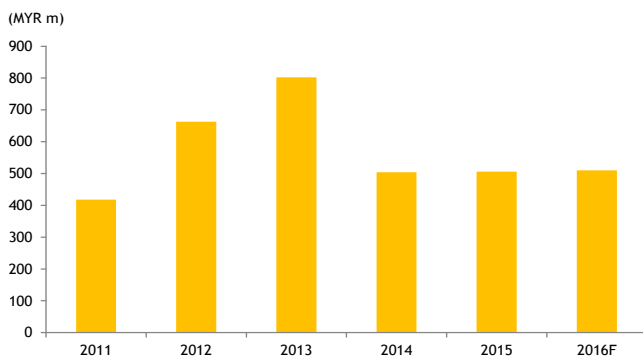
Source: Company, Maybank Kim Eng

1. Proposed to buy 200 acres of leasehold land in Puchong. This project (Lakeside Residence) eventually turned out to be one of Glomac's best sellers.
2. Sold the entire 49% stake in a warehouse in Thailand.
3. Profit hit record high in FY13 boosted by its township and Glomac Damansara projects. Property sales of MYR802m also at record high.
4. FY15 net profit and property sales were below expectations.
5. Management cut FY16 sales target by 25% to MYR510m in view of the challenging property market outlook.

## Financial Metrics

- Our robust +34% 3-year (FY15-18) net profit CAGR forecast is driven by land sale gain in Cheras to complete in FY17, potential en-bloc sale of Glo Damansara retail mall in FY18 and property sales assumptions of MYR508m and MYR543m in FY16 and FY17, respectively.
- Unbilled sales stood at MYR593m at end-Jan 2016 (0.8x our FY17F revenue).
- GLMC has been paying more than 30% of its net profit as dividends since FY11. At end-Jan 2016, its net gearing stood at a healthy 0.27x.

### Historical sales trend and FY4/16 sales target



Source: Company

## Swing Factors

### Upside

- Potential RNAV-accretive land acquisitions.
- Stronger-than-expected take-ups for its ongoing and new projects.

### Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins on higher marketing expenses.

FYE 30 Apr	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	5.5	6.8	7.0	3.2	2.8
Core P/E (x)	6.3	6.8	7.0	5.8	2.8
P/BV (x)	0.7	0.6	0.6	0.5	0.5
P/NTA (x)	0.7	0.6	0.6	0.5	0.5
Net dividend yield (%)	6.0	5.2	4.3	5.1	10.6
FCF yield (%)	2.8	nm	1.4	16.1	nm
EV/EBITDA (x)	6.7	6.4	6.3	3.6	3.4
EV/EBIT (x)	7.3	7.3	6.9	5.7	3.5

**INCOME STATEMENT (MYR m)**

Revenue	676.1	472.2	668.4	725.6	1,290.9
Gross profit	214.9	161.9	200.5	217.7	387.3
EBITDA	155.8	173.2	161.8	264.0	326.3
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	141.8	152.3	147.5	166.5	313.5
Net interest income / (exp)	(8.6)	(14.1)	(20.1)	(18.8)	(21.6)
Associates & JV	4.4	5.5	0.0	0.0	0.0
Exceptionals	15.0	0.0	0.0	84.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	159.8	143.7	127.3	231.7	291.9
Income tax	(47.2)	(48.7)	(31.8)	(36.9)	(73.0)
Minorities	(4.5)	(8.3)	(11.6)	(9.8)	(9.8)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	108.1	86.7	83.9	185.0	209.1
Core net profit	93.1	86.7	83.9	101.0	209.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	336.8	274.6	255.0	322.5	182.2
Accounts receivable	179.1	186.8	264.4	287.1	510.7
Inventory	88.4	102.8	145.5	158.0	281.0
Property, Plant & Equip (net)	56.6	55.4	46.9	43.5	40.8
Intangible assets	0.4	0.4	0.4	0.4	0.4
Investment in Associates & JVs	61.9	52.5	52.5	52.5	52.5
Other assets	989.1	1,191.2	1,433.0	1,430.7	1,829.9
<b>Total assets</b>	<b>1,712.4</b>	<b>1,863.6</b>	<b>2,197.8</b>	<b>2,294.7</b>	<b>2,897.4</b>
ST interest bearing debt	111.9	207.5	207.5	207.5	207.5
Accounts payable	154.5	156.8	221.9	240.9	428.5
LT interest bearing debt	417.0	423.7	423.7	423.7	423.7
Other liabilities	92.0	80.0	290.0	213.0	482.0
<b>Total Liabilities</b>	<b>775.5</b>	<b>867.5</b>	<b>1,143.0</b>	<b>1,085.2</b>	<b>1,541.5</b>
Shareholders Equity	887.5	938.4	997.2	1,151.9	1,298.2
Minority Interest	49.3	57.7	57.7	57.7	57.7
<b>Total shareholder equity</b>	<b>936.9</b>	<b>996.1</b>	<b>1,054.8</b>	<b>1,209.5</b>	<b>1,355.9</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,712.4</b>	<b>1,863.6</b>	<b>2,197.8</b>	<b>2,294.7</b>	<b>2,897.4</b>

**CASH FLOW (MYR m)**

Pretax profit	159.8	143.7	127.3	231.7	291.9
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(77.4)	(185.1)	(12.3)	(23.9)	(236.5)
Cash taxes paid	(51.8)	(50.5)	(31.8)	(36.9)	(73.0)
Other operating cash flow	(14.2)	(21.4)	0.0	0.0	0.0
Cash flow from operations	16.4	(113.3)	93.4	180.3	(8.8)
Capex	0.3	(23.9)	(85.0)	(85.0)	(85.0)
Free cash flow	16.6	(137.1)	8.4	95.3	(93.8)
Dividends paid	(35.3)	0.0	(28.0)	(27.7)	(46.5)
Equity raised / (purchased)	21.5	(8.1)	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	6.9	(15.5)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>9.8</b>	<b>(160.8)</b>	<b>(19.6)</b>	<b>67.5</b>	<b>(140.3)</b>

FYE 30 Apr	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(0.7)	(30.2)	41.6	8.6	77.9
EBITDA growth	(6.6)	11.1	(6.6)	63.2	23.6
EBIT growth	(9.6)	7.4	(3.2)	12.9	88.3
Pretax growth	4.1	(10.1)	(11.4)	82.0	26.0
Reported net profit growth	5.7	(19.8)	(3.1)	120.4	13.0
Core net profit growth	(9.0)	(6.9)	(3.1)	20.3	107.1
<b>Profitability ratios (%)</b>					
EBITDA margin	23.0	36.7	24.2	36.4	25.3
EBIT margin	21.0	32.2	22.1	23.0	24.3
Pretax profit margin	23.6	30.4	19.0	31.9	22.6
Payout ratio	32.8	35.5	30.0	16.4	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	16.0	18.4	12.6	25.5	16.2
Revenue/Assets (x)	0.4	0.3	0.3	0.3	0.4
Assets/Equity (x)	1.9	2.0	2.2	2.0	2.2
ROAE (%)	11.1	9.5	8.7	9.4	17.1
ROAA (%)	5.6	4.8	4.1	4.5	8.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	25.1	69.9	71.4	80.4	65.3
Days receivable outstanding	89.3	139.5	121.5	136.8	111.2
Days inventory outstanding	71.5	110.9	95.5	107.6	87.5
Days payables outstanding	135.7	180.5	145.7	164.0	133.3
Dividend cover (x)	3.0	2.8	3.3	6.1	3.3
Current ratio (x)	2.8	2.0	1.8	2.1	1.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	2.1	1.9	2.1	1.9
Net debt/equity (%)	21.6	38.0	37.7	26.8	34.6
Net interest cover (x)	16.4	10.8	7.3	8.9	14.5
Debt/EBITDA (x)	3.4	3.6	3.9	2.4	1.9
Capex/revenue (%)	nm	5.1	12.7	11.7	6.6
Net debt/ (net cash)	192.0	356.6	376.2	308.7	449.0

Source: Company; Maybank

# Hartalega (HART MK)

## The leading nitrile glove maker

# HOLD

Share Price MYR 4.76  
 12m Price Target MYR 4.60 (-3%)  
 Previous Price Target MYR 4.60

### Wait for better entry levels

Hartalega is the world's largest nitrile medical glove manufacturer with strong capabilities in producing high quality nitrile gloves at competitive ASPs due to its economies of scale and high efficiency levels. We project a 3-year EPS CAGR of 21%, underpinned by its new capacity. We have a HOLD call and TP of MYR4.60, pegged to its mean PER of 21x.

### Beneficiary of stronger USD, lower rubber prices

Our 3-year EPS CAGR forecast of 21% is based on: (i) USD/MYR of 4.10; (ii) NBR price of USD1.00/kg; and (iii) latex price of MYR4.30/kg. Hence, a stronger-than-expected USD/MYR or lower-than-expected rubber prices will provide upside to our earnings forecasts. While ASPs are regularly adjusted to reflect the changes in the key variables (i.e. USD and rubber prices), there is a time-lag of 2-3 months for a full pass-through, hence, leading to temporary margin expansion for the glove-makers.

### Production efficiency to counter competition

Hartalega's expansion plan is aggressive with capacity growth of 56%/112%/152% in FY3/16-18 respectively, subject to demand growth. While the competition within the nitrile segment may persist and eat into margins, we note that there could be some buffer from Hartalega's two new plants, which could enhance its group margins by 6-ppt owing to its production efficiency; we have yet to impute this into our model.

### Valuations fair for now

Trading at a CY17 PER of 22x, which is about in line with its mean PER of 21x PER, we think Hartalega is fairly valued. However, any further sell-down represents good buying opportunity given its defensive earnings profile. The key risk lies in the intensifying competition, which could limit the cost pass-through and hence, erode margins.

### Company Description

Hartalega is the world's largest nitrile medical gloves producer.

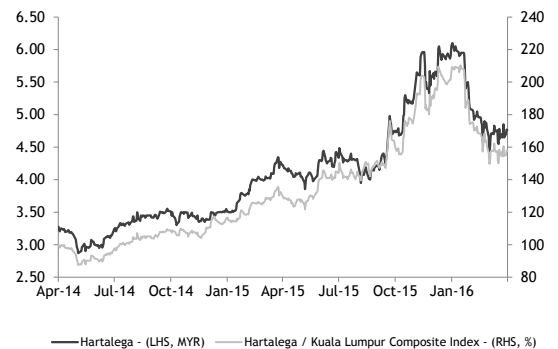
### Statistics

Shariah status	Yes
52w high/low (MYR)	6.10/3.86
3m avg turnover (USDm)	2.5
Free float (%)	38.7
Issued shares (m)	1,641
Market capitalisation	MYR7.8B USD2.0B

### Major shareholders:

Hartalega Industries Sdn. Bhd.	49.3%
Employees Provident Fund	7.7%
BNP Paribas Wealth Management	6.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(21)	13
Relative to index (%)	(2)	(24)	21

Source: FactSet

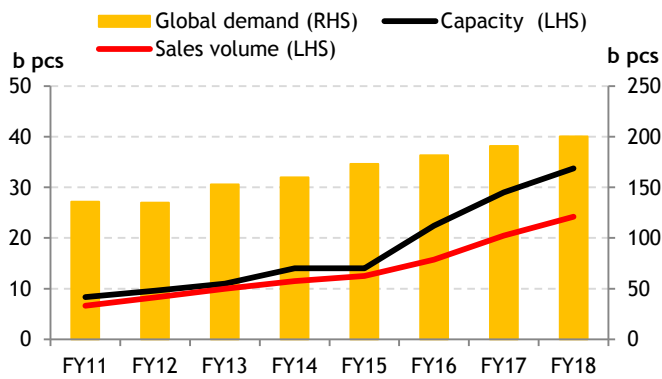
FYE Mar (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,107	1,146	1,494	1,833	2,085
EBITDA	354	322	414	503	579
Core net profit	233	210	275	326	369
Core FDEPS (sen)	15.7	13.4	16.6	19.7	22.3
Core FDEPS growth(%)	(2.0)	(15.1)	24.2	18.5	13.2
Net DPS (sen)	7.3	6.5	9.0	9.9	11.2
Core FD P/E (x)	30.3	35.6	28.7	24.2	21.4
P/BV (x)	7.5	5.8	5.3	4.8	4.3
Net dividend yield (%)	1.5	1.4	1.9	2.1	2.4
ROAE (%)	27.3	19.0	20.1	21.0	21.4
ROAA (%)	22.9	16.4	16.7	16.2	15.9
EV/EBITDA (x)	13.9	20.7	19.1	16.0	14.0
Net debt/equity (%)	net cash	net cash	5.6	14.7	15.9
Consensus net profit	-	-	275	326	369
MKE vs. Consensus (%)	-	-	0.0	(0.0)	0.0

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## Value Proposition

- World's largest nitrile medical glove manufacturer with a global nitrile glove market share of around 18%.
- Robust nitrile gloves demand (9M15 Malaysia export volume: +30% YoY) due to the rapid demand switch (from latex) and increasing outsourcing from MNCs.
- High barriers to entry for medical gloves which necessitate stringent compliance to regulatory requirements. Scale of business model makes ASPs highly competitive.
- Family-owned business but professionally-managed, with strong emphasis on technology, which leads to the industry's highest production efficiencies.
- Implements cost pass-through mechanism to reflect changes in USD/MYR and rubber prices.

### Expands capacity to capture robust demand growth

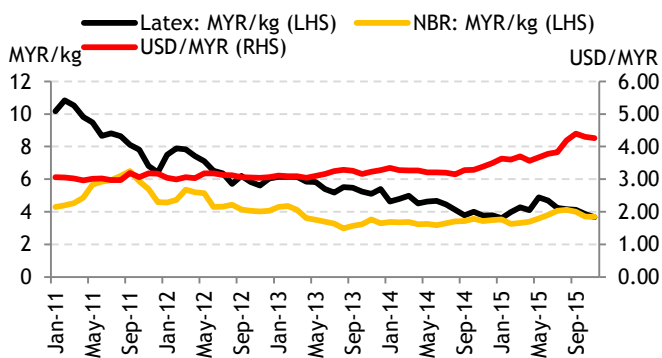


Source: Company

## Financial Metrics

- Second largest profit base (after Top Glove) with industry's highest EBITDA margins and ROEs.
- Anticipates 3-year EPS CAGR of 21% on the back of its new capacity and robust nitrile glove demand.
- Assuming no corresponding adjustments to ASPs, we estimate that every 1% increase in USD/MYR and NBR price will have 2% positive impact and 0.5% negative impact to our FY3/17 bottomline estimate respectively.

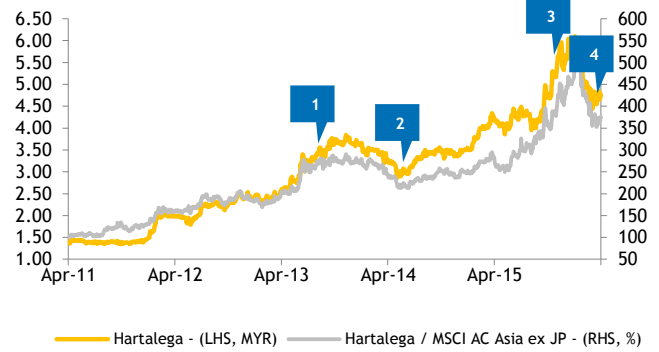
### Rubber prices and USD/MYR trends



Source: Company

## Price Drivers

### Hartalega: Share price trend



Source: Company, Maybank Kim Eng

1. Strong earnings growth in FY3/11-13 on volume growth and slight margin expansion on efficiencies and lower NBR price.
2. Earnings contracted in FY14-15 due to limited capacity expansion and high overhead incurred for its new manufacturing site NGC.
3. PER re-rated on sharp appreciation of USD against MYR and low rubber prices.
4. PER de-rated as MYR rebounded against USD.

## Swing Factors

### Upside

- A structural change in the lax regulatory requirements in developing markets which could accelerate the global glove demand growth.
- Lower-than-expected rubber prices and stronger-than-expected USD/MYR rates.
- Greater-than-expected direct government tender orders under TPPA.

### Downside

- Sharp fall in USD/MYR.
- Substantial rise in rubber prices.
- Intensified competition in nitrile glove segments, as a result of an industry-wide overexpansion.



FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	30.3	35.3	28.4	24.0	21.2
Core P/E (x)	30.3	35.3	28.4	24.0	21.2
Core FD P/E (x)	30.3	35.6	28.7	24.2	21.4
P/BV (x)	7.5	5.8	5.3	4.8	4.3
P/NTA (x)	7.5	5.9	5.4	4.9	4.4
Net dividend yield (%)	1.5	1.4	1.9	2.1	2.4
FCF yield (%)	2.0	2.2	nm	0.1	1.8
EV/EBITDA (x)	13.9	20.7	19.1	16.0	14.0
EV/EBIT (x)	15.9	24.2	22.9	19.6	17.4

**INCOME STATEMENT (MYR m)**

Revenue	1,107.2	1,146.0	1,493.7	1,833.4	2,085.3
Gross profit	442.9	458.4	597.5	733.4	834.1
EBITDA	353.6	321.6	413.7	503.5	579.4
Depreciation	(45.2)	(45.9)	(69.2)	(92.5)	(112.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	308.4	275.7	344.5	410.9	466.8
Net interest income / (exp)	0.8	1.2	(0.8)	(3.7)	(5.7)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	309.2	276.9	343.7	407.2	461.2
Income tax	(75.4)	(66.7)	(68.7)	(81.4)	(92.2)
Minorities	(0.5)	(0.5)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	233.2	209.7	274.9	325.8	368.9
Core net profit	233.2	209.7	274.9	325.8	368.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	170.5	70.4	73.7	67.0	67.9
Accounts receivable	142.5	198.7	258.9	317.9	361.5
Inventory	98.2	120.1	156.5	192.1	218.5
Property, Plant & Equip (net)	634.5	821.6	1,102.4	1,359.8	1,547.3
Intangible assets	6.7	20.6	20.6	20.6	20.6
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	52.3	226.7	226.7	226.7	226.7
<b>Total assets</b>	<b>1,104.6</b>	<b>1,458.0</b>	<b>1,838.8</b>	<b>2,184.0</b>	<b>2,442.5</b>
ST interest bearing debt	3.0	6.1	6.1	6.1	6.1
Accounts payable	87.1	109.2	142.3	174.6	198.6
LT interest bearing debt	1.8	0.3	150.3	300.3	350.3
Other liabilities	69.0	72.0	72.0	72.0	72.0
<b>Total Liabilities</b>	<b>160.6</b>	<b>187.3</b>	<b>370.5</b>	<b>552.8</b>	<b>626.8</b>
Shareholders Equity	942.7	1,269.0	1,466.6	1,629.5	1,814.0
Minority Interest	1.3	1.7	1.7	1.7	1.7
<b>Total shareholder equity</b>	<b>944.0</b>	<b>1,270.7</b>	<b>1,468.3</b>	<b>1,631.2</b>	<b>1,815.7</b>
<b>Total liabilities and equity</b>	<b>1,104.6</b>	<b>1,458.0</b>	<b>1,838.8</b>	<b>2,184.0</b>	<b>2,442.5</b>

**CASH FLOW (MYR m)**

Pretax profit	309.2	276.9	343.7	407.2	461.2
Depreciation & amortisation	45.2	45.9	69.2	92.5	112.5
Adj net interest (income)/exp	(0.8)	(1.2)	0.8	3.7	5.7
Change in working capital	(36.6)	(65.3)	(63.6)	(62.1)	(46.1)
Cash taxes paid	(70.5)	(69.6)	(68.7)	(81.4)	(92.2)
Other operating cash flow	0.8	17.6	0.0	0.0	0.0
Cash flow from operations	247.3	204.4	281.4	359.9	441.1
Capex	(105.9)	(38.6)	(350.0)	(350.0)	(300.0)
Free cash flow	141.5	165.8	(68.6)	9.9	141.1
Dividends paid	(107.6)	(105.0)	(147.7)	(162.9)	(184.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(7.5)	1.6	150.0	150.0	50.0
Other invest/financing cash flow	(47.7)	(163.3)	69.6	(3.7)	(5.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(21.3)	(100.9)	3.3	(6.7)	0.9

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	7.3	3.5	30.3	22.7	13.7
EBITDA growth	4.7	(9.0)	28.6	21.7	15.1
EBIT growth	0.8	(10.6)	24.9	19.3	13.6
Pretax growth	1.1	(10.4)	24.1	18.5	13.2
Reported net profit growth	(0.6)	(10.1)	31.1	18.5	13.2
Core net profit growth	(0.6)	(10.1)	31.1	18.5	13.2
<b>Profitability ratios (%)</b>					
EBITDA margin	31.9	28.1	27.7	27.5	27.8
EBIT margin	27.9	24.1	23.1	22.4	22.4
Pretax profit margin	27.9	24.2	23.0	22.2	22.1
Payout ratio	46.1	48.1	53.7	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	21.1	18.3	18.4	17.8	17.7
Revenue/Assets (x)	1.0	0.8	0.8	0.8	0.9
Assets/Equity (x)	1.2	1.1	1.3	1.3	1.3
ROAE (%)	27.3	19.0	20.1	21.0	21.4
ROAA (%)	22.9	16.4	16.7	16.2	15.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	43.4	53.6	55.1	56.6	58.6
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	2.2	2.1	1.9	2.0	2.0
Current ratio (x)	4.1	3.1	3.0	3.0	3.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	6.9	7.8	5.0	4.0	3.9
Net debt/equity (%)	net cash	net cash	5.6	14.7	15.9
Net interest cover (x)	na	na	nm	nm	82.4
Debt/EBITDA (x)	0.0	0.0	0.4	0.6	0.6
Capex/revenue (%)	9.6	3.4	23.4	19.1	14.4
Net debt/ (net cash)	(165.6)	(64.0)	82.7	239.4	288.5

Source: Company; Maybank

# Hong Leong Bank (HLBK MK)

## A sound balance sheet

# BUY

Share Price MYR 13.42  
 12m Price Target MYR 14.40 (+7%)  
 Previous Price Target MYR 14.40

### Domestic ops expanding at a stable pace

HL Bank's domestic operations continue to expand at a decent pace and with its highly liquid balance sheet and strong asset quality, the bank is one of the most prudently managed. The stabilization of credit costs at Bank of Chengdu (BOC) would be a re-rating catalyst. BUY maintained with a TP of MYR14.40.

### Strong underlying fundamentals

What stands out for HL Bank is its highly liquid balance sheet (loan/deposit ratio of 81.5% end-2015) and its strong retail deposit franchise (49% of total deposits vs industry's 37%). Moreover, its asset quality is one of the highest in the industry (gross NPL ratio of 0.86% vs the industry's 1.6%), while loan loss coverage is very comfortable at 171% including regulatory reserves. Management estimates MYR109m worth of cost savings per annum from its recent mutual separation scheme.

### Peaking of credit costs for BOC?

Profit contribution from 20%-owned BOC declined 22% YoY in 1HFY16, making up 12% of group pretax profit before MSS costs. This was largely due to NIM compression from interest rate cuts in China, coupled with higher credit costs. Positively though, BOC's gross NPL ratio appears to have stabilized at about 2.3% while loan loss coverage is comfortable at about 162%. While still early days, the peaking of credit costs for BOC would be positive for group earnings momentum moving forward.

### BUY maintained, TP MYR14.40

Following the group's recent rights issue, HL Bank's capital ratios have been significantly enhanced and are now comfortable. The group's fully loaded CET1 ratio stood at 11.6% as at end-2015 while the commercial bank's ratio was about 11.1%. For its impeccable asset quality, liquid balance sheet and comfortable capital position, HL Bank is a BUY with a TP of MYR14.40, pegged to a 2016 P/BV target of 1.4x (ROE: 10.2%).

### Company Description

Hong Leong Bank offers integrated financial services and is predominantly a retail bank. It also holds a 20% stake in Bank of Chengdu, China.

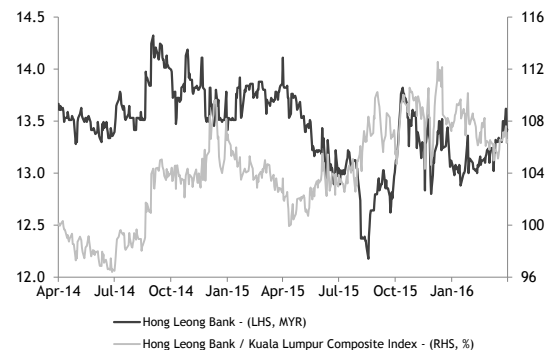
### Statistics

52w high/low (MYR)	14.11/12.18
3m avg turnover (USDm)	3.0
Free float (%)	216,771.9
Issued shares (m)	2,168
Market capitalisation	MYR29.1B USD7.4B

### Major shareholders:

Hong Leong Financial Group Bhd.	60.9%
Employees Provident Fund	13.5%
Hong Leong Bank Bhd.	3.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	2	2	(3)
Relative to index (%)	0	(1)	4

Source: FactSet

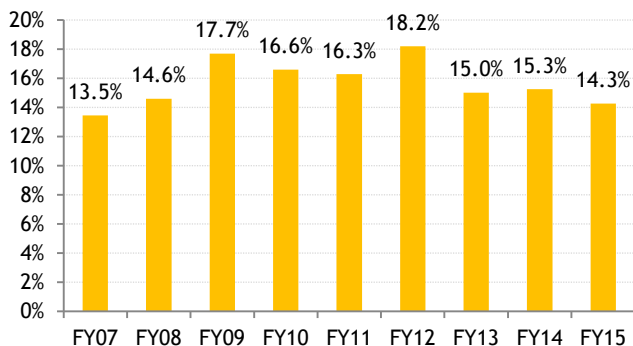
FYE Jun (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Operating income	4,039	4,067	4,365	4,610	4,853
Pre-provision profit	2,247	2,253	2,499	2,769	2,953
Core net profit	2,102	2,233	2,095	2,198	2,289
Core EPS (MYR)	1.23	1.31	1.09	1.05	1.10
Core EPS growth (%)	12.8	5.9	(16.2)	(3.7)	4.1
Net DPS (MYR)	0.41	0.41	0.34	0.35	0.36
Core P/E (x)	10.9	10.3	12.3	12.7	12.2
P/BV (x)	1.7	1.5	1.4	1.3	1.3
Net dividend yield (%)	3.1	3.1	2.6	2.6	2.7
Book value (MYR)	7.73	8.93	9.73	10.18	10.66
ROAE (%)	15.3	14.3	11.1	10.2	10.1
ROAA (%)	1.3	1.3	1.1	1.1	1.1
Consensus net profit	-	-	1,966	2,198	2,332
MKE vs. Consensus (%)	-	-	6.5	0.0	(1.8)

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## Value Proposition

- Malaysia’s fifth largest bank in terms of asset size but it has the third largest bank branch network in the country.
- The group’s largest overseas exposure is via 20%-owned Bank of Chengdu, China.
- Asset quality is impeccable and its NPL ratio is the second lowest among the conventional banks, after Public Bank, while its loan loss coverage is one of the highest.
- A conservative owner-run bank with Tan Sri Quek Leng Chan holding an effective 64.5% stake.

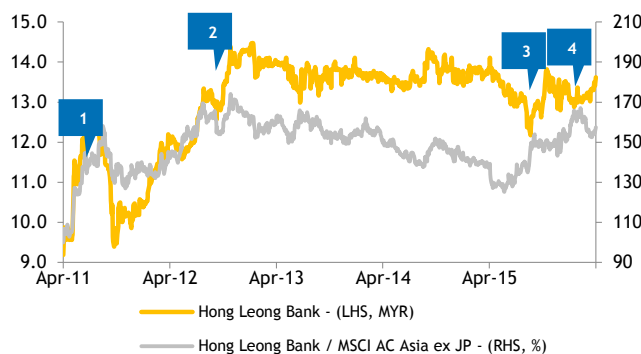
### ROAE trends



Source: Company

## Price Drivers

### Hong Leong Bank’s price chart



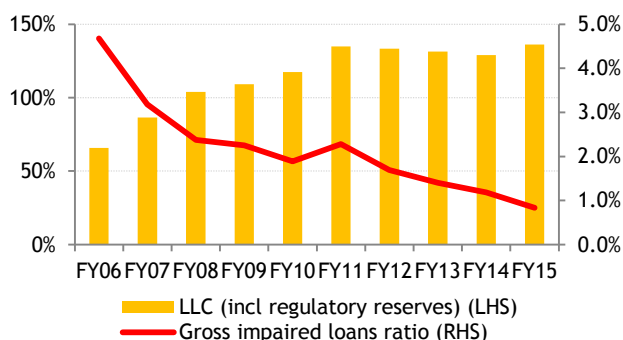
Source: Company, Maybank Kim Eng

1. Completed of the acquisition of EON Capital’s assets and liabilities for MYR5.3b.
2. FY12 group earnings up a strong 45% YoY with a full-year’s contributions from EON Capital.
3. Proposed rights issue to raise up to MYR3b for working capital purposes.
4. Announced Mutual Separation Scheme to improve efficiencies.

## Financial Metrics

- Management targets mid to high single digit loan growth in FY16, led by mortgages and working capital lines.
- NIM guidance is for a 5-10bps compression in FY16. At <2%, HL Bank’s NIM is one of the lowest in the industry, but this is mainly due to its lower asset utilization.
- Having recently recapitalized, capital ratios are comfortable.

### Gross impaired loans ratio and loan loss coverage



Source: Company

## Swing Factors

### Upside

- Better-than-expected asset utilization - there is room to do so, given the bank’s low loan/deposit ratio.
- Increased wealth management focus and cross-selling activity with Hong Leong Assurance and MSIG Insurance.
- Better-than-expected cost efficiencies from the bank’s recent Mutual Separation Scheme.
- A more aggressive growth strategy, given the recent appointment of a new CEO.

### Downside

- Increased asset quality and provisioning risks at Bank of Chengdu, if China’s economy slows much faster than expected.
- Reduced forex income from lower currency volatility.
- Much slower-than-expected loan growth, which would place further pressure on NIMs.

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FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
Core P/E (x)	10.9	10.3	12.3	12.7	12.2
Core FD P/E (x)	10.9	10.3	12.3	12.7	12.2
P/BV (x)	1.7	1.5	1.4	1.3	1.3
P/NTA (x)	1.9	1.6	1.5	1.4	1.3
Net dividend yield (%)	3.1	3.1	2.6	2.6	2.7

**INCOME STATEMENT (MYR m)**

Interest income	5,649.7	6,104.5	6,373.3	6,805.7	7,189.4
Interest expense	(2,987.5)	(3,363.3)	(3,490.7)	(3,709.3)	(3,922.7)
<b>Net interest income</b>	<b>2,662.2</b>	<b>2,741.2</b>	<b>2,882.5</b>	<b>3,096.4</b>	<b>3,266.7</b>
Islamic banking income	434.4	419.8	440.7	462.8	485.9
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	594.8	600.7	588.7	618.2	649.1
Other income	347.6	305.3	453.2	432.4	451.3
<b>Total non-interest income</b>	<b>942.5</b>	<b>906.0</b>	<b>1,041.9</b>	<b>1,050.5</b>	<b>1,100.3</b>
<b>Operating income</b>	<b>4,039.1</b>	<b>4,066.9</b>	<b>4,365.2</b>	<b>4,609.8</b>	<b>4,852.9</b>
Staff costs	(948.3)	(1,011.5)	(1,062.1)	(1,028.0)	(1,079.4)
Other operating expenses	(843.9)	(802.3)	(804.5)	(812.3)	(820.3)
<b>Operating expenses</b>	<b>(1,792.2)</b>	<b>(1,813.9)</b>	<b>(1,866.6)</b>	<b>(1,840.4)</b>	<b>(1,899.8)</b>
<b>Pre-provision profit</b>	<b>2,246.8</b>	<b>2,253.1</b>	<b>2,498.6</b>	<b>2,769.4</b>	<b>2,953.2</b>
Loan impairment allowances	(52.1)	51.9	(199.8)	(278.2)	(354.1)
Other allowances	39.8	23.5	0.0	0.0	0.0
Associates & JV income	378.6	417.7	261.9	239.7	244.4
<b>Pretax profit</b>	<b>2,613.2</b>	<b>2,746.2</b>	<b>2,560.6</b>	<b>2,730.9</b>	<b>2,843.5</b>
Income tax	(511.0)	(513.0)	(465.8)	(532.5)	(554.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>2,102.3</b>	<b>2,233.2</b>	<b>2,094.8</b>	<b>2,198.4</b>	<b>2,289.0</b>
<b>Core net profit</b>	<b>2,102.3</b>	<b>2,233.2</b>	<b>2,094.8</b>	<b>2,198.4</b>	<b>2,289.0</b>

**BALANCE SHEET (MYR m)**

Cash & deposits with banks	18,753.1	10,212.4	10,954.9	11,763.3	12,643.9
Sec. under resale agreements	2,717.0	12,163.3	4,525.3	4,615.8	4,154.2
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	11,314.5	7,131.4	7,559.3	7,105.8	7,532.1
Available-for-sale securities	25,593.8	30,257.4	35,671.1	38,524.8	41,606.8
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	102,579.1	112,124.1	120,317.3	127,230.3	134,557.0
Central bank deposits	3,150.6	3,476.2	4,352.3	4,604.0	4,870.8
Investment in associates/JVs	2,063.3	2,977.8	3,160.4	3,324.8	3,490.8
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	725.6	678.6	760.0	851.2	953.4
Intangible assets	2,179.1	2,149.4	2,149.4	2,149.4	2,149.4
Other assets	1,274.8	2,849.1	2,778.9	3,439.0	2,936.5
<b>Total assets</b>	<b>170,350.8</b>	<b>184,019.7</b>	<b>192,229.0</b>	<b>203,608.4</b>	<b>214,894.8</b>
Deposits from customers	130,252.3	140,276.1	146,728.4	155,158.9	164,093.9
Deposits from banks & FIs	7,111.3	7,096.2	7,451.0	7,823.6	8,214.8
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	4,868.4	4,619.8	2,320.1	2,320.1	2,320.1
Other securities in issue	3,888.2	4,227.5	4,531.6	4,791.1	5,076.6
Other borrowings	4,116.9	3,691.3	3,875.9	4,069.7	4,273.2
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	5,583.5	7,319.1	6,227.2	7,377.3	7,814.9
<b>Total liabilities</b>	<b>155,820.6</b>	<b>167,230.1</b>	<b>171,134.2</b>	<b>181,540.6</b>	<b>191,793.4</b>
Share capital	1,879.9	1,879.9	2,167.7	2,167.7	2,167.7
Reserves	12,650.3	14,909.7	18,927.1	19,900.0	20,933.7
Shareholders' funds	14,530.2	16,789.6	21,094.8	22,067.7	23,101.4
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	0.0	0.0	0.0	0.0	0.0
Total equity	14,530.2	16,789.6	21,094.8	22,067.7	23,101.4
<b>Total liabilities &amp; equity</b>	<b>170,350.8</b>	<b>184,019.7</b>	<b>192,229.0</b>	<b>203,608.4</b>	<b>214,894.8</b>

FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	5.9	3.0	5.2	7.4	5.5
Non-interest income	(9.2)	(3.9)	15.0	0.8	4.7
Operating expenses	(3.0)	1.2	2.9	(1.4)	3.2
Pre-provision profit	4.0	0.3	10.9	10.8	6.6
Core net profit	13.3	6.2	(6.2)	4.9	4.1
Gross loans	7.2	8.9	7.3	5.8	5.8
Customer deposits	5.4	7.7	4.6	5.7	5.8
Total assets	4.1	8.0	4.5	5.9	5.5
<b>Profitability (%)</b>					
Non-int. income/Total income	23.3	22.3	23.9	22.8	22.7
Average lending yields	3.65	3.75	3.56	3.57	3.58
Average cost of funds	2.08	2.28	2.20	2.24	2.24
Net interest margin	2.00	1.94	1.86	1.87	1.87
Cost/income	44.4	44.6	42.8	39.9	39.1
<b>Liquidity (%)</b>					
Loans/customer deposits	78.8	79.9	82.0	82.0	82.0
<b>Asset quality (%)</b>					
Net NPL	0.7	0.6	0.6	0.7	0.7
Gross NPL	1.2	0.8	0.9	1.0	1.0
(SP+GP)/average gross loans	0.1	(0.0)	0.2	0.2	0.3
Loan loss coverage	128.9	136.3	129.7	124.5	119.7
<b>Capital adequacy (%)</b>					
CET1	9.3	9.5	12.1	13.0	13.8
Tier 1 capital	12.3	12.3	13.9	13.9	13.9
Risk-weighted capital	15.1	15.1	14.9	15.6	16.3
<b>Returns (%)</b>					
ROAE	15.3	14.3	11.1	10.2	10.1
ROAA	1.3	1.3	1.1	1.1	1.1
Shareholders equity/assets	8.5	9.1	11.0	10.8	10.8

Source: Company; Maybank

# IHH Healthcare (IHH MK)

## Sustaining healthy growth

### Leading premium healthcare provider

IHH is the leading provider of premium healthcare services and it is the world's second largest listed private healthcare provider by market capitalisation. Earnings growth will be supported by new hospitals and recent acquisitions, while new markets in China, Hong Kong and India will provide further impetus for growth. Valuations, however, are already at a premium to peers. HOLD maintained.

### Expansions and ramping up to drive growth

Robust pipeline of more than 3,000 beds (+43%) in 19 hospitals is expected to sustain IHH's growth. In addition, new hospitals and acquisitions in 2012-2015 will also ramp up earnings. New hospitals include Acibadem Atakent Hospital (Jan 2014), Pantai Hospital Manjung (May 2014), Gleneagles Kota Kinabalu (May 2015), Taksim Hospital (Oct 2015) and Gleneagles Medini Hospital (Nov 2015). Acquisitions include Continental (Mar 2015) and Global Hospitals (Dec 2015).

### HK in 2017, India & China from 2020

The opening of Gleneagles Hong Kong (500 beds) in 1Q17 should contribute to medium term prospects. Ramping up should be quick, based on HK's demand/supply dynamics and superior pricing. The hospital will be Hong Kong's first private hospital in three decades. Partnership with The University of Hong Kong should ensure a steady supply of doctors. Beyond 2020, expansion in China and India should lead growth. Strong cash flows in home markets, especially Singapore, and a net gearing of <25% are expected to provide headroom for expansion.

### Positives are priced in

Maintain HOLD and SOTP TP of MYR6.13 as we believe the positives are in the price. We caution on MYR rebound and significant start-up costs of new projects. IHH trades at 55x FY16 P/E vs peers' 42x average.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	7,344	8,455	10,547	12,281	13,396
EBITDA	1,943	2,219	2,663	3,066	3,358
Core net profit	785	899	1,012	1,210	1,338
Core FDEPS (sen)	9.5	10.9	12.2	14.6	16.2
Core FDEPS growth(%)	28.5	14.5	11.9	19.6	10.6
Net DPS (sen)	3.0	3.0	3.0	3.5	3.5
Core FD P/E (x)	70.0	61.1	54.6	45.7	41.3
P/BV (x)	2.8	2.5	2.4	2.3	2.2
Net dividend yield (%)	0.4	0.4	0.4	0.5	0.5
ROAE (%)	4.2	4.3	4.5	5.1	5.4
ROAA (%)	2.8	2.8	2.8	3.2	3.4
EV/EBITDA (x)	22.1	27.4	23.6	20.6	18.4
Net debt/equity (%)	9.3	21.1	24.6	23.4	15.7
Consensus net profit	-	-	1,062	1,280	1,503
MKE vs. Consensus (%)	-	-	(4.8)	(5.5)	(11.0)

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# HOLD

Share Price	MYR 6.68
12m Price Target	MYR 6.13 (-8%)
Previous Price Target	MYR 6.13

### Company Description

IHH Healthcare Bhd. is an investment holding company, which provides healthcare services.

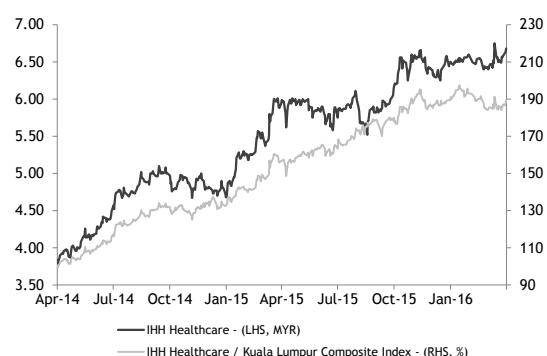
### Statistics

Shariah status	Yes
52w high/low (MYR)	6.75/5.52
3m avg turnover (USDm)	12.0
Free float (%)	35.6
Issued shares (m)	8,224
Market capitalisation	MYR54.9B USD14.0B

### Major shareholders:

Khazanah Nasional	44.0%
Mitsui & Co	20.3%
Employees Provident Fund	9.3%

### Price Performance



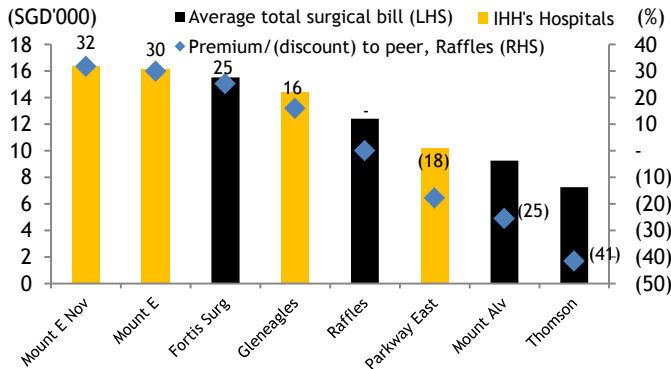
	-1M	-3M	-12M
Absolute (%)	4	3	12
Relative to index (%)	3	(0)	21

Source: FactSet

## Value Proposition

- Healthcare leader in the early stages of its life cycle, with a strong brand, superior pricing power and premium market positioning to capture growing demand.
- Operating and expansion track record in undeveloped and emerging markets without medical-pricing regulations.
- Huge initial capex on prime land, state-of-the-art hospitals and long gestation dragged ROEs below 5%. Returns to improve over time.
- Best-in-class facilities appeal to price-insensitive customers and attract best medical talents.

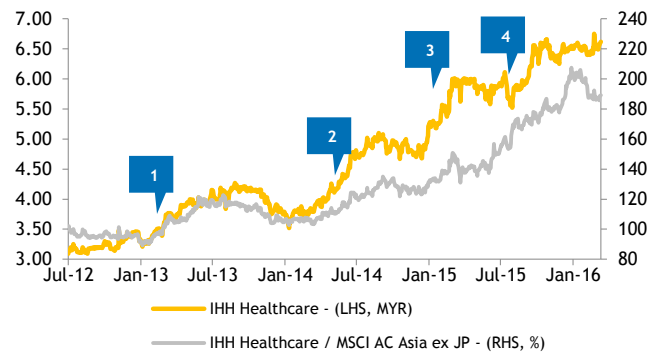
### Pricing power superior to peers'; IHH charges 16-32% more



Source: Singapore Ministry of Health, Maybank KE

## Price Drivers: earnings & expansion

### Historical share price



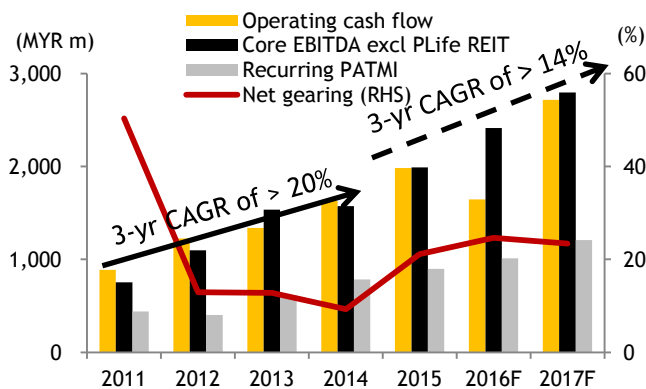
Source: Company, Maybank Kim Eng

- 4Q12 core PATMI grew 38% YoY vs a 19% decline in 3Q12, from consolidation of Turkish subsidiary and lower start-up losses for new Singapore hospital.
- 4Q13/FY13 core PATMI grew 100%/52% YoY, as two new hospitals started in 3Q12 were ramped up. Generated positive EBITDA for the first time.
- 4Q14/FY14 core PATMI grew 42%/29% YoY with improved operations, ramp-up of three new hospitals started in 2012 and better operating leverage.
- In Aug 2015, IHH proposed acquisition of Global Hospitals, a leading private-hospital chain in India.

## Financial Metrics

- Operating cash flow, core EBITDA and recurring PATMI grew by 3-year CAGR of >20%. Low gearing of <25% provides headroom for growth.
- More than 3,000 new beds in the pipeline, to add to current 7,000. Will continue to ramp up hospitals opened in 2012-2015.
- Next leg of growth: Gleneagles HK in 2017-2020. Beyond that, China and India expansion.

### Operating cash flow, core EBITDA, core PATMI & gearing



Source: Company, Maybank KE

## Swing Factors

### Upside

- Faster-than-expected ramp-up of new beds.
- Expansion beyond its existing pipeline.
- Continued weakening of MYR, especially against SGD.

### Downside

- Regulatory risks, including caps on healthcare pricing and restrictions on foreign doctors.
- Strengthening of MYR against SGD and other currencies will lead to translation losses.
- Geopolitical risks in less-stable emerging markets such as Turkey, Iraq and UAE.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	72.3	58.7	54.3	45.4	41.1
Core P/E (x)	69.5	60.9	54.3	45.4	41.1
Core FD P/E (x)	70.0	61.1	54.6	45.7	41.3
P/BV (x)	2.8	2.5	2.4	2.3	2.2
P/NTA (x)	7.0	6.3	5.8	5.3	4.8
Net dividend yield (%)	0.4	0.4	0.4	0.5	0.5
FCF yield (%)	1.5	1.2	nm	1.3	4.3
EV/EBITDA (x)	22.1	27.4	23.6	20.6	18.4
EV/EBIT (x)	32.2	39.7	33.3	28.8	26.0

**INCOME STATEMENT (MYR m)**

Revenue	7,344.0	8,455.5	10,547.2	12,281.2	13,396.2
EBITDA	1,943.0	2,218.7	2,663.1	3,065.6	3,357.7
Depreciation	(540.6)	(629.0)	(700.9)	(800.6)	(912.6)
Amortisation	(66.9)	(60.4)	(72.8)	(72.2)	(71.6)
EBIT	1,335.5	1,529.3	1,889.4	2,192.8	2,373.6
Net interest income / (exp)	(124.2)	(326.0)	(304.1)	(312.4)	(289.6)
Associates & JV	9.9	14.3	11.0	12.0	13.0
Pretax profit	1,221.2	1,217.5	1,596.3	1,892.4	2,097.0
Income tax	(277.9)	(165.4)	(364.6)	(432.5)	(479.3)
Minorities	(189.0)	(118.2)	(220.0)	(250.0)	(280.0)
Reported net profit	754.3	933.9	1,011.7	1,209.9	1,337.7
Core net profit	785.0	899.2	1,011.7	1,209.9	1,337.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,467.8	1,977.9	1,685.5	1,747.6	3,445.2
Accounts receivable	1,027.5	1,234.3	1,589.3	1,850.6	2,018.6
Inventory	171.7	218.8	272.6	317.4	344.9
Property, Plant & Equip (net)	9,148.5	11,435.9	12,735.0	13,934.4	13,621.9
Intangible assets	11,692.4	13,609.7	13,586.9	13,564.7	13,543.2
Investment in Associates & JVs	183.4	226.6	226.6	226.6	226.6
Other assets	3,949.0	6,787.5	6,780.3	6,780.3	6,780.3
<b>Total assets</b>	<b>28,640.3</b>	<b>35,490.7</b>	<b>36,876.2</b>	<b>38,421.6</b>	<b>39,980.6</b>
ST interest bearing debt	676.5	373.9	373.9	373.9	373.9
Accounts payable	1,390.6	2,555.5	2,271.3	2,644.7	2,873.8
LT interest bearing debt	3,592.8	6,322.5	7,000.0	7,000.0	7,000.0
Other liabilities	1,667.0	1,825.0	1,826.0	1,826.0	1,826.0
<b>Total Liabilities</b>	<b>7,326.9</b>	<b>11,077.4</b>	<b>11,470.7</b>	<b>11,844.1</b>	<b>12,073.2</b>
Shareholders Equity	19,451.7	22,339.6	23,104.5	24,026.6	25,076.4
Minority Interest	1,861.7	2,081.0	2,301.0	2,551.0	2,831.0
<b>Total shareholder equity</b>	<b>21,313.4</b>	<b>24,420.5</b>	<b>25,405.5</b>	<b>26,577.6</b>	<b>27,907.4</b>
<b>Total liabilities and equity</b>	<b>28,640.3</b>	<b>35,497.9</b>	<b>36,876.2</b>	<b>38,421.6</b>	<b>39,980.6</b>

**CASH FLOW (MYR m)**

Pretax profit	1,221.2	1,217.5	1,596.3	1,892.4	2,097.0
Depreciation & amortisation	607.5	689.4	773.7	872.8	984.1
Change in working capital	(11.4)	117.8	(685.9)	67.3	33.6
Cash taxes paid	(202.9)	(314.6)	(364.6)	(432.5)	(479.3)
Other operating cash flow	17.2	277.6	328.1	319.8	318.8
Cash flow from operations	1,631.6	1,987.7	1,647.6	2,719.8	2,954.2
Capex	(830.4)	(1,357.2)	(2,000.0)	(2,000.0)	(600.0)
Free cash flow	801.2	630.6	(352.4)	719.8	2,354.2
Dividends paid	(163.5)	1.0	(246.7)	(287.8)	(287.8)
Equity raised / (purchased)	82.6	88.4	0.0	0.0	0.0
Change in Debt	(179.1)	1,192.7	677.5	0.0	0.0
Other invest/financing cash flow	(343.4)	(1,794.9)	(370.8)	(369.8)	(368.8)
Effect of exch rate changes	(35.7)	96.2	0.0	0.0	0.0
Net cash flow	162.0	214.0	(292.5)	62.1	1,697.6

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	8.7	15.1	24.7	16.4	9.1
EBITDA growth	11.0	14.2	20.0	15.1	9.5
EBIT growth	16.2	14.5	23.6	16.1	8.2
Pretax growth	38.5	(0.3)	31.1	18.5	10.8
Reported net profit growth	19.5	23.8	8.3	19.6	10.6
Core net profit growth	28.6	14.6	12.5	19.6	10.6
<b>Profitability ratios (%)</b>					
EBITDA margin	26.5	26.2	25.2	25.0	25.1
EBIT margin	18.2	18.1	17.9	17.9	17.7
Pretax profit margin	16.6	14.4	15.1	15.4	15.7
Payout ratio	32.5	26.3	24.4	23.8	21.5
<b>DuPont analysis</b>					
Net profit margin (%)	10.3	11.0	9.6	9.9	10.0
Revenue/Assets (x)	0.3	0.2	0.3	0.3	0.3
Assets/Equity (x)	1.5	1.6	1.6	1.6	1.6
ROAE (%)	4.2	4.3	4.5	5.1	5.4
ROAA (%)	2.8	2.8	2.8	3.2	3.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	49.7	48.2	48.2	50.4	52.0
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	3.1	3.8	4.1	4.2	4.6
Current ratio (x)	1.6	1.4	1.6	1.5	2.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.9	3.2	3.2	3.2	3.3
Net debt/equity (%)	9.3	21.1	24.6	23.4	15.7
Net interest cover (x)	10.8	4.7	6.2	7.0	8.2
Debt/EBITDA (x)	2.2	3.0	2.8	2.4	2.2
Capex/revenue (%)	11.3	16.1	19.0	16.3	4.5
Net debt/ (net cash)	1,801.5	4,718.5	5,688.4	5,626.3	3,928.7

Source: Company; Maybank

# IJM Corporation (IJM MK)

## Riding on robust construction activities

### Positives largely priced in

IJM's forward earnings growth will ride on its record high construction orderbook and growing FFB production, offsetting slower property sales. Unlocking the value of its prized assets which include, among others, property landbank and infrastructure concessions, would provide upside to valuation. Maintain HOLD for now due to limited near-term upside to our SOP-based TP of MYR3.60.

### Construction to be key earnings driver

IJM's construction orderbook stood at a record MYR6.9b as at end-Dec 2015 and potential job wins from major infrastructure projects including rail and highway projects, would lift this further. Its young oil palm plantation is also set to deliver strong FFB output growth. Hence, its construction, building material and plantation divisions will drive earnings growth over the near to medium term, offsetting the slowdown in property earnings due to weakened sales.

### Latent value to be unlocked

IJM's strategic property landbank, which has high capital appreciation potential, and the latent value of its growing domestic infrastructure concessions, would provide upside to its valuation. It has monetised most of its major highways in India since Mar 2013. Monetisation of its domestic infrastructure assets via a separate listing of these assets would unlock further value.

### SOP valuation

Since IJM is a diversified conglomerate, we value IJM on an SOP basis by applying target PERs to its construction, building materials and plantation businesses while its infrastructure and property operations are valued using DCF.

FYE Mar (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	6,006	5,448	6,260	7,048	7,433
EBITDA	1,540	1,441	1,210	1,303	1,598
Core net profit	539	536	572	621	797
Core EPS (sen)	19.2	16.5	16.0	17.4	22.3
Core EPS growth (%)	23.7	(14.1)	(2.9)	8.6	28.4
Net DPS (sen)	12.5	7.5	7.5	7.5	7.5
Core P/E (x)	18.9	22.0	22.6	20.8	16.2
P/BV (x)	1.5	1.4	1.5	1.4	1.3
Net dividend yield (%)	3.5	2.1	2.1	2.1	2.1
ROAE (%)	8.7	7.1	6.6	6.9	8.4
ROAA (%)	3.2	2.8	2.8	3.0	3.7
EV/EBITDA (x)	9.4	11.9	14.9	13.7	11.0
Net debt/equity (%)	53.4	51.4	43.6	39.6	32.4
Consensus net profit	-	-	657	741	837
MKE vs. Consensus (%)	-	-	(13.0)	(16.2)	(4.7)

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# HOLD

Share Price MYR 3.62  
 12m Price Target MYR 3.60 (-1%)  
 Previous Price Target MYR 3.60

### Company Description

*IJM Corp. is a conglomerate with operations in construction, property development, manufacturing and quarrying, plantation, and infrastructure.*

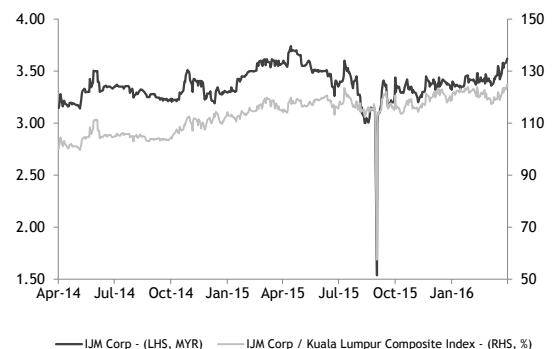
### Statistics

Shariah status	Yes
52w high/low (MYR)	3.74/1.54
3m avg turnover (USDm)	4.7
Free float (%)	61.0
Issued shares (m)	3,573
Market capitalisation	MYR12.9B USD3.3B

### Major shareholders:

Employees Provident Fund	14.6%
Lembaga Tabung Haji	5.5%
Kumpulan Wang Persaraan	5.0%

### Price Performance



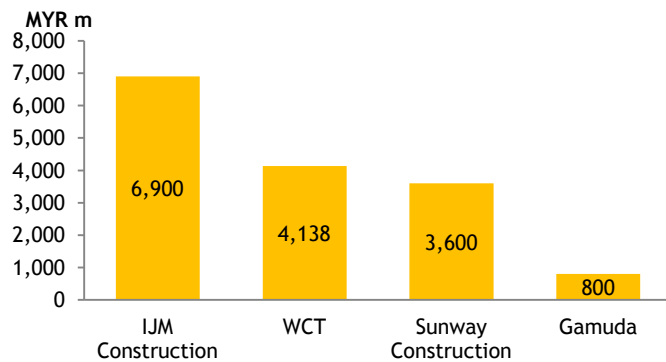
	-1M	-3M	-12M
Absolute (%)	6	8	1
Relative to index (%)	5	5	9

Source: FactSet

## Value Proposition

- Diversified conglomerate in construction (18% of FY15 pretax profit), building materials (12%), property development (49%), plantations (9%), infra concessions.
- The construction and building material divisions are benefiting from the robust infrastructure sector but this has been offset by the slowdown in the property sector.
- Its record high construction orderbook would further benefit from upcoming infrastructure awards while the building material division would ride on these upticks.
- In the long run, cyclical earnings from construction and property divisions would be cushioned by steadily growing earnings from plantation and infrastructure concessions.
- There is latent value in its prized assets including its Kuantan Port that is doubling its capacity, highways concessions and strategically located property landbank.

### IJM has the highest construction orderbook as at Dec 2015

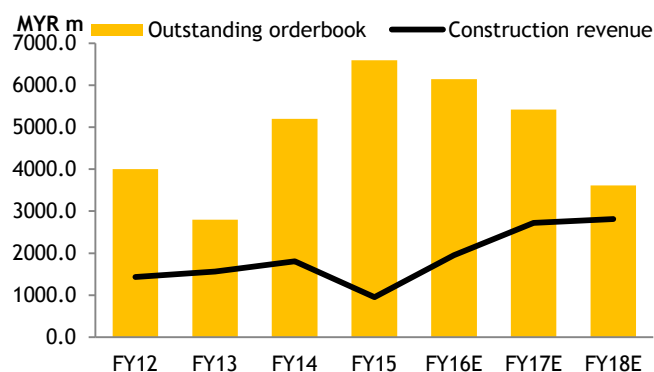


Source: Company

## Financial Metrics

- With IJM's strong orderbook, the construction and building materials divisions would be its key earnings driver.
- Replenishment of orderbook could come from KVMRT 2, KVLRT 3, Pan Borneo Highway and other highways.
- Growing FFB production and Kuantan Port's expansion would also support earnings growth, offset by the slowdown in property earnings.
- Balance sheet is healthy despite 0.5x net gearing as 80% of its debts are non-recourse debts.

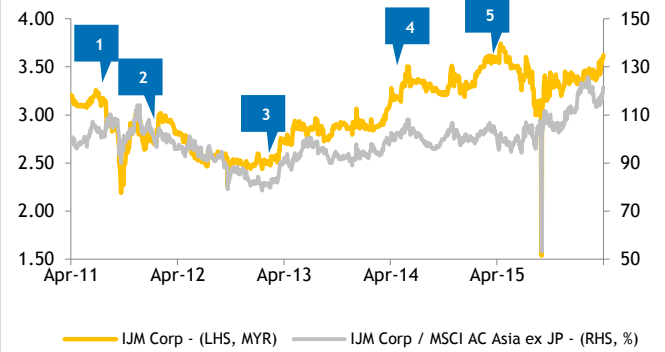
### Strong orderbook to drive earnings growth



Source: Company

## Price Drivers

### Share price performance



Source: Company, Maybank Kim Eng

1. Major provisions in construction led to losses in 4QFY11.
2. Major MYR974m job win from KVMRT 1.
3. Signs West Coast Expressway (WCE; 38.4% owned) concession.
4. Announced privatisation of IJM Land.
5. IJM Land privatisation completed.

## Swing Factors

### Upside

- Higher-than-expected construction job wins from ongoing project tenders.
- A recovery in consumer sentiment and therefore demand for properties, which would spur property sales.
- Better-than-expected CPO prices or higher-than-expected production to drive palm oil revenue.

### Downside

- Delay in implementation of key infrastructure projects.
- Lower-than-expected property sales.
- Extended suspension of bauxite mining in Kuantan would affect throughput volumes at its Kuantan Port.
- Any slowdown in FFB production as a result of bad weather.

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	12.3	24.5	22.6	20.8	16.2
Core P/E (x)	18.9	22.0	22.6	20.8	16.2
P/BV (x)	1.5	1.4	1.5	1.4	1.3
P/NTA (x)	0.8	0.7	0.6	0.6	0.6
Net dividend yield (%)	3.5	2.1	2.1	2.1	2.1
FCF yield (%)	1.3	2.6	8.5	5.1	6.6
EV/EBITDA (x)	9.4	11.9	14.9	13.7	11.0
EV/EBIT (x)	10.8	14.5	19.0	17.3	13.3

**INCOME STATEMENT (MYR m)**

Revenue	6,006.5	5,448.3	6,259.6	7,048.1	7,432.7
Gross profit	1,337.9	1,182.5	946.3	1,033.2	1,322.1
EBITDA	1,540.4	1,440.9	1,210.2	1,302.9	1,597.8
Depreciation	(97.0)	(109.9)	(115.4)	(121.1)	(127.2)
Amortisation	(105.6)	(148.6)	(148.6)	(148.6)	(148.6)
EBIT	1,337.9	1,182.5	946.3	1,033.2	1,322.1
Net interest income / (exp)	(54.0)	(77.4)	(88.6)	(100.9)	(114.4)
Associates & JV	(140.4)	(30.3)	15.3	16.3	16.3
Exceptionals	290.6	(55.4)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,416.3	1,019.4	873.1	948.7	1,224.0
Income tax	(340.7)	(306.3)	(223.0)	(242.4)	(314.0)
Minorities	(246.1)	(232.1)	(78.4)	(85.5)	(112.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	829.6	480.9	571.7	620.8	797.1
Core net profit	539.0	536.3	571.7	620.8	797.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,007.7	1,818.7	2,210.4	2,191.7	2,470.7
Accounts receivable	2,318.2	2,424.3	2,871.0	3,232.6	3,409.1
Inventory	592.8	783.9	1,009.9	1,149.0	1,167.0
Property, Plant & Equip (net)	1,590.1	1,726.8	1,861.5	1,990.3	2,113.1
Intangible assets	3,719.1	3,372.0	3,372.0	3,372.0	3,372.0
Investment in Associates & JVs	1,495.6	1,268.5	1,283.8	1,300.1	1,316.5
Other assets	6,675.0	8,336.5	7,966.4	7,968.9	7,971.4
<b>Total assets</b>	<b>18,398.5</b>	<b>19,730.7</b>	<b>20,575.0</b>	<b>21,204.8</b>	<b>21,819.8</b>
ST interest bearing debt	2,331.6	1,989.4	1,989.4	1,989.4	1,989.4
Accounts payable	2,038.1	2,014.5	2,496.9	2,826.2	2,925.3
LT interest bearing debt	3,273.9	4,158.1	4,058.1	3,858.1	3,658.1
Other liabilities	1,805.0	1,993.0	2,006.0	2,001.0	2,008.0
<b>Total Liabilities</b>	<b>9,448.2</b>	<b>10,155.2</b>	<b>10,550.4</b>	<b>10,674.8</b>	<b>10,580.7</b>
Shareholders Equity	6,738.8	8,429.6	8,800.4	9,220.2	9,816.4
Minority Interest	2,211.5	1,145.9	1,224.3	1,309.7	1,422.7
<b>Total shareholder equity</b>	<b>8,950.3</b>	<b>9,575.5</b>	<b>10,024.6</b>	<b>10,530.0</b>	<b>11,239.0</b>
<b>Total liabilities and equity</b>	<b>18,398.5</b>	<b>19,730.7</b>	<b>20,575.0</b>	<b>21,204.8</b>	<b>21,819.8</b>

**CASH FLOW (MYR m)**

Pretax profit	1,416.3	1,019.4	873.1	948.7	1,224.0
Depreciation & amortisation	202.6	258.4	263.9	269.7	275.8
Adj net interest (income)/exp	54.0	77.4	88.6	100.9	114.4
Change in working capital	(1,156.4)	(529.1)	360.7	(157.2)	(183.8)
Cash taxes paid	(340.7)	(306.3)	(223.0)	(242.4)	(314.0)
Other operating cash flow	140.4	30.3	(15.3)	(16.3)	(16.3)
Cash flow from operations	316.2	550.1	1,348.0	903.3	1,100.0
Capex	(188.9)	(246.6)	(250.0)	(250.0)	(250.0)
Free cash flow	127.4	303.5	1,098.0	653.3	850.0
Dividends paid	(263.4)	(165.8)	(201.0)	(201.0)	(201.0)
Equity raised / (purchased)	885.7	76.9	0.0	0.0	0.0
Change in Debt	569.0	542.1	(100.0)	(200.0)	(200.0)
Other invest/financing cash flow	(1,202.5)	(886.8)	(106.3)	(119.6)	(133.2)
Net cash flow	116.3	(130.2)	690.7	132.7	315.9

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	28.8	(9.3)	14.9	12.6	5.5
EBITDA growth	47.1	(6.5)	(16.0)	7.7	22.6
EBIT growth	52.1	(11.6)	(20.0)	9.2	28.0
Pretax growth	69.4	(28.0)	(14.4)	8.7	29.0
Reported net profit growth	97.1	(42.0)	18.9	8.6	28.4
Core net profit growth	25.7	(0.5)	6.6	8.6	28.4
<b>Profitability ratios (%)</b>					
EBITDA margin	25.6	26.4	19.3	18.5	21.5
EBIT margin	22.3	21.7	15.1	14.7	17.8
Pretax profit margin	23.6	18.7	13.9	13.5	16.5
Payout ratio	42.3	50.7	46.9	43.2	33.6
<b>DuPont analysis</b>					
Net profit margin (%)	13.8	8.8	9.1	8.8	10.7
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.7	2.3	2.3	2.3	2.2
ROAE (%)	8.7	7.1	6.6	6.9	8.4
ROAA (%)	3.2	2.8	2.8	3.0	3.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	11.9	43.8	60.2	61.2	59.6
Days receivable outstanding	124.7	156.7	152.3	155.9	160.8
Days inventory outstanding	41.4	58.1	60.8	64.6	68.2
Days payables outstanding	154.2	171.0	152.8	159.3	169.4
Dividend cover (x)	2.4	2.0	2.1	2.3	3.0
Current ratio (x)	2.1	2.6	2.5	2.4	2.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.9	1.9	2.0	2.0	2.1
Net debt/equity (%)	53.4	51.4	43.6	39.6	32.4
Net interest cover (x)	24.8	15.3	10.7	10.2	11.6
Debt/EBITDA (x)	3.6	4.3	5.0	4.5	3.5
Capex/revenue (%)	3.1	4.5	4.0	3.5	3.4
Net debt/ (net cash)	3,597.8	4,328.9	3,837.1	3,655.8	3,176.9

Source: Company; Maybank

# Inari Amertron (INRI MK)

## Next growth engine is here

### Greater things in sight

Inari's recent developments (i.e. P-21 plant acquisition, grant award by MIDA, JV with Taiwan-listed PCL Technologies) are strategic moves to take its earnings base to the next level while ensuring long-term growth sustainability. Consistent job wins, earnings track record and a compelling risk-to-reward ratio make Inari our favourite pick in the sector. Reiterate BUY and MYR3.85 TP, pegged to 16x CY17 EPS (+1SD).

### Look beyond potential blip in 3QFY16 earnings

We expect 3QFY16 earnings to be 25%-30% weaker QoQ (MYR29m-31m), largely due to the deferment in RF product shipments as smartphone players clear their inventories in preparation for new launches ahead. Moving beyond, we expect 4QFY16 shipment to see a strong recovery (4QFY16E net profit: -MYR55m), bringing Inari's FY16 core earnings to a high of MYR173m (+14% YoY) to meet our forecast.

### Long-term earnings visibility remains strong

Beyond its current growth anchor, the RF division, we are excited on Inari's busy schedule involving:

- Potential job wins from Broadcom and Osram in Penang which would be earnings accretive from FY17 onwards. Conservatively, we have factored in MYR150m/300m of job wins for FY17/18.
- Wholly-owned ISL which has recently started mass production for CyOptics, owned by Broadcom. While revenue contribution is expected to be small for now (~MYR60m for FY16), Inari is moving upstream with this project; fibre-optics chip certification process.
- Its JV with PCL to expand its addressable market in China for industrial fiber-optics products is not imputed in our forecasts.

### Still positive on Inari, our top BUY pick

At 14x CY16 ex-cash PER and 0.8x CY16 PEG, valuations are undemanding for expected 2-year earnings CAGR of 20%.

FYE Jun (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	794	933	1,183	1,434	1,675
EBITDA	135	187	227	298	367
Core net profit	103	152	173	217	251
Core EPS (sen)	11.3	16.3	17.8	22.3	25.8
Core EPS growth (%)	138.9	43.9	9.3	25.2	15.9
Net DPS (sen)	6.8	8.9	7.1	8.9	10.3
Core P/E (x)	28.4	19.7	18.0	14.4	12.4
P/BV (x)	11.3	5.6	4.8	4.0	3.4
Net dividend yield (%)	2.1	2.8	2.2	2.8	3.2
ROAE (%)	49.4	38.1	29.3	30.5	29.6
ROAA (%)	23.6	22.7	19.0	20.3	20.3
EV/EBITDA (x)	15.6	11.9	13.2	10.2	8.0
Net debt/equity (%)	6.7	net cash	net cash	net cash	net cash
Consensus net profit	-	-	183	241	289
MKE vs. Consensus (%)	-	-	(5.7)	(10.3)	(13.0)

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# BUY

Share Price	MYR 3.21
12m Price Target	MYR 3.85 (+20%)
Previous Price Target	MYR 3.85

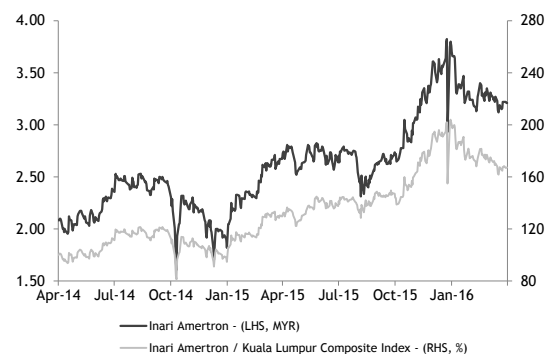
### Company Description

Inari Amertron is the biggest semiconductor player in M'sia and one of Avago's top EMS providers in the thriving wireless division.

### Statistics

Shariah status	Yes
52w high/low (MYR)	3.82/2.31
3m avg turnover (USDm)	3.6
Free float (%)	66.7
Issued shares (m)	956
Market capitalisation	MYR3.1B USD783M
Major shareholders:	
Insas Bhd.	23.8%
Kumpulan Wang Persaraan	7.1%
Employees Provident Fund	7.0%

### Price Performance



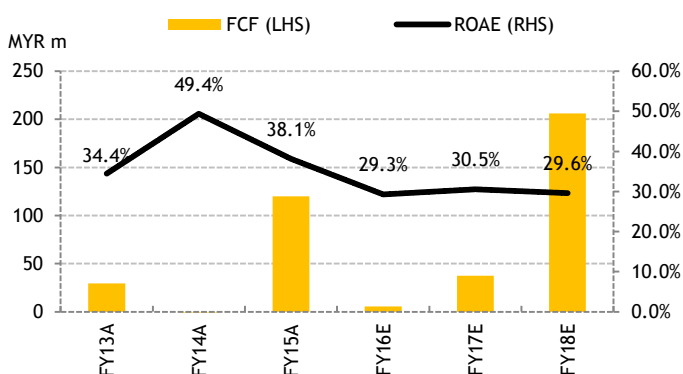
	-1M	-3M	-12M
Absolute (%)	(4)	(15)	20
Relative to index (%)	(6)	(17)	29

Source: FactSet

## Value Proposition

- Inari is the biggest semiconductor player in Malaysia. One of Broadcom's top OSAT providers in the thriving wireless division. Owns >600 units of testers, the largest in SEA.
- Cost competitiveness and manufacturing efficiency from economies of scale Inari as Broadcom's key OSAT vendor.
- Largely cash generative with sustainable ROE of ~30%. More upside potential as Broadcom group continues to outsource more of its manufacturing processes.
- Returns hinge on Broadcom's orders which have good visibility. Broadcom enjoys tailwind from network transition (3G to LTE) and growing data server farms to power IoTs.
- USD/MYR forex fluctuations largely dictate margins. High single customer exposure is another risk.

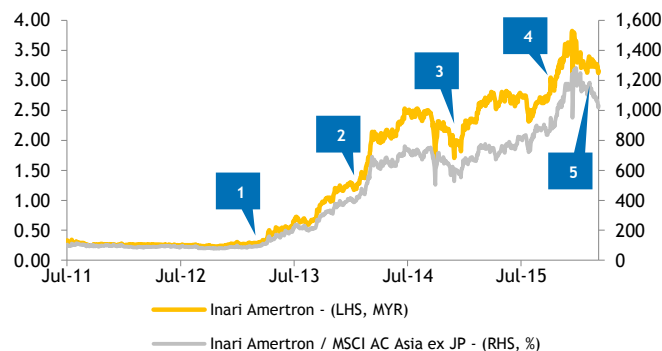
### FCF vs ROAE



Source: Company

## Price Drivers

### Historical share price



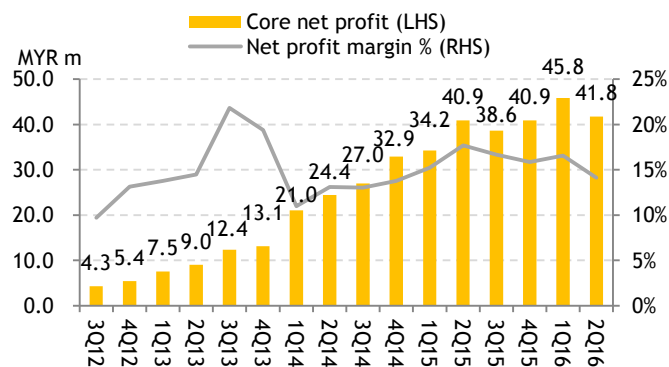
Source: Company, Maybank Kim Eng

1. First official coverage by a local research house.
2. 62% QoQ jump in FY6/14 earnings from larger outsourcing by Broadcom and first time consolidation of Amertron.
3. Inari announced 1-for-8 rights issue to expand its operation on higher orders from Broadcom.
4. Amid slow global semiconductor sales, Broadcom announced (i) stronger results (due to higher RF content) and (ii) upbeat outlook wireless division (~20% in RF content).
5. News on slowing smartphone growth and a volatile MYR against USD causes uncertainty in Inari's prospects.

## Financial Metrics

- Volume growth and ASPs for RF products (premised on introduction of faster cellular network) and stable USD/MYR are key to Inari's earnings.
- EBIT margin can widen as higher orders and potential new job wins optimises utilisation of Inari's plants in Malaysia, the Philippines and China.
- Visible quarterly growth as wafer shipment from Broadcom is projected to be up. Expect higher utilisation to meet Broadcom's demand and new clients in RF related products.

### Quarterly net profits and margins trend



Source: Company

## Swing Factors

### Upside

- Forex: MYR's further weakness against USD - positive revenue impact. 1% change in our base assumption of USD1/MYR4.10 for FY16-17 will impact earnings by 2%.
- Faster-than-expected adoption of LTE-A (from LTE) would improve earnings visibility for Broadcom and Inari.
- Potential new contract wins from Osram which has earmarked EUR3b investment (EUR1b for chip plant) in Kulim (~60km away from Inari's plants in Penang) by 2020.

### Downside

- Drastic fall in global Tier-1 smartphone shipment will hamper orders for Broadcom's premium RF products and weaken Inari's earnings visibility.
- Failure to renew pioneer status by end-2017 would see lower profitability on higher tax charges.
- Single customer risk; >80% of Inari's group revenue derived from Broadcom. In the event where Inari fails to deliver to Broadcom, Inari may see its partnership revoked.



FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	29.5	20.0	18.0	14.4	12.4
Core P/E (x)	28.4	19.7	18.0	14.4	12.4
P/BV (x)	11.3	5.6	4.8	4.0	3.4
P/NTA (x)	11.3	5.6	4.8	4.0	3.4
Net dividend yield (%)	2.1	2.8	2.2	2.8	3.2
FCF yield (%)	0.1	4.0	0.1	1.2	6.6
EV/EBITDA (x)	15.6	11.9	13.2	10.2	8.0
EV/EBIT (x)	18.8	14.4	16.8	13.6	11.3
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	793.7	933.1	1,182.5	1,433.7	1,675.0
Gross profit	158.4	197.1	252.2	309.7	361.8
EBITDA	134.8	187.3	226.7	298.4	366.8
Depreciation	(22.4)	(32.0)	(48.5)	(73.8)	(105.4)
Amortisation	(0.5)	(1.0)	(0.2)	(0.2)	(0.2)
EBIT	111.9	154.3	178.1	224.3	261.2
Net interest income / (exp)	(5.4)	(5.6)	2.7	1.5	0.5
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	106.4	148.7	180.8	225.9	261.8
Income tax	(6.5)	(1.7)	(3.6)	(4.5)	(5.2)
Minorities	(1.2)	2.3	(4.2)	(4.8)	(5.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	98.7	149.2	173.0	216.5	251.0
Core net profit	102.8	151.5	173.0	216.5	251.0
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	76.7	298.6	238.2	189.0	294.8
Accounts receivable	137.3	182.8	259.2	303.9	346.9
Inventory	137.8	145.3	178.4	215.6	251.8
Property, Plant & Equip (net)	129.8	193.8	295.4	421.5	416.1
Intangible assets	11.2	10.6	10.4	10.2	10.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	4.4	5.5	5.5	5.5	5.5
<b>Total assets</b>	<b>497.2</b>	<b>836.7</b>	<b>987.1</b>	<b>1,145.7</b>	<b>1,325.2</b>
ST interest bearing debt	36.4	41.5	41.5	41.5	41.5
Accounts payable	120.1	171.5	210.8	234.7	258.0
LT interest bearing debt	57.6	66.2	66.2	66.2	66.2
Other liabilities	24.0	22.0	22.0	22.0	22.0
<b>Total Liabilities</b>	<b>238.6</b>	<b>301.6</b>	<b>341.0</b>	<b>364.9</b>	<b>388.2</b>
Shareholders Equity	258.2	537.0	643.9	773.8	924.4
Minority Interest	0.4	(1.9)	2.3	7.1	12.6
<b>Total shareholder equity</b>	<b>258.6</b>	<b>535.1</b>	<b>646.1</b>	<b>780.9</b>	<b>937.0</b>
<b>Total liabilities and equity</b>	<b>497.2</b>	<b>836.7</b>	<b>987.1</b>	<b>1,145.7</b>	<b>1,325.2</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	106.4	148.7	180.8	225.9	261.8
Depreciation & amortisation	22.9	33.0	48.7	74.0	105.6
Adj net interest (income)/exp	5.4	5.6	(2.7)	(1.5)	(0.5)
Change in working capital	(94.4)	5.2	(70.1)	(58.0)	(55.9)
Cash taxes paid	(5.1)	(5.8)	(3.6)	(4.5)	(5.2)
Other operating cash flow	8.0	(13.1)	0.0	0.0	0.0
Cash flow from operations	43.2	173.5	153.0	235.9	305.7
Capex	(41.1)	(53.6)	(150.0)	(200.0)	(100.0)
Free cash flow	2.1	119.9	3.0	35.9	205.7
Dividends paid	(18.9)	(49.3)	(69.2)	(86.6)	(100.4)
Equity raised / (purchased)	12.2	(10.0)	0.0	0.0	0.0
Change in Debt	39.2	178.6	3.1	0.0	0.0
Other invest/financing cash flow	(0.6)	(21.9)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	33.9	217.3	(63.1)	(50.7)	105.3

FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	229.1	17.6	26.7	21.2	16.8
EBITDA growth	129.3	38.9	21.1	31.6	22.9
EBIT growth	154.0	37.9	15.4	26.0	16.5
Pretax growth	148.7	39.7	21.6	24.9	15.9
Reported net profit growth	137.7	51.2	15.9	25.2	15.9
Core net profit growth	147.4	47.4	14.2	25.2	15.9
<b>Profitability ratios (%)</b>					
EBITDA margin	17.0	20.1	19.2	20.8	21.9
EBIT margin	14.1	16.5	15.1	15.6	15.6
Pretax profit margin	13.4	15.9	15.3	15.8	15.6
Payout ratio	62.5	55.5	40.0	40.0	40.0
<b>DuPont analysis</b>					
Net profit margin (%)	12.4	16.0	14.6	15.1	15.0
Revenue/Assets (x)	1.6	1.1	1.2	1.3	1.3
Assets/Equity (x)	1.9	1.6	1.5	1.5	1.4
ROAE (%)	49.4	38.1	29.3	30.5	29.6
ROAA (%)	23.6	22.7	19.0	20.3	20.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	51.2	59.7	56.0	62.4	66.5
Days receivable outstanding	52.7	61.8	67.3	70.7	69.9
Days inventory outstanding	69.7	69.2	62.6	63.1	64.1
Days payables outstanding	71.2	71.3	74.0	71.3	67.5
Dividend cover (x)	1.6	1.8	2.5	2.5	2.5
Current ratio (x)	2.1	2.7	2.5	2.4	2.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	2.8	2.9	3.1	3.4
Net debt/equity (%)	6.7	net cash	net cash	net cash	net cash
Net interest cover (x)	20.5	27.4	na	na	na
Debt/EBITDA (x)	0.7	0.6	0.5	0.4	0.3
Capex/revenue (%)	5.2	5.7	12.7	13.9	6.0
Net debt/ (net cash)	17.4	(190.9)	(130.4)	(81.2)	(187.0)

Source: Company; Maybank

# IOI Corporation (IOI MK)

## An El Nino proxy

### A sector bellwether

IOI, an integrated oil palm player, is among the top three plantation stocks in Malaysia by earnings. It is a low cost producer and one of the most profitable Malaysian planters. IOI remains the favoured large cap proxy to the sector in the recent El Nino induced CPO price rally. IOI is a HOLD with an unchanged TP of MYR4.97 based on 30x FY17 PER.

### Upstream earnings leveraged to CPO price

IOI is at its prime maturity with oil palm trees averaging 12 years of age, with FFB yields of 24.0t/ha in FY15. With that, we estimate its FFB growth to slow to a low single digit 3-year (2015-18) CAGR of 1.5%. Its upstream operations are nevertheless a cash cow, and IOI is one of the most profitable Malaysian planters with an EBIT per mature ha of MYR6,209 in 2015, which is double that of its local peers.

### Speciality is in specialty oils & fats

IOI has one of the most developed specialty oils and fats technology bases in the industry, a segment that only a handful of planters are in. This division enjoys double-digit margins, which is much better than that of the oleochemicals and refinery segments, which are under intense competition due to overcapacity in the region presently. Nonetheless, the operations of the specialty oils & fats division could be affected in the short term as RSPO temporarily suspends IOI's CSPO certification due to alleged non-compliance with certain RSPO principles & criteria.

### An El Nino proxy play

IOI is now a pure plantation player, after its property division split from the group in early 2014, making it an excellent proxy play to El Nino. The CPO price increase should more than compensate for the decline in FFB output due to the drought suffered in 2015. IOI is a HOLD pending clarification surrounding its RSPO suspension which may disrupt operations in Europe & North America where its MNC client base is relatively more sensitive to sustainability requirements.

FYE Jun (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	12,664	11,621	11,577	12,211	12,707
EBITDA	2,376	847	1,579	1,762	1,868
Core net profit	1,549	860	928	1,069	1,142
Core FDEPS (sen)	24.0	13.3	14.4	16.6	17.7
Core FDEPS growth(%)	(6.9)	(44.6)	7.8	15.3	6.8
Net DPS (sen)	20.0	9.0	7.2	8.3	8.8
Core FD P/E (x)	19.1	34.4	31.9	27.7	25.9
P/BV (x)	4.9	5.8	5.4	4.9	4.5
Net dividend yield (%)	4.4	2.0	1.6	1.8	1.9
ROAE (%)	15.7	15.5	17.5	18.5	18.0
ROAA (%)	7.9	6.0	6.9	7.7	8.0
EV/EBITDA (x)	15.8	36.9	21.8	19.4	18.1
Net debt/equity (%)	58.6	96.1	82.5	70.9	59.6
Consensus net profit	-	-	1,065	1,251	1,350
MKE vs. Consensus (%)	-	-	(12.9)	(14.5)	(15.4)

Ong Chee Ting, CA  
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 (603) 2297 8678

# HOLD

Share Price MYR 4.58  
 12m Price Target MYR 4.97 (+9%)  
 Previous Price Target MYR 4.97

### Company Description

IOI Corp engages in the cultivation of oil palm and manufacturing of oleochemicals, specialty oils and fats, and processed palm oil.

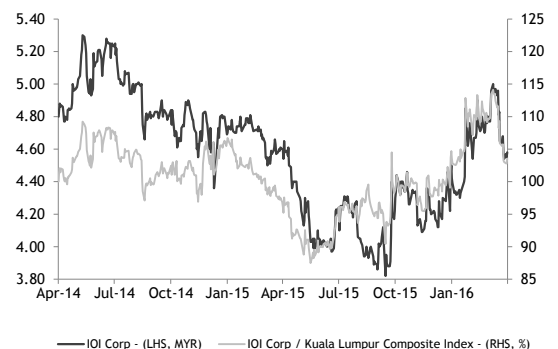
### Statistics

52w high/low (MYR)	5.00/3.82
3m avg turnover (USDm)	9.6
Free float (%)	42.9
Issued shares (m)	6,462
Market capitalisation	MYR29.6B
	USD7.6B

### Major shareholders:

LEE SHIN CHENG FAMILY	45.5%
Employees Provident Fund	8.5%
Bank Sarasin-Rabo (Asia) Ltd.	4.3%

### Price Performance



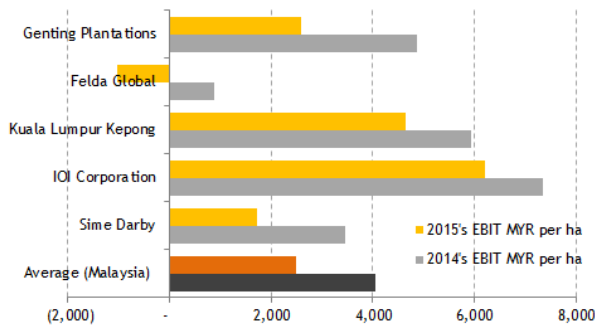
	-1M	-3M	-12M
Absolute (%)	(4)	2	(0)
Relative to index (%)	(5)	(1)	7

Source: FactSet

## Value Proposition

- Integrated oil-palm producer with 178,768 ha of planted areas in Malaysia (89%) and Indonesia (11%). Among the biggest planters in the region.
- One of the lowest cost producers in the region with an all-in upstream cost of production of MYR1,019/t in FY6/15.
- One of the biggest downstream players with refining, oleochemicals and specialty oils & fats production. Downstream helps to weather commodity downcycles.
- Has one of the most developed specialty oils and fats technology bases in the industry.
- 31% stake in Bumitama Agri (BAL SP), a pure planter with 119,679 ha of nucleus planted areas in Indonesia with an average age of 8 years.

### Upstream EBIT per mature ha (in MYR)

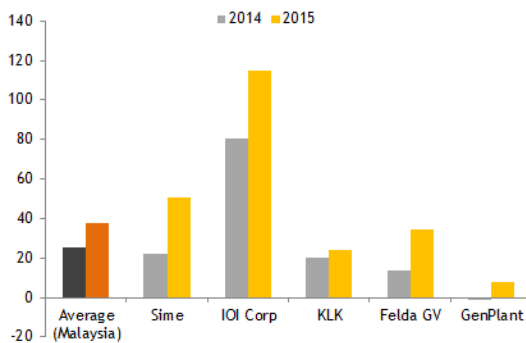


Source: Company

## Financial Metrics

- CPO price and production volume are two key drivers.
- Upstream a cash cow given its prime tree age profile of 12 years average.
- Less than 7% margins for downstream.
- Net gearing high at 115% at end-2015 due to FX losses for USD debt and assets kept at historical NBV. Net interest coverage should be healthy at 5.4-7.1x in FY16-18F.
- Malaysia's high domestic liquidity, growing pool of shariah funds and lack of shariah-investable assets make IOI Corp a natural favourite among local funds.

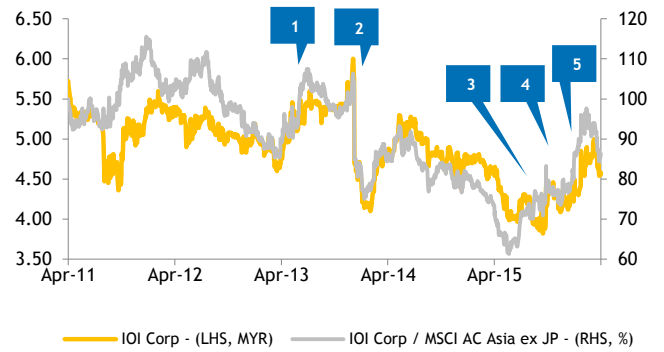
### Net gearing (in %)



Source: Company, Maybank KE

## Price Drivers

### Historical share price



Source: Company, Maybank Kim Eng

1. Proposal to spin off its property division into a separate listed entity.
2. Property division split from the group and listed as IOI Properties Group (IOIPG MK, Not Rated).
3. CPO prices troughed at MYR1,867/t in Aug 2015.
4. Haze blanketed the region following severe droughts in Central/South Kalimantan and southern Sumatra.
5. Re-inclusion in SC's Shariah-compliant list in Nov 2015, six months after it was dropped.

## Swing Factors

### Upside

- Stronger-than-expected CPO price uptick induced by El Nino.
- Better-than-expected FFB yields.
- Recovery in global economy, especially China, boosting demand for palm oil and oleochemicals.
- Strict implementation of Indonesia's biodiesel B20 mandate, lifting CPO demand.
- Recovery in crude oil prices above USD75/bbl, spurring demand for discretionary biodiesel.

### Downside

- Worse-than-expected FFB yields in 2016, hurt by low rainfall in 2015.
- Actual CPO production in 2016 not as severely affected by El Nino.
- Weak MYR against USD, leading to further unrealised FX losses. Every 10% change in MYR against USD could result in MYR702m in translation gains or losses (full year basis).

FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	8.8	nm	31.9	27.7	25.9
Core P/E (x)	19.1	34.4	31.9	27.7	25.9
Core FD P/E (x)	19.1	34.4	31.9	27.7	25.9
P/BV (x)	4.9	5.8	5.4	4.9	4.5
P/NTA (x)	5.3	6.4	5.8	5.3	4.8
Net dividend yield (%)	4.4	2.0	1.6	1.8	1.9
FCF yield (%)	nm	3.0	3.2	3.2	3.6
EV/EBITDA (x)	15.8	36.9	21.8	19.4	18.1
EV/EBIT (x)	17.5	51.1	25.7	22.6	21.1

**INCOME STATEMENT (MYR m)**

Revenue	12,664.1	11,621.0	11,577.3	12,211.1	12,707.3
Gross profit	2,078.9	446.7	1,165.2	1,396.2	1,538.0
EBITDA	2,376.3	847.4	1,579.3	1,762.0	1,868.0
Depreciation	(226.7)	(235.5)	(244.9)	(254.1)	(263.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,149.6	611.9	1,334.4	1,507.9	1,604.7
Net interest income / (exp)	(240.3)	(268.2)	(249.1)	(237.3)	(226.4)
Associates & JV	127.0	113.3	129.3	147.0	155.1
Exceptionals	1,887.2	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	3,923.5	457.0	1,214.6	1,417.5	1,533.4
Income tax	(533.8)	(284.6)	(260.5)	(304.9)	(330.8)
Minorities	(16.7)	(4.3)	(26.5)	(43.3)	(60.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	3,373.0	168.1	927.6	1,069.3	1,142.0
Core net profit	1,549.4	860.1	927.6	1,069.3	1,142.0

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	3,987.7	1,788.5	1,800.5	1,783.2	1,865.6
Accounts receivable	1,101.6	1,106.2	1,102.0	1,162.4	1,209.6
Inventory	2,154.6	2,083.1	2,075.3	2,188.9	2,277.8
Property, Plant & Equip (net)	6,410.0	6,649.8	6,804.9	6,950.7	7,087.4
Intangible assets	458.4	458.4	443.4	428.4	413.4
Investment in Associates & JVs	928.2	982.0	1,046.6	1,120.1	1,197.7
Other assets	291.1	365.9	365.9	365.9	365.9
<b>Total assets</b>	<b>15,331.6</b>	<b>13,433.9</b>	<b>13,638.6</b>	<b>13,999.7</b>	<b>14,417.5</b>
ST interest bearing debt	2,454.2	812.5	812.5	812.5	812.5
Accounts payable	940.5	924.5	921.0	971.4	1,010.9
LT interest bearing debt	5,069.3	5,835.9	5,544.1	5,266.9	5,003.6
Other liabilities	635.0	613.0	622.0	632.0	642.0
<b>Total Liabilities</b>	<b>9,098.5</b>	<b>8,185.5</b>	<b>7,899.9</b>	<b>7,683.0</b>	<b>7,469.2</b>
Shareholders Equity	6,036.8	5,059.1	5,522.9	6,057.5	6,628.6
Minority Interest	196.3	189.3	215.8	259.1	319.7
<b>Total shareholder equity</b>	<b>6,233.1</b>	<b>5,248.4</b>	<b>5,738.7</b>	<b>6,316.7</b>	<b>6,948.3</b>
<b>Total liabilities and equity</b>	<b>15,331.6</b>	<b>13,433.9</b>	<b>13,638.6</b>	<b>13,999.7</b>	<b>14,417.5</b>

**CASH FLOW (MYR m)**

Pretax profit	3,923.5	457.0	1,214.6	1,417.5	1,533.4
Depreciation & amortisation	226.7	235.5	244.9	254.1	263.3
Adj net interest (income)/exp	240.3	268.2	249.1	237.3	226.4
Change in working capital	(151.1)	143.1	8.5	(123.5)	(96.7)
Cash taxes paid	(451.0)	(384.6)	(260.5)	(304.9)	(330.8)
Other operating cash flow	(1,887.2)	0.0	0.0	0.0	0.0
Cash flow from operations	1,662.6	1,357.7	1,342.3	1,348.6	1,455.6
Capex	(1,955.8)	(456.7)	(400.0)	(400.0)	(400.0)
Free cash flow	(293.2)	901.0	942.3	948.6	1,055.6
Dividends paid	(1,051.1)	(1,059.1)	(463.8)	(534.7)	(571.0)
Equity raised / (purchased)	(149.1)	(150.0)	0.0	0.0	0.0
Change in Debt	106.9	(1,732.9)	(558.8)	(532.5)	(507.6)
Other invest/financing cash flow	783.8	(160.7)	92.2	101.4	105.5
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(602.7)</b>	<b>(2,201.7)</b>	<b>12.0</b>	<b>(17.3)</b>	<b>82.4</b>

FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(6.3)	(8.2)	(0.4)	5.5	4.1
EBITDA growth	(14.9)	(64.3)	86.4	11.6	6.0
EBIT growth	(15.4)	(71.5)	118.1	13.0	6.4
Pretax growth	56.5	(88.4)	165.8	16.7	8.2
Reported net profit growth	71.2	(95.0)	451.8	15.3	6.8
Core net profit growth	(6.6)	(44.5)	7.8	15.3	6.8
<b>Profitability ratios (%)</b>					
EBITDA margin	18.8	7.3	13.6	14.4	14.7
EBIT margin	17.0	5.3	11.5	12.3	12.6
Pretax profit margin	31.0	3.9	10.5	11.6	12.1
Payout ratio	38.2	nm	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	26.6	1.4	8.0	8.8	9.0
Revenue/Assets (x)	0.8	0.9	0.8	0.9	0.9
Assets/Equity (x)	2.5	2.7	2.5	2.3	2.2
ROAE (%)	15.7	15.5	17.5	18.5	18.0
ROAA (%)	7.9	6.0	6.9	7.7	8.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	68.9	72.4	74.3	72.9	73.6
Days receivable outstanding	38.1	34.2	34.3	33.4	33.6
Days inventory outstanding	68.5	68.3	71.9	71.0	72.0
Days payables outstanding	37.8	30.0	31.9	31.5	31.9
Dividend cover (x)	2.6	0.3	2.0	2.0	2.0
Current ratio (x)	2.1	2.7	2.8	2.8	2.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.6	1.7	1.8	1.9
Net debt/equity (%)	58.6	96.1	82.5	70.9	59.6
Net interest cover (x)	8.9	2.3	5.4	6.4	7.1
Debt/EBITDA (x)	3.2	7.8	4.0	3.5	3.1
Capex/revenue (%)	15.4	3.9	3.5	3.3	3.1
Net debt/ (net cash)	3,535.8	4,859.9	4,556.1	4,296.2	3,950.4

Source: Company; Maybank

# Karex Bhd (KAREX MK)

## World's largest condom manufacturer

### Exponential growth ahead

Karex is the world's largest condom manufacturer and is expanding its OBM business via both organic and inorganic means. Consensus projects a robust 3-year (FY6/15-18) net profit CAGR of 31%, underpinned by its capacity expansion program and strategic expansion into the OBM business. While Karex's 2016 PER valuation is high at 27x, its PEG of 1x is lower than its closest international peers. The stock is NOT RATED.

### High USD/MYR, low latex price are catalysts

Compared to the glove players, Karex's cost pass-through mechanism is relatively slower and it often enjoys/absorbs more of the volatility in USD/MYR and latex prices. Hence, a strong USD/MYR and a weak latex price bode well for Karex. Additionally, the faster-than-expected acquisition of brands may also boost the group's margins/earnings.

### Outlook: Robust earnings growth

Consensus is projecting a robust 3-year net profit CAGR (FY6/15-18) of 31%, underpinned by its capacity expansion program (3-year capacity CAGR: 17%) and strategic expansion into the OBM business (10% of revenue presently). Consensus also expects Karex's balance sheet and ROEs to improve, considering its high cashflow generation capability and low capex.

### Valuation: Low PEG of 1x

Based on consensus forecasts, Karex presently trades at a high 27x 2016 PER (above its closest international peers' 14x-26x). But its PEG ratio of 1x is much below that of its peers (2.6-3.8x). Key risks include a sharp drop in USD/MYR and sharp increase in latex price.

FYE Jun (MYR m)	FY11A	FY12A	FY13A	FY14A	FY15A
Revenue	182	189	231	220	298
EBITDA	15	22	44	47	79
Core net profit	7	12	29	35	60
Core EPS (sen)	1.3	1.8	4.9	7.6	9.5
Core EPS growth (%)	(50.2)	33.8	174.7	54.8	25.6
Net DPS (sen)	0.0	0.0	0.0	1.7	2.5
Core P/E (x)	301.5	225.3	82.0	53.0	42.2
P/BV (x)	nm	nm	nm	10.9	6.2
Net dividend yield (%)	0.0	0.0	0.0	0.4	0.6
ROAE (%)	nm	nm	nm	17.2	18.2
ROAA (%)	nm	nm	nm	12.1	15.1
EV/EBITDA (x)	na	na	na	18.1	22.1
Net debt/equity (%)	nm	nm	net cash	net cash	net cash

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# Not Rated

Share Price

MYR 4.01

### Company Description

Karex manufactures and sells condoms, catheters, probe covers, lubricating jelly and other medical devices.

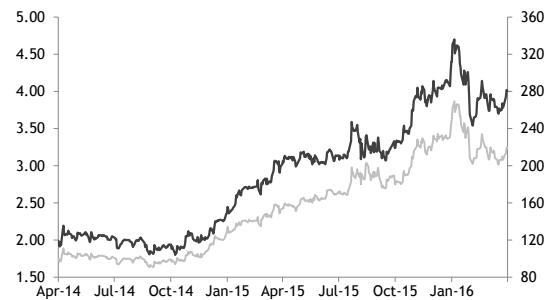
### Statistics

Shariah status	Yes
52w high/low (MYR)	4.70/2.99
3m avg turnover (USDm)	1.5
Free float (%)	38.7
Issued shares (m)	668
Market capitalisation	MYR2.7B USD684M

### Major shareholders:

LAM JIUAN JIUAN	33.7%
LAM YIU PANG	6.4%
GOH LENG KIAN	3.6%

### Price Performance



— Karex Bhd - (LHS, MYR) — Karex Bhd / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	3	(9)	33
Relative to index (%)	2	(11)	43

Source: FactSet

FYE 30 Jun	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Metrics</b>					
P/E (reported) (x)	301.5	225.3	82.0	53.0	42.2
Core P/E (x)	301.5	225.3	82.0	53.0	42.2
P/BV (x)	nm	nm	nm	10.9	6.2
P/NTA (x)	nm	nm	nm	10.9	6.6
Net dividend yield (%)	0.0	0.0	0.0	0.4	0.6
FCF yield (%)	0.0	0.0	0.8	0.8	nm
EV/EBITDA (x)	na	na	na	18.1	22.1
EV/EBIT (x)	na	na	na	20.4	24.5

**INCOME STATEMENT (MYR m)**

Revenue	181.8	188.8	231.4	219.9	298.1
Gross profit	24.9	32.9	59.9	64.0	97.8
EBITDA	15.2	22.5	44.4	46.9	78.8
Depreciation	(5.6)	(5.4)	(5.9)	(5.1)	(7.7)
Amortisation	0.0	0.0	0.0	0.0	(0.0)
EBIT	9.6	17.0	38.5	41.8	71.1
Net interest income / (exp)	(1.9)	(2.5)	(2.4)	(0.2)	2.2
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	7.7	14.5	36.1	41.5	73.3
Income tax	(0.7)	(2.5)	(7.1)	(7.0)	(13.6)
Minorities	0.0	0.0	0.0	0.0	(0.2)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	7.0	12.0	29.0	34.6	59.6
Core net profit	7.0	12.0	29.0	34.6	59.6

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	nm	nm	55.6	85.6	207.7
Accounts receivable	nm	nm	58.1	70.8	70.4
Inventory	nm	nm	47.2	40.5	51.0
Property, Plant & Equip (net)	nm	nm	117.0	86.2	129.3
Intangible assets	nm	nm	2.0	0.0	25.1
Investment in Associates & JVs	nm	nm	0.0	0.0	0.0
Other assets	nm	nm	3.5	6.8	14.9
<b>Total assets</b>	<b>nm</b>	<b>nm</b>	<b>283.5</b>	<b>289.9</b>	<b>498.4</b>
ST interest bearing debt	nm	nm	29.9	11.2	13.5
Accounts payable	nm	nm	56.9	22.6	17.7
LT interest bearing debt	nm	nm	11.0	10.4	9.4
Other liabilities	nm	nm	7.0	22.0	25.0
<b>Total Liabilities</b>	<b>nm</b>	<b>nm</b>	<b>105.0</b>	<b>66.5</b>	<b>66.0</b>
Shareholders Equity	nm	nm	178.5	223.3	431.6
Minority Interest	nm	nm	0.0	0.0	0.8
<b>Total shareholder equity</b>	<b>nm</b>	<b>nm</b>	<b>178.5</b>	<b>223.3</b>	<b>432.4</b>
Perpetual securities	nm	nm	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>nm</b>	<b>nm</b>	<b>283.5</b>	<b>289.9</b>	<b>498.4</b>

**CASH FLOW (MYR m)**

Pretax profit	nm	nm	36.1	41.5	73.3
Depreciation & amortisation	nm	nm	0.0	0.0	7.7
Adj net interest (income)/exp	nm	nm	(2.9)	(1.8)	(1.4)
Change in working capital	nm	nm	(0.6)	(16.8)	(14.9)
Cash taxes paid	nm	nm	2.9	7.5	12.4
Other operating cash flow	nm	nm	(4.0)	(4.7)	(18.9)
Cash flow from operations	nm	nm	37.5	25.1	47.2
Capex	nm	nm	(17.6)	(9.9)	(46.3)
Free cash flow	nm	nm	19.8	15.2	(9.3)
Dividends paid	nm	nm	0.0	0.0	(10.1)
Equity raised / (purchased)	nm	nm	0.0	69.4	155.2
Perpetual securities	nm	nm	0.0	0.0	0.0
Change in Debt	nm	nm	12.3	(25.8)	(2.9)
Perpetual securities distribution	nm	nm	0.0	0.0	0.0
Other invest/financing cash flow	nm	nm	5.0	20.2	(11.2)
Effect of exch rate changes	nm	nm	0.0	(0.1)	(0.1)
Net cash flow	nm	nm	34.2	77.2	130.3



FYE 30 Jun	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	15.4	3.9	22.6	(5.0)	35.5
EBITDA growth	(42.2)	48.2	97.5	5.7	68.0
EBIT growth	(53.8)	77.6	126.0	8.5	70.3
Pretax growth	(60.9)	88.6	148.8	14.9	76.4
Reported net profit growth	(57.7)	72.0	141.6	19.1	72.2
Core net profit growth	(57.7)	72.0	141.6	19.1	72.2
<b>Profitability ratios (%)</b>					
EBITDA margin	8.3	11.9	19.2	21.3	26.4
EBIT margin	5.3	9.0	16.6	19.0	23.9
Pretax profit margin	4.2	7.7	15.6	18.9	24.6
Payout ratio	0.0	0.0	0.0	22.0	26.3
<b>DuPont analysis</b>					
Net profit margin (%)	3.8	6.4	12.5	15.7	20.0
Revenue/Assets (x)	nm	nm	0.8	0.8	0.6
Assets/Equity (x)	nm	nm	1.6	1.3	1.2
ROAE (%)	nm	nm	nm	17.2	18.2
ROAA (%)	nm	nm	nm	12.1	15.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	35.1	115.0	131.3
Days receivable outstanding	nm	nm	45.2	105.6	85.3
Days inventory outstanding	nm	nm	49.6	101.2	82.2
Days payables outstanding	nm	nm	59.7	91.8	36.2
Dividend cover (x)	nm	nm	nm	4.5	3.8
Current ratio (x)	nm	nm	1.8	3.9	6.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	nm	nm	2.7	4.4	7.6
Net debt/equity (%)	nm	nm	net cash	net cash	net cash
Net interest cover (x)	5.1	6.8	16.4	nm	na
Debt/EBITDA (x)	nm	nm	0.9	0.5	0.3
Capex/revenue (%)	nm	nm	7.6	4.5	15.5
Net debt/ (net cash)	nm	nm	(14.8)	(64.0)	(184.8)

Source: Company; Maybank

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# Kimlun Corporation (KICB MK)

## New infrastructure play

# HOLD

Share Price MYR 1.81  
 12m Price Target MYR 1.70 (-6%)  
 Previous Price Target MYR 1.70

### Eyeing more contracts

Kimlun's successful diversification into infrastructure construction from property construction has led to a rebound in its orderbook after its recent major job win. It is eyeing more contracts from other highway packages while its precast division is eyeing major orders from the KVMRT 2. However, its positive fundamentals have been fairly priced in post the 31% rise in share price YTD. Maintain HOLD and MYR1.70 TP.

### Diversifies into infra construction

Post the slowdown in its construction job wins in 2015, Kimlun has diversified into infrastructure construction. It clinched its first major infrastructure project from the Pan Borneo Highway Sarawak in Mar 2016 (MYR1.46b in a 30%-JV). Further job wins could come from the Klang Valley highways including DASH and SUKE.

### More job wins?

Construction would continue to be its major earnings contributor as it is eyeing more highway works. It could also win more affordable housing construction jobs by leveraging on its IBS design capabilities. Meanwhile, its precast manufacturing that operates in an oligopolistic industry would benefit from upcoming infrastructure projects in Malaysia (rail - MRT, LRT) and Singapore (rails and sewerage system).

### Valuation supported by positive sentiment

Despite its positive orderbook replenishment prospect, earnings are expected to be lower YoY in 2016 and 2017 on the normalisation of margins and lower construction works recognition respectively. Post the 31% rise in share price YTD, the stock is now fairly valued. Our TP is based on 10x 2017 PER.

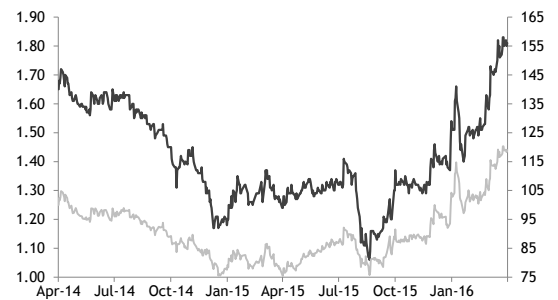
### Company Description

Kimlun Corp engages in the engineering and construction services and is a manufacturer of concrete products.

### Statistics

Shariah status	Yes
52w high/low (MYR)	1.83/1.06
3m avg turnover (USDm)	0.4
Free float (%)	37.9
Issued shares (m)	301
Market capitalisation	MYR544.0M USD139M
Major shareholders:	
PHIN Sdn. Bhd.	36.0%
PANG KHANG HAU	5.8%
PANG YON TIN	5.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	13	18	46
Relative to index (%)	12	14	57

Source: FactSet

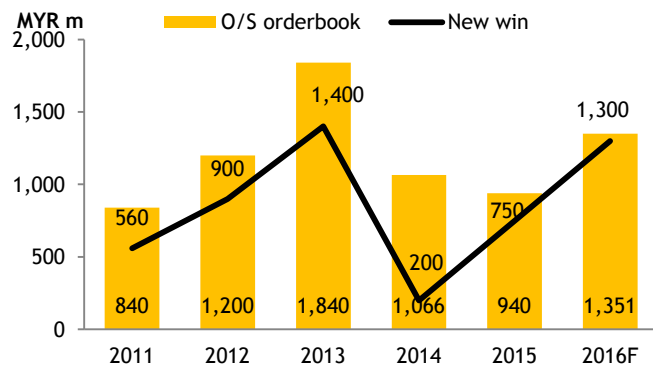
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,206	1,054	1,095	1,080	938
EBITDA	91	115	92	93	97
Core net profit	34	64	49	46	48
Core EPS (sen)	11.3	21.4	16.4	15.2	15.8
Core EPS growth (%)	(5.3)	90.5	(23.3)	(7.7)	4.2
Net DPS (sen)	3.5	6.4	4.4	4.1	4.3
Core P/E (x)	16.1	8.4	11.0	11.9	11.4
P/BV (x)	1.4	1.2	1.1	1.0	1.0
Net dividend yield (%)	1.9	3.5	2.5	2.3	2.4
ROAE (%)	9.7	15.0	10.3	8.9	8.7
ROAA (%)	3.8	6.8	5.0	4.4	4.5
EV/EBITDA (x)	5.0	4.2	6.5	6.3	5.5
Net debt/equity (%)	23.2	14.7	12.2	7.8	net cash
Consensus net profit	-	-	63	70	51
MKE vs. Consensus (%)	-	-	(21.4)	(34.6)	(6.8)

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## Value Proposition

- Medium-sized construction player (65% of gross profit) that predominantly builds high-rise and landed properties in Johor.
- Due to the slowdown in the property sector, it has diversified into infrastructure construction to drive its construction orderbook growth.
- One of the three key main precast concrete suppliers (i.e. tunnel lining, segmental box girder; 35% of gross profit) in Malaysia and Singapore.
- Its precast division would benefit from the expansion of the MRT networks in Malaysia and Singapore.

### Improving orderbook in 2016 due to infrastructure projects

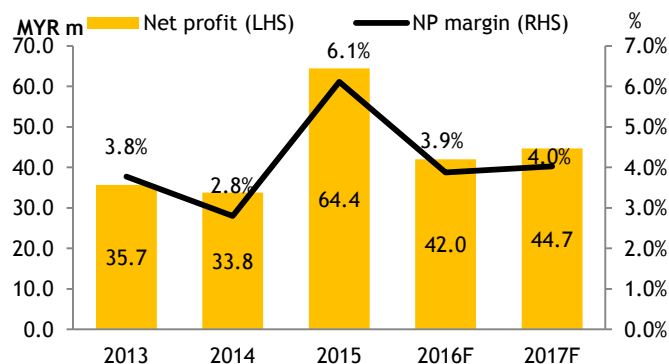


Source: Company

## Financial Metrics

- Revenue growth would be driven by stronger construction job wins and higher precast orders.
- Since Pan Borneo is its first major infra construction work, it would be incurring higher capex and upfront costs.
- Although precast orders are expected to be higher in 2016, these would be predominantly lower margin products. Hence, group net profit is expected to be lower YoY in 2016 on margin normalisation.
- Gearing is manageable at 0.15x; could increase to fund additional capex.

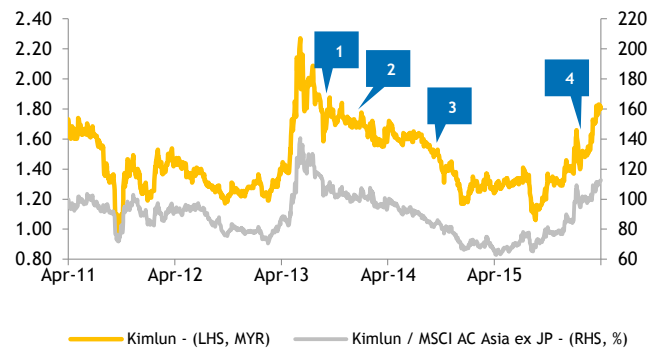
### Normalising margins in 2016



Source: Company

## Price Drivers

### Share price performance



Source: Company, Maybank Kim Eng

1. Achieved a record MYR1b job wins.
2. Proposed 1-for-4 rights issue and 1 warrant for 1 rights share.
3. 2Q14 results were below expectations.
4. JV with Zecon won MYR1.5b contract from Pan Borneo Highway Sarawak.

## Swing Factors

### Upside

- Higher-than-expected construction job wins, which would be a boon to its construction orderbook.
- Margins outperform expectations.

### Downside

- Execution risk, as Pan Borneo Highway Sarawak is its first major infrastructure project.
- Delay in major projects awards.

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	12.2	7.7	11.0	11.9	11.4
Core P/E (x)	16.1	8.4	11.0	11.9	11.4
P/BV (x)	1.4	1.2	1.1	1.0	1.0
P/NTA (x)	1.4	1.2	1.1	1.0	1.0
Net dividend yield (%)	1.9	3.5	2.5	2.3	2.4
FCF yield (%)	11.8	3.6	5.4	7.5	13.8
EV/EBITDA (x)	5.0	4.2	6.5	6.3	5.5
EV/EBIT (x)	6.9	5.2	8.5	8.5	7.4

**INCOME STATEMENT (MYR m)**

Revenue	1,206.4	1,053.6	1,095.3	1,079.8	938.3
Gross profit	102.6	122.9	106.0	106.8	108.5
EBITDA	90.7	114.5	92.5	92.8	97.2
Depreciation	(24.7)	(20.9)	(21.6)	(23.6)	(25.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	66.1	93.6	70.8	69.1	71.6
Net interest income / (exp)	(10.9)	(9.5)	(9.1)	(9.1)	(9.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	59.8	93.4	65.0	60.0	62.5
Income tax	(15.2)	(22.7)	(15.6)	(14.4)	(15.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	44.6	70.7	49.4	45.6	47.5
Core net profit	33.8	64.4	49.4	45.6	47.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	86.1	96.8	103.8	123.2	176.1
Accounts receivable	318.0	444.9	462.5	456.0	396.2
Inventory	21.1	21.5	22.3	22.0	19.1
Property, Plant & Equip (net)	160.9	151.8	160.1	165.5	168.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	329.1	258.3	274.1	284.5	279.6
<b>Total assets</b>	<b>915.2</b>	<b>973.2</b>	<b>1,022.8</b>	<b>1,051.1</b>	<b>1,039.9</b>
ST interest bearing debt	111.2	101.8	101.8	101.8	101.8
Accounts payable	317.6	301.3	313.2	308.8	268.3
LT interest bearing debt	67.8	62.7	62.7	62.7	62.7
Other liabilities	14.0	48.0	49.0	49.0	43.0
<b>Total Liabilities</b>	<b>511.0</b>	<b>513.5</b>	<b>527.0</b>	<b>522.0</b>	<b>476.1</b>
Shareholders Equity	400.1	459.7	495.8	529.1	563.8
Minority Interest	4.2	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>404.3</b>	<b>459.7</b>	<b>495.8</b>	<b>529.1</b>	<b>563.8</b>
<b>Total liabilities and equity</b>	<b>915.2</b>	<b>973.2</b>	<b>1,022.8</b>	<b>1,051.1</b>	<b>1,039.9</b>

**CASH FLOW (MYR m)**

Pretax profit	59.8	93.4	65.0	60.0	62.5
Depreciation & amortisation	24.7	20.9	21.6	23.6	25.6
Adj net interest (income)/exp	(8.6)	(4.6)	9.1	9.1	9.1
Change in working capital	1.7	(51.3)	(20.8)	(8.6)	21.6
Cash taxes paid	(10.9)	(15.7)	(15.6)	(14.4)	(15.0)
Other operating cash flow	16.0	(11.2)	0.0	0.0	0.0
Cash flow from operations	82.7	31.4	59.5	69.8	103.9
Capex	(18.3)	(11.9)	(30.0)	(29.0)	(29.0)
Free cash flow	64.5	19.5	29.5	40.8	74.9
Dividends paid	(9.0)	(11.4)	(13.3)	(12.3)	(12.8)
Equity raised / (purchased)	64.9	0.0	0.0	0.0	0.0
Change in Debt	(46.5)	(25.1)	0.0	0.0	0.0
Other invest/financing cash flow	0.1	(9.3)	(9.1)	(9.1)	(9.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>74.0</b>	<b>(16.9)</b>	<b>7.0</b>	<b>19.4</b>	<b>52.9</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	27.4	(12.7)	4.0	(1.4)	(13.1)
EBITDA growth	40.6	26.2	(19.2)	0.3	4.8
EBIT growth	45.2	41.7	(24.3)	(2.4)	3.6
Pretax growth	56.7	56.0	(30.3)	(7.7)	4.2
Reported net profit growth	24.9	58.5	(30.1)	(7.7)	4.2
Core net profit growth	(5.3)	90.5	(23.3)	(7.7)	4.2
<b>Profitability ratios (%)</b>					
EBITDA margin	7.5	10.9	8.4	8.6	10.4
EBIT margin	5.5	8.9	6.5	6.4	7.6
Pretax profit margin	5.0	8.9	5.9	5.6	6.7
Payout ratio	23.6	27.0	27.0	27.0	27.0
<b>DuPont analysis</b>					
Net profit margin (%)	3.7	6.7	4.5	4.2	5.1
Revenue/Assets (x)	1.3	1.1	1.1	1.0	0.9
Assets/Equity (x)	2.3	2.1	2.1	2.0	1.8
ROAE (%)	9.7	15.0	10.3	8.9	8.7
ROAA (%)	3.8	6.8	5.0	4.4	4.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	100.3	130.3	149.1	153.1	163.5
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	4.2	3.7	3.7	3.7	3.7
Current ratio (x)	1.7	1.8	1.8	1.9	2.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	1.9	1.9	2.0	2.2
Net debt/equity (%)	23.2	14.7	12.2	7.8	net cash
Net interest cover (x)	6.1	9.9	7.8	7.6	7.8
Debt/EBITDA (x)	2.0	1.4	1.8	1.8	1.7
Capex/revenue (%)	1.5	1.1	2.7	2.7	3.1
Net debt/ (net cash)	93.0	67.7	60.7	41.3	(11.6)

Source: Company; Maybank

# KLCCP Stapled Group (KLCCSS MK)

# BUY

Share Price MYR 7.15  
 12m Price Target MYR 7.90 (+10%)  
 Previous Price Target MYR 7.90

## Medium-term growth awaits

### Still the sector's heavyweight

Constituting about 40% of M-REIT's market cap within our coverage, KLCCP is a Shariah-compliant stapled security with high-quality assets, namely office towers, within the prominent Kuala Lumpur city centre. These assets are also enhanced with long and triple net leases of its office tenants (i.e. PETRONAS, ExxonMobil) which provide resiliency to KLCCP's earnings. BUY with DCF-based TP of MYR7.90.

### Visible assets pipeline

KLCCP is backed by its parent, PETRONAS, which provides a visible new asset pipeline in the city centre, such as Lot 185 (JV with Qatari Diar) and Lot 91 (JV with Sapura Resources). Expected completion for these developments, including the on-going redevelopment of City Point Podium, is by 2019.

### Earnings resiliency is intact

Earnings continue to be supported by its office assets (51% of FY15 pretax profit; i.e. PETRONAS Twin Towers, PETRONAS Tower 3, Menara ExxonMobil) which are on long and triple net leases with rental rate step-ups. Hence, such long leases would sustain rental incomes and lower occupancy risk. All the office towers are 100%-tenanted currently. Suria KLCC also supports KLCCP's earnings growth via positive rental reversions, on the back of sustained favourable occupancy and rental rates.

### Low P/NAV and gearing

On a P/NAV basis, KLCCP is trading at an inexpensive 1.03x, which is below the sector's average of 1.17x. Meanwhile, KLCCP's end-FY15 gross gearing (total debt-to-total asset ratio) of 0.15x provides plenty of room for sizeable asset acquisitions in the future. Share price is supported by its FY16-18 net yield of 5.2-5.5%.

### Company Description

KLCCP's principal activity is to invest and manage portfolio of real estate i.e. office, retail and hotel assets.

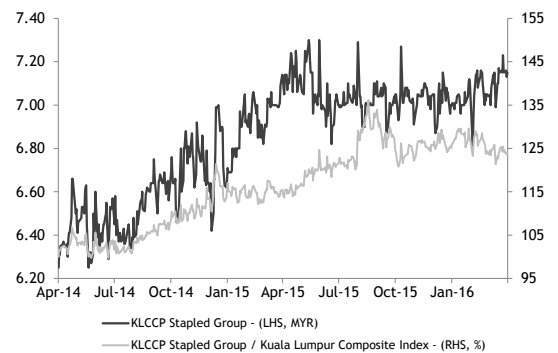
### Statistics

Shariah status	Yes
52w high/low (MYR)	7.30/6.80
3m avg turnover (USDm)	1.1
Free float (%)	23.8
Issued shares (m)	1,805
Market capitalisation	MYR12.9B USD3.3B

### Major shareholders:

Petroleum Nasional Bhd	75.5%
Permodalan Nasional Bhd	7.6%
Employees Provident Fund	3.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	1	2	0
Relative to index (%)	(0)	(1)	7

Source: FactSet

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,354	1,340	1,457	1,490	1,546
Net property income	1,012	1,004	1,185	1,208	1,252
Core net profit	702	725	733	745	774
Core EPU (sen)	38.9	40.1	40.6	41.3	42.9
Core EPU growth (%)	10.0	3.2	1.1	1.7	4.0
Net DPU (sen)	33.6	34.7	37.5	38.1	39.6
Net DPU growth (%)	21.4	3.0	8.2	1.7	3.9
P/NAV (x)	0.9	0.9	0.9	0.9	0.8
Net DPU yield (%)	4.7	4.8	5.2	5.3	5.5
ROAE (%)	5.9	5.9	5.7	5.5	5.5
ROAA (%)	4.2	4.2	4.1	4.1	4.1
Debt/Assets (x)	0.15	0.15	0.15	0.15	0.15
Consensus Net DPU	-	-	32.3	34.0	35.4
MKE vs. Consensus (%)	-	-	16.1	12.3	12.0

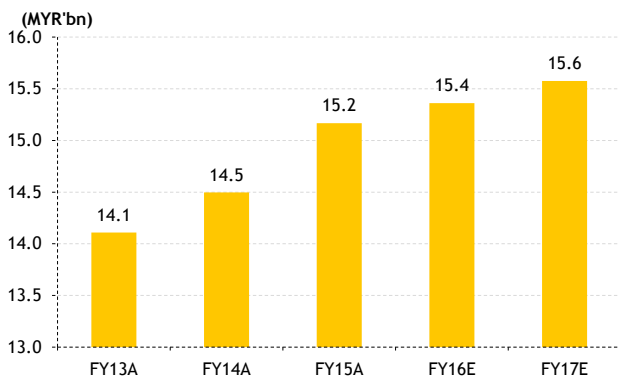
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## Value Proposition

- Constitutes ~40% of M-REITs' market cap (MKE coverage) and owns high-quality office towers in the most prominent location in Malaysia, i.e. the Kuala Lumpur city centre.
- Strong backing from its parent, PETRONAS, which provides valuable pipeline of new assets.
- Office towers are on triple net and long-term leases, lowering occupancy risks. Suria KLCC mall and Mandarin Oriental hotel also benefit from the strategic location.
- KLCCP is a Shariah-compliant security with stable and resilient income; and decent dividend yields.
- Larger DPU growth could take place from 2019 onwards, post completion and acquisition of sizeable developments i.e. Lot 185 and Lot 91.

### Total value of all investment properties

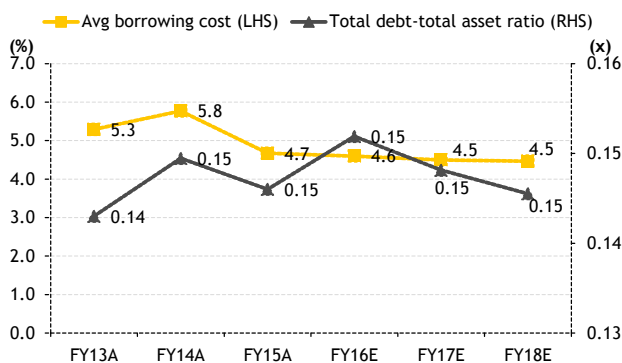


Sources: Company, Maybank Kim Eng

## Financial Metrics

- Borrowing costs are factored into the trust's profitability. Most of KLCCP's long-term borrowings are based on fixed rates.
- Total borrowings-to-total asset ratio is a significant metric that influences future asset acquisitions and funding structure. At 0.15x, plenty of headroom for borrowing.
- Low positive rental reversions across office assets, but the long-term leases would only expire between 2019-2027.
- DPU is stable as net income payout since FY13 were >95% (statutory payout of M-REITs is >90%).

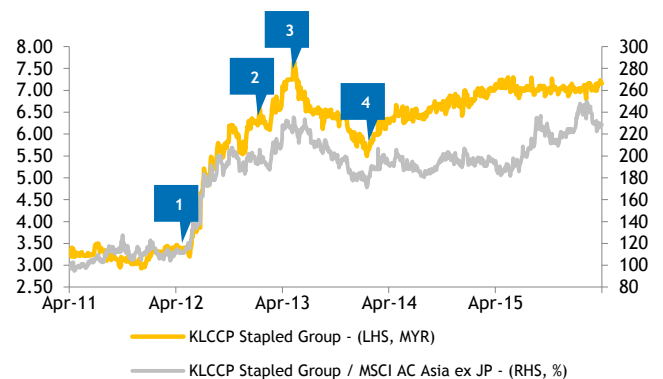
### Average borrowing cost and gross gearing



Sources: Company, Maybank Kim Eng

## Price Drivers

### Historical share price



Sources: Company, Maybank Kim Eng

1. Announcement by KLCC Property Holdings to explore a corporate structure exercise, which involves a REIT.
2. Announcement of the stapling exercise (property stock + REIT) between KLCC Property Holdings and KLCC REIT.
3. Normalisation of share price post completion of the stapling exercise.
4. Release of KLCCP Stapled Group's 4Q13 results. Subsequent share price gain mainly premised on stable income growth.

## Swing Factors

### Upside

- Yield-accretive acquisitions of high-quality assets.
- Higher-than-expected positive rental reversions.
- Disposal of asset with an attractive price tag.

### Downside

- Zero or negative rental reversions.
- Sizeable tenants vacating/downsizing space required, namely in the Suria KLCC mall.
- Acquisition of less desirable new assets (low occupancy rates, less favourable location and expensive acquisition costs etc.).



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
Price/DPU(x)	21.3	20.6	19.1	18.7	18.0
P/BV (x)	1.1	1.0	1.0	0.9	0.9
P/NTA (x)	0.9	0.9	0.9	0.9	0.8
DPU yield (%)	4.7	4.8	5.2	5.3	5.5
FCF yield (%)	6.5	7.2	6.0	7.0	7.3

**INCOME STATEMENT (MYR m)**

Revenue	1,353.5	1,340.2	1,457.0	1,490.4	1,545.8
<b>Net property income</b>	<b>1,011.9</b>	<b>1,004.2</b>	<b>1,184.8</b>	<b>1,207.9</b>	<b>1,252.2</b>
Management and trustee fees	0.0	0.0	0.0	0.0	0.0
Net financing costs	(110.8)	(78.3)	(88.9)	(85.5)	(84.6)
Associates & JV	(6.7)	13.7	15.7	15.7	16.0
Exceptionals	386.1	578.8	0.0	0.0	0.0
Other pretax income/expenses	0.0	0.0	(58.3)	(58.5)	(59.7)
<b>Pretax profit</b>	<b>1,280.5</b>	<b>1,518.4</b>	<b>1,048.7</b>	<b>1,073.7</b>	<b>1,116.8</b>
Income tax	(121.1)	(115.2)	(154.9)	(160.6)	(166.4)
Minorities	(700.8)	(151.0)	(161.1)	(168.4)	(176.1)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>702.0</b>	<b>724.5</b>	<b>732.6</b>	<b>744.7</b>	<b>774.2</b>
Distributable inc to unitholders	702.0	724.5	732.6	744.7	774.2

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,127.1	1,110.9	681.4	703.9	739.4
Accounts receivable	87.2	63.0	46.9	47.8	49.6
Property, Plant & Equip (net)	609.7	639.4	1,453.4	1,664.6	1,875.3
Investment properties	14,496.2	15,166.7	15,361.5	15,576.5	15,791.5
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	260.6	265.2	252.6	257.4	262.2
Other assets	223.1	292.0	176.1	178.1	180.4
<b>Total assets</b>	<b>16,803.8</b>	<b>17,537.1</b>	<b>17,971.9</b>	<b>18,428.2</b>	<b>18,898.3</b>
ST interest bearing debt	356.5	28.5	30.0	30.0	50.0
Accounts payable	262.8	278.4	227.3	231.9	240.6
LT interest bearing debt	2,155.0	2,532.2	2,750.0	2,750.0	2,750.0
Other liabilities	181.4	187.0	379.5	384.1	389.0
<b>Total Liabilities</b>	<b>2,955.8</b>	<b>3,026.0</b>	<b>3,386.8</b>	<b>3,396.0</b>	<b>3,429.6</b>
Shareholders Equity	12,026.0	12,551.3	13,309.6	13,740.9	14,161.6
Minority Interest	1,822.0	1,959.8	1,275.4	1,291.3	1,307.1
<b>Total shareholder equity</b>	<b>13,848.0</b>	<b>14,511.1</b>	<b>14,585.0</b>	<b>15,032.2</b>	<b>15,468.7</b>
<b>Total liabilities and equity</b>	<b>16,803.8</b>	<b>17,537.1</b>	<b>17,971.9</b>	<b>18,428.2</b>	<b>18,898.3</b>

**CASH FLOW (MYR m)**

<b>Cash flow from operations</b>	<b>842.9</b>	<b>932.2</b>	<b>771.5</b>	<b>899.3</b>	<b>940.8</b>
Capex	0.0	0.0	0.0	0.0	0.0
Acquisitions & investments	(68.2)	(153.0)	(215.0)	(215.0)	(215.0)
Disposal of FA & investments	0.1	0.1	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	6.5	9.0	4.7	4.7	4.8
<b>CF from investing activities</b>	<b>(61.7)</b>	<b>(143.9)</b>	<b>(210.3)</b>	<b>(210.3)</b>	<b>(210.2)</b>
Dividends paid	(719.7)	(738.3)	(714.8)	(726.4)	(755.3)
Interest expense	(111.6)	(113.4)	(115.3)	(112.8)	(112.8)
Change in debt	162.5	47.2	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	(64.8)	(1.2)	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>(733.6)</b>	<b>(805.8)</b>	<b>(830.1)</b>	<b>(839.1)</b>	<b>(868.1)</b>
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>47.6</b>	<b>(17.5)</b>	<b>(268.9)</b>	<b>(150.1)</b>	<b>(137.4)</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	5.4	(1.0)	8.7	2.3	3.7
Net property income growth	6.4	(0.8)	18.0	2.0	3.7
Core net profit growth	10.0	3.2	1.1	1.7	4.0
Distributable income growth	10.0	3.2	1.1	1.7	4.0
<b>Profitability ratios (%)</b>					
Net property income margin	74.8	74.9	81.3	81.1	81.0
Core net profit margin	51.9	54.1	50.3	50.0	50.1
Payout ratio	86.5	86.3	92.4	92.5	92.4
<b>DuPont analysis</b>					
Total return margin (%)	51.9	54.1	50.3	50.0	50.1
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.4	1.4	1.4	1.3	1.3
ROAE (%)	5.9	5.9	5.7	5.5	5.5
ROAA (%)	4.2	4.2	4.1	4.1	4.1
<b>Liquidity &amp; Efficiency</b>					
Days receivable outstanding	36.4	20.2	13.6	11.4	11.3
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.2	1.2	1.1	1.1	1.1
Current ratio (x)	1.9	3.5	2.5	2.5	2.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	5.7	5.8	5.3	5.4	5.5
Net debt/equity (%)	11.5	11.6	15.8	15.1	14.6
Net interest cover (x)	9.1	12.8	13.3	14.1	14.8
Debt/EBITDA (x)	2.5	2.5	2.3	2.3	2.2
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	1,384.5	1,449.8	2,098.6	2,076.1	2,060.6
Debt/Assets (x)	0.15	0.15	0.15	0.15	0.15

Source: Company; Maybank

# Kossan Rubber Industries (KRI MK)

# HOLD

## A key nitrile glove player

Share Price MYR 6.10  
 12m Price Target MYR 6.50 (+7%)  
 Previous Price Target MYR 6.50

### Fairly valued, awaiting the next catalyst

Previously a latex-centric glove producer, Kossan has expanded aggressively into the nitrile space and is now the second largest nitrile medical glove producer in the world. We project a 3-year net profit CAGR (FY15-18) of 12% on volume growth and slight margin deterioration on competitive pressure. We have a HOLD call and TP of MYR6.50 (16x 2017 PER) - current valuations are fair.

### Company Description

*Kossan is among the world's biggest glove producers with production highly concentrated in the nitrile segment.*

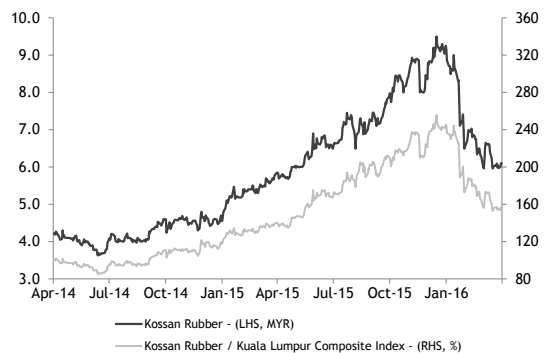
### Statistics

Shariah status	Yes
52w high/low (MYR)	9.50/5.68
3m avg turnover (USDm)	3.3
Free float (%)	45.2
Issued shares (m)	639
Market capitalisation	MYR3.9B USD996M

### Major shareholders:

Kossan Holdings Malaysia Sdn. Bhd.	51.1%
Employees Provident Fund	9.7%
CIMB-Principal Asset Management Bhd.	4.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(34)	4
Relative to index (%)	(4)	(36)	12

Source: FactSet

### Benefits from higher USD, lower rubber prices

Our FY16-18 net profit CAGR of 12% is based on: (i) USD/MYR of 4.10; (ii) NBR price of USD1.00/kg; and (iii) latex price of MYR4.30/kg. Hence, a stronger-than-expected USD/MYR or lower-than-expected rubber prices will provide upside to our earnings forecasts. While ASPs are regularly adjusted to reflect the changes in the key variables (i.e. USD and rubber prices), there is a time-lag of 2-3 months for a full pass-through, hence, leading to temporary margin expansion for the glove-makers.

### Capacity growth to slow in 2016

Subsequent to its aggressive expansion in 2015 (capacity growth: +22%), Kossan's capacity growth will slow to 2% in 2016, followed by a step-up in mid-2017 (+33%). We project net profit growth of 13% in 2016 owing to the full-year contribution from its new plants (commenced in 1H15), mitigated in part by a declining margin trend given the competitive environment.

### Valuation at mean

Kossan trades at a prospective FY17 PER of 15x, which is substantially below that of Hartalega's 21x. However, without any catalysts in sight, we think it would be difficult to close the valuation gap in the near term. Key risks include the intensifying competition, which could limit the cost pass-through and hence, erode margins. Valuations are fair with the stock trading at its mean valuation on 2017 earnings.

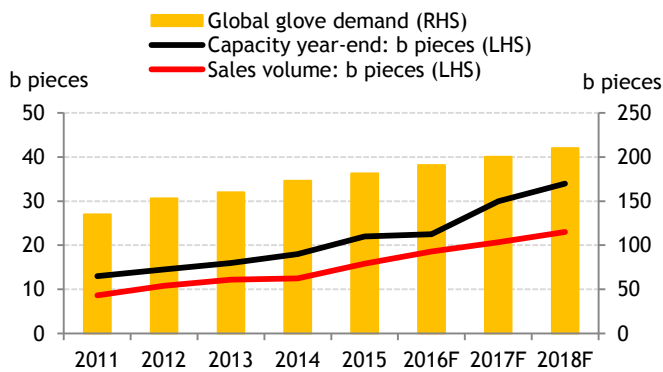
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,299	1,636	1,926	2,231	2,463
EBITDA	248	343	391	445	482
Core net profit	144	203	230	259	286
Core EPS (sen)	22.5	31.8	35.9	40.6	44.8
Core EPS growth (%)	5.4	41.4	13.0	12.9	10.4
Net DPS (sen)	7.0	12.7	18.0	20.3	22.4
Core P/E (x)	27.1	19.2	17.0	15.0	13.6
P/BV (x)	4.8	4.0	3.6	3.2	2.8
Net dividend yield (%)	1.1	2.1	2.9	3.3	3.7
ROAE (%)	19.0	22.7	22.1	22.3	22.1
ROAA (%)	12.1	14.8	14.6	14.6	14.3
EV/EBITDA (x)	12.0	17.4	10.2	9.0	8.3
Net debt/equity (%)	11.2	1.7	5.9	7.3	6.2
Consensus net profit	-	-	238	270	309
MKE vs. Consensus (%)	-	-	(3.6)	(4.1)	(7.2)

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## Value Proposition

- World's second largest medical glove manufacturer with global market share of around 9%.
- Aggressive expansion in nitrile space given the relatively faster demand growth (9M15 Malaysia export: +30% YoY), compare to that of latex (-2% YoY).
- High barriers to entry for medical gloves which necessitate stringent compliance to regulatory requirement. Scale of business model makes ASPs highly competitive.
- Emphasis on technology leads to high production efficiencies and margins.
- Implements cost pass-through mechanism to reflect changes in USD/MYR and rubber prices.

### Kossan's production capacity and sales

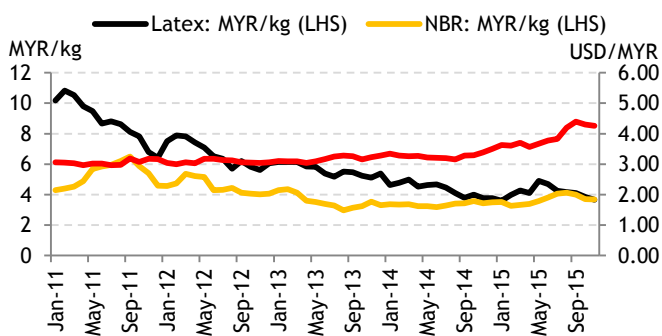


Source: Company

## Financial Metrics

- Third largest profit base among peers, with >20% ROE and EBITDA margins of ~20%.
- We forecast 3-year EPS CAGR of 12% on commencement of new capacity. Our forward assumptions are 4.10 for USD/MYR and USD1.00/kg for NBR price.
- Every 1% increase in USD/MYR and NBR price will have 3% positive impact and 0.5% negative impact to our FY16 bottomline estimates respectively, assuming no corresponding adjustments to ASPs.

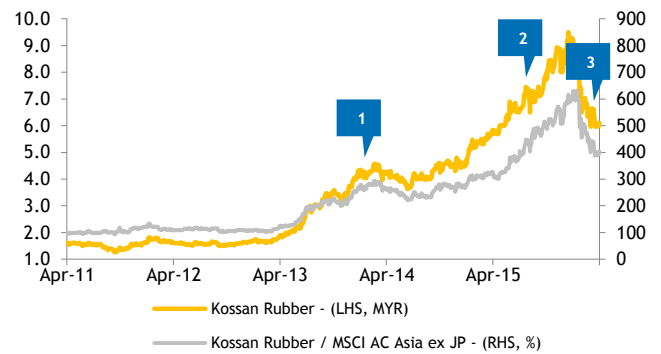
### Rubber prices and USD/MYR trends



Source: Company

## Price Drivers

### Share price trend



Source: Company, Maybank Kim Eng

1. Strong earnings growth in 2013, underpinned by robust sales volume and low rubber prices.
2. Strong earnings growth in 2015 on aggressive expansion and PER re-rating for the favourable external factors (USD/MYR, rubber prices).
3. MYR strengthened against USD.

## Swing Factors

### Upside

- A structural change in the lax regulatory requirements in developing markets which could accelerate the global glove demand growth.
- Lower-than-expected rubber prices and stronger-than-expected USD/MYR rates.
- Greater-than-expected direct government tender orders under TPPA.

### Downside

- Sharp fall in USD/MYR.
- Substantial rise in rubber prices.
- Intensified competition in nitrile glove segments, as a result of an industry-wide overexpansion.

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	27.1	19.2	17.0	15.0	13.6
Core P/E (x)	27.1	19.2	17.0	15.0	13.6
P/BV (x)	4.8	4.0	3.6	3.2	2.8
P/NTA (x)	4.9	4.0	3.6	3.2	2.9
Net dividend yield (%)	1.1	2.1	2.9	3.3	3.7
FCF yield (%)	nm	2.9	2.0	3.0	4.2
EV/EBITDA (x)	12.0	17.4	10.2	9.0	8.3
EV/EBIT (x)	15.4	21.7	12.8	11.3	10.2

**INCOME STATEMENT (MYR m)**

Revenue	1,299.3	1,635.9	1,925.8	2,230.8	2,463.4
Gross profit	1,299.3	1,635.9	1,925.8	2,230.8	2,463.4
EBITDA	247.9	343.2	391.4	445.0	482.3
Depreciation	(55.7)	(66.7)	(78.7)	(90.7)	(90.7)
Amortisation	0.0	0.0	0.0	1.0	2.0
EBIT	192.2	276.5	312.7	355.3	393.6
Net interest income / (exp)	(5.8)	(7.9)	(9.4)	(12.4)	(14.6)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	186.4	268.5	303.3	341.9	377.0
Income tax	(39.4)	(61.4)	(69.8)	(78.6)	(86.7)
Minorities	(3.3)	(3.9)	(3.9)	(3.9)	(3.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	143.8	203.3	229.7	259.4	286.4
Core net profit	143.8	203.3	229.7	259.4	286.4

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	71.7	166.5	178.3	213.6	258.8
Accounts receivable	287.0	313.2	368.6	427.0	471.5
Inventory	192.2	205.6	242.0	280.4	309.6
Property, Plant & Equip (net)	724.5	776.7	877.9	967.2	1,056.5
Intangible assets	4.9	4.9	4.9	4.9	4.9
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	0.1	0.1	0.1	0.1	0.1
<b>Total assets</b>	<b>1,280.5</b>	<b>1,466.9</b>	<b>1,672.0</b>	<b>1,893.3</b>	<b>2,101.5</b>
ST interest bearing debt	122.0	100.9	160.9	220.9	260.9
Accounts payable	169.0	148.8	175.2	203.0	224.1
LT interest bearing debt	40.1	82.6	82.6	82.6	82.6
Other liabilities	124.0	127.0	127.0	127.0	127.0
<b>Total Liabilities</b>	<b>455.3</b>	<b>459.7</b>	<b>546.1</b>	<b>633.8</b>	<b>695.0</b>
Shareholders Equity	804.8	982.4	1,097.2	1,226.9	1,370.1
Minority Interest	20.3	24.8	28.7	32.5	36.4
<b>Total shareholder equity</b>	<b>825.1</b>	<b>1,007.2</b>	<b>1,125.9</b>	<b>1,259.5</b>	<b>1,406.5</b>
<b>Total liabilities and equity</b>	<b>1,280.5</b>	<b>1,466.9</b>	<b>1,672.0</b>	<b>1,893.3</b>	<b>2,101.5</b>

**CASH FLOW (MYR m)**

Pretax profit	186.4	268.5	303.3	341.9	377.0
Depreciation & amortisation	55.7	66.7	78.7	89.7	88.7
Adj net interest (income)/exp	5.8	7.9	9.4	12.4	14.6
Change in working capital	(45.3)	(78.0)	(65.5)	(69.0)	(52.6)
Cash taxes paid	(39.4)	(36.8)	(69.8)	(78.6)	(86.7)
Other operating cash flow	0.0	5.0	0.0	2.0	4.0
Cash flow from operations	162.7	233.4	256.1	297.4	343.0
Capex	(179.6)	(119.0)	(180.0)	(180.0)	(180.0)
Free cash flow	(16.9)	114.4	76.1	117.4	163.0
Dividends paid	(44.7)	(28.8)	(114.8)	(129.7)	(143.2)
Equity raised / (purchased)	0.0	0.0	0.0	1.0	2.0
Change in Debt	(29.4)	19.7	60.0	60.0	40.0
Other invest/financing cash flow	(5.7)	0.5	(9.4)	(10.4)	(10.6)
Effect of exch rate changes	0.0	0.0	0.0	1.0	2.0
Net cash flow	(96.7)	105.9	11.9	36.3	47.2

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(0.6)	25.9	17.7	15.8	10.4
EBITDA growth	5.3	38.5	14.0	13.7	8.4
EBIT growth	4.3	43.9	13.1	13.6	10.8
Pretax growth	3.5	44.0	12.9	12.7	10.3
Reported net profit growth	5.4	41.4	13.0	12.9	10.4
Core net profit growth	5.4	41.4	13.0	12.9	10.4
<b>Profitability ratios (%)</b>					
EBITDA margin	19.1	21.0	20.3	19.9	19.6
EBIT margin	14.8	16.9	16.2	15.9	16.0
Pretax profit margin	14.3	16.4	15.7	15.3	15.3
Payout ratio	31.1	40.0	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	11.1	12.4	11.9	11.6	11.6
Revenue/Assets (x)	1.0	1.1	1.2	1.2	1.2
Assets/Equity (x)	1.6	1.5	1.5	1.5	1.5
ROAE (%)	19.0	22.7	22.1	22.3	22.1
ROAA (%)	12.1	14.8	14.6	14.6	14.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	74.7	66.0	63.7	64.2	65.7
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	3.2	2.5	2.0	2.0	2.0
Current ratio (x)	1.7	2.4	2.1	2.0	2.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.8	3.2	3.1	3.0	3.0
Net debt/equity (%)	11.2	1.7	5.9	7.3	6.2
Net interest cover (x)	33.3	34.8	33.4	28.5	26.9
Debt/EBITDA (x)	0.7	0.5	0.6	0.7	0.7
Capex/revenue (%)	13.8	7.3	9.3	8.1	7.3
Net debt/ (net cash)	90.4	17.1	65.2	89.9	84.7

Source: Company; Maybank

# KPJ Healthcare (KPJ MK)

## A defensive remedy

### Fairly valued for now

The overall secular growth trends in healthcare will likely remain intact in 2016, thus a de-rating of the sector is unlikely from our standpoint. We view KPJ as being fairly valued following its 16% share price appreciation in FY15. While KPJ presently trades at a discount to its Asian peers on a PER basis, this is justified given its more moderate earnings growth profile and higher net gearing level. HOLD with SOTP-based TP of MYR4.60.

### Inelasticity of healthcare

In our view, a moderating economy is unlikely to have a meaningful impact on healthcare spending in Malaysia. Past events have shown that healthcare spending continues to grow even in periods of economic contraction signalling the inelasticity for healthcare services. We expect favourable demographics (increasing old-age population) and the influx of medical tourism to fuel the growth in healthcare spending.

### Expansion blues

KPJ is in the midst of an aggressive expansion plan - we forecast a 37% increase in beds from 2014 to 2017 from the opening of 3 new hospitals and brownfield expansions of existing hospitals. However, new hospitals are loss-making in the initial 3-5 years and this would result in a drag on near-term earnings. We forecast a 2-year net profit CAGR of just 8% for FY16-FY18, which would be lower than the average of 21% for its Asian peers. KPJ's gearing is relatively high at 0.77x, although this can be partly managed by future hospital disposals to its associate Al-'Aqar REIT.

### Valuations justifiably at a discount

Our MYR4.60 12-month TP is on a fully-diluted basis, and is derived from a sum-of-parts, with its hospital operations and the Al-'Aqar REIT each valued on DCF. Our TP implies 34.5x PER and 1.6% dividend yield in 2016. We expect KPJ to continue trading at a discount in the next 12 months, given its less attractive earnings growth profile and its higher gearing.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,639	2,818	3,120	3,500	3,761
EBITDA	298	351	381	429	454
Core net profit	125	145	149	167	176
Core EPS (sen)	12.3	13.9	14.4	16.1	17.0
Core EPS growth (%)	20.5	13.3	3.1	12.2	5.1
Net DPS (sen)	7.5	5.3	7.2	8.1	8.5
Core P/E (x)	34.8	30.7	29.8	26.5	25.2
P/BV (x)	3.5	3.1	2.9	2.8	2.6
Net dividend yield (%)	1.8	1.2	1.7	1.9	2.0
ROAE (%)	10.7	10.7	10.0	10.7	10.7
ROAA (%)	4.1	4.0	3.7	4.0	4.0
EV/EBITDA (x)	16.1	16.0	15.0	13.5	12.9
Net debt/equity (%)	75.1	77.5	77.4	76.9	75.5
Consensus net profit	-	-	156	178	208
MKE vs. Consensus (%)	-	-	(4.5)	(6.2)	(15.5)

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# HOLD

Share Price MYR 4.28  
12m Price Target MYR 4.60 (+7%)  
Previous Price Target MYR 4.60

### Company Description

KPJ Healthcare is the largest private hospital operator in Malaysia by number of hospitals.

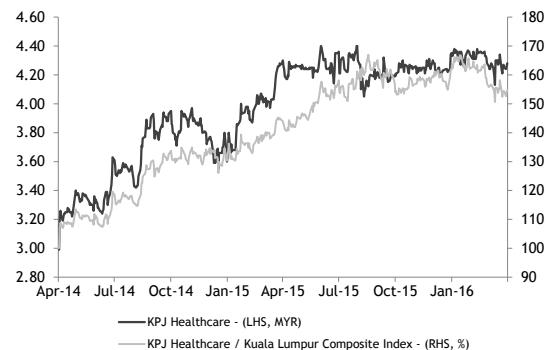
### Statistics

52w high/low (MYR)	4.40/4.05
3m avg turnover (USDm)	0.9
Free float (%)	58.3
Issued shares (m)	1,056
Market capitalisation	MYR4.5B
	USD1.2B

### Major shareholders:

Johor Corp.	32.2%
Employees Provident Fund	12.1%
Public Mutual Bhd.	7.4%

### Price Performance



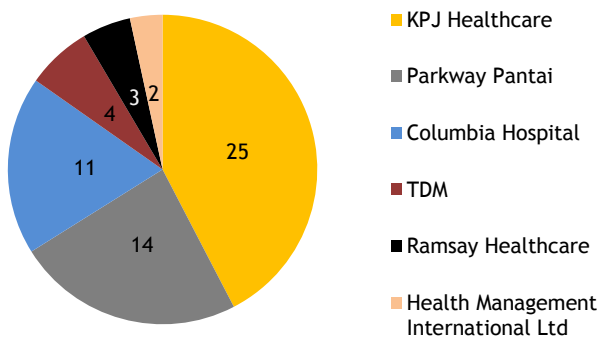
	-1M	-3M	-12M
Absolute (%)	0	(2)	0
Relative to index (%)	(1)	(4)	7

Source: FactSet

## Value Proposition

- Largest private hospital operator in Malaysia by number of hospitals (25). KPJ has plans for 9 new hospitals and 8 brownfield expansions to expand its capacity.
- Private hospital operators in Malaysia offer services ranging from primary to tertiary care. Added competition from public hospitals, which offer almost free services.
- KPJ plans to expand domestically, with a huge capex budget of ~MYR1b. Spare capacity will allow KPJ to target the medical tourists segment (<5% of FY15 revenue).
- Recent ROIC has been in the single digits (7% in FY15) as KPJ embarks on its aggressive expansion plan with high capex. We have assumed a 7.6% WACC in our forecast.

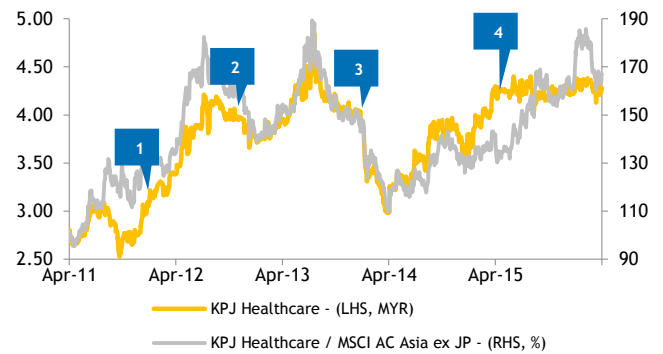
### No of hospitals per private operator as of FY15



Source: Company, Maybank Kim Eng

## Price Drivers

### 5-year historical share price



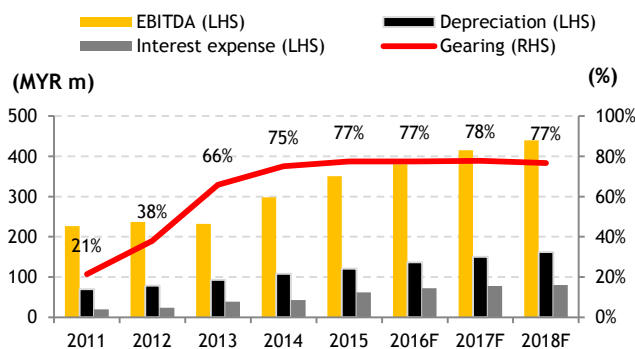
Source: Company, Maybank Kim Eng

1. KPJ's FY11 earnings beat analyst expectation on higher than expected patient volume and revenue intensity.
2. Shares fall on profit taking by investors following a 6 month rally. Investors diversified their investments into IHH Healthcare upon its dual-listing in July 2012.
3. Delay in the opening of KPJ Sabah & KPJ Rawang, coupled with higher upfront costs for new hospitals resulted in the poor earnings for FY13.
4. Earnings recovered in FY14. Growth has been relatively flat for FY15 on the back of weak consumer sentiment post GST implementation and price hikes.

## Financial Metrics

- Hospital operations in Malaysia contribute >90% to KPJ's top line. Inpatients make up the bulk of the business (~73% of FY15 Malaysia revenue).
- EBITDA growth expected to be moderated by non-profitable greenfield hospitals that are undergoing gestation, and higher operating expenses from expansion.
- By FY18, 1,200 beds are expected to be added based on its expansion plans. Our assumptions imply inpatient volume growth of 18% from FY16-FY18.
- Higher gearing (77% in FY15) largely as a result from borrowings to fund its aggressive expansion plans.

### EBITDA, gearing & operating expenses



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Greenfield hospitals break even much faster than expected.
- Weakening of USD against MYR will lower cost of imported pharmaceuticals and medical equipment.
- Spare capacity used to cater to medical tourists segment.

### Downside

- Longer-than-expected gestation period for greenfield hospitals.
- Strengthening of USD against MYR to raise the cost of procurement of medical supplies and equipment.
- Aggressive competition in the form of pricing, and provision of more medical procedures by competing private and public hospitals.
- Lack of medical talent and loss of reputable doctors to competitors.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	30.4	33.5	29.8	26.5	25.2
Core P/E (x)	34.8	30.7	29.8	26.5	25.2
P/BV (x)	3.5	3.1	2.9	2.8	2.6
P/NTA (x)	4.3	3.7	3.5	3.3	3.1
Net dividend yield (%)	1.8	1.2	1.7	1.9	2.0
FCF yield (%)	nm	nm	1.0	1.4	1.9
EV/EBITDA (x)	16.1	16.0	15.0	13.5	12.9
EV/EBIT (x)	25.3	24.3	23.4	20.8	20.0

**INCOME STATEMENT (MYR m)**

Revenue	2,639.1	2,818.5	3,119.6	3,499.5	3,760.5
Gross profit	773.7	824.5	915.6	1,020.1	1,086.8
EBITDA	297.9	350.9	381.4	428.9	454.0
Depreciation	(107.1)	(120.5)	(136.2)	(150.5)	(161.8)
Amortisation	(1.1)	0.0	0.0	0.0	0.0
EBIT	189.6	230.3	245.2	278.4	292.2
Net interest income / (exp)	(29.9)	(51.8)	(59.2)	(66.3)	(69.0)
Associates & JV	40.4	39.2	38.0	39.3	40.7
Exceptionals	17.9	(12.0)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	218.1	205.8	224.1	251.4	263.8
Income tax	(70.8)	(63.3)	(65.1)	(74.2)	(78.1)
Minorities	(4.2)	(9.8)	(9.8)	(9.8)	(9.8)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	143.0	132.6	149.1	167.4	175.9
Core net profit	125.1	144.6	149.1	167.4	175.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	305.3	426.2	369.1	362.0	419.3
Accounts receivable	437.9	565.5	598.3	671.1	721.2
Inventory	44.6	48.1	54.3	61.1	65.9
Property, Plant & Equip (net)	1,461.2	1,815.9	1,979.7	2,129.2	2,267.4
Intangible assets	243.7	253.6	253.6	253.6	253.6
Investment in Associates & JVs	475.0	482.6	490.2	498.4	507.0
Other assets	368.5	340.1	340.1	340.1	340.1
<b>Total assets</b>	<b>3,336.0</b>	<b>3,932.0</b>	<b>4,085.3</b>	<b>4,315.6</b>	<b>4,574.6</b>
ST interest bearing debt	915.9	353.3	353.3	403.3	503.3
Accounts payable	565.2	625.5	694.4	781.2	842.4
LT interest bearing debt	335.5	1,194.4	1,194.4	1,194.4	1,194.4
Other liabilities	170.0	211.0	211.0	211.0	211.0
<b>Total Liabilities</b>	<b>1,986.9</b>	<b>2,384.6</b>	<b>2,453.6</b>	<b>2,590.3</b>	<b>2,751.6</b>
Shareholders Equity	1,259.4	1,447.8	1,522.4	1,606.0	1,694.0
Minority Interest	89.8	99.6	109.4	119.2	129.1
<b>Total shareholder equity</b>	<b>1,349.1</b>	<b>1,547.4</b>	<b>1,631.8</b>	<b>1,725.3</b>	<b>1,823.1</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>3,336.0</b>	<b>3,932.0</b>	<b>4,085.3</b>	<b>4,315.6</b>	<b>4,574.6</b>

**CASH FLOW (MYR m)**

Pretax profit	218.1	205.8	224.1	251.4	263.8
Depreciation & amortisation	108.3	120.5	136.2	150.5	161.8
Adj net interest (income)/exp	(29.9)	(51.8)	(59.2)	(66.3)	(69.0)
Change in working capital	84.6	29.8	29.9	7.1	6.4
Cash taxes paid	(72.7)	(74.1)	(65.1)	(74.2)	(78.1)
Other operating cash flow	(12.6)	17.7	0.0	0.0	0.0
Cash flow from operations	318.5	336.7	346.2	361.8	382.3
Capex	(370.2)	(505.0)	(300.0)	(300.0)	(300.0)
Free cash flow	(60.5)	(198.4)	46.2	61.8	82.3
Dividends paid	(42.6)	(83.5)	(74.6)	(83.7)	(88.0)
Equity raised / (purchased)	72.5	80.4	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	210.5	312.0	0.0	50.0	100.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(206.8)	22.8	(28.8)	(35.1)	(37.0)
Effect of exch rate changes	(0.4)	(15.7)	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(18.1)</b>	<b>163.3</b>	<b>(57.1)</b>	<b>(7.0)</b>	<b>57.3</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	13.2	6.8	10.7	12.2	7.5
EBITDA growth	28.4	17.8	8.7	12.4	5.9
EBIT growth	36.5	21.5	6.5	13.5	4.9
Pretax growth	36.7	(5.6)	8.9	12.2	4.9
Reported net profit growth	38.7	(7.3)	12.4	12.2	5.1
Core net profit growth	23.7	15.6	3.1	12.2	5.1
<b>Profitability ratios (%)</b>					
EBITDA margin	11.3	12.4	12.2	12.3	12.1
EBIT margin	7.2	8.2	7.9	8.0	7.8
Pretax profit margin	8.3	7.3	7.2	7.2	7.0
Payout ratio	53.3	41.1	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	5.4	4.7	4.8	4.8	4.7
Revenue/Assets (x)	0.8	0.7	0.8	0.8	0.8
Assets/Equity (x)	2.6	2.7	2.7	2.7	2.7
ROAE (%)	10.7	10.7	10.0	10.7	10.7
ROAA (%)	4.1	4.0	3.7	4.0	4.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(32.3)	(35.0)	(32.3)	(33.4)	(34.1)
Days receivable outstanding	59.0	64.1	67.2	65.3	66.6
Days inventory outstanding	9.4	8.4	8.4	8.4	8.6
Days payables outstanding	100.7	107.5	107.8	107.1	109.3
Dividend cover (x)	1.9	2.4	2.0	2.0	2.0
Current ratio (x)	0.5	1.0	0.9	0.9	0.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.6	1.7	1.7	1.7
Net debt/equity (%)	75.1	77.5	77.4	76.9	75.5
Net interest cover (x)	6.3	4.5	4.1	4.2	4.2
Debt/EBITDA (x)	4.2	4.4	4.1	3.7	3.7
Capex/revenue (%)	14.0	17.9	9.6	8.6	8.0
Net debt/ (net cash)	946.1	1,121.5	1,178.6	1,235.6	1,278.3

Source: Company; Maybank

# Kuala Lumpur Kepong (KLK MK)

## At prime age

# HOLD

Share Price MYR 24.50  
 12m Price Target MYR 22.90 (-7%)  
 Previous Price Target MYR 22.90

### A beneficiary of El Nino induced CPO price rally

KLK is among the top three plantation stocks in Malaysia earnings wise, with 88% of FY15's EBIT contribution from its upstream & downstream divisions. It is also one of the more profitable Malaysian planters, reaping the benefits of its trees' productive years and relatively low cost of production. The stock is rich in valuation, trading at 24.7x FY17 PER. Maintain HOLD with an unchanged TP of MYR22.90 on 23x FY17 PER.

### Upstream a cash cow given its prime maturity

KLK's oil palm trees hit peak maturity in FY15, with an average age of 11.5 years, and an FFB yield of 22.0t/ha. At this prime stage, FFB growth would normally slow, hence we estimate total FFB growth to taper to a single digit 3-year (2015-18) CAGR of 5.5%. Conversely, KLK is a cash cow and one of the most profitable Malaysian planters with an EBIT per mature ha of MYR4,645 in 2015, 56% higher than average.

### An integrated plantation player

KLK produced about 0.85m MT of CPO in FY15 which in turn is substantially channeled into its downstream operations, namely into its 12 oleochemical plants (with a combined 2.2m MT pa capacity) located in Malaysia, Indonesia, EU and China. These oleochemical operations help to capture margins along the value chain and provided stable margins in the past. However, the recent collapse in crude oil price has lifted the competitiveness of petrochemical alternatives, pressuring prices and margins of natural oleochemicals.

### Unlocking value via property development

KLK has been accumulating estates for the past 50 years. Given their proximity to nearby cities and towns, some of these estates are prime for property development and could be sold for 5x-20x over the transacted prices of normal oil palm estates. Still, property development takes time and represented only 4% of group EBIT in FY15. In terms of net gearing, it is low at the group level at 24% (as at 31 Dec 2015).

### Company Description

KLK is an integrated palm oil operator. It has a property development arm to monetise estates that are prime for development.

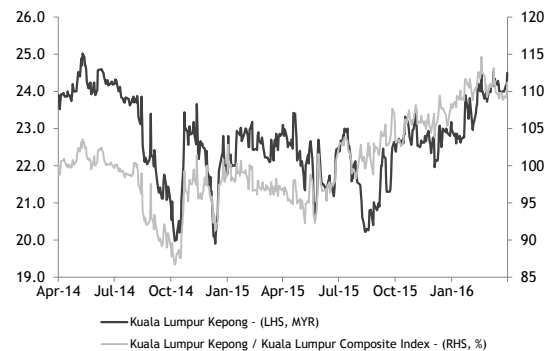
### Statistics

Shariah status	Yes
52w high/low (MYR)	24.54/20.22
3m avg turnover (USDm)	7.0
Free float (%)	48.3
Issued shares (m)	1,068
Market capitalisation	MYR26.2B USD6.7B

### Major shareholders:

Batu Kawan Bhd.	46.5%
Employees Provident Fund	13.5%
Permodalan Nasional Bhd.	8.8%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	6	7
Relative to index (%)	2	3	15

Source: FactSet

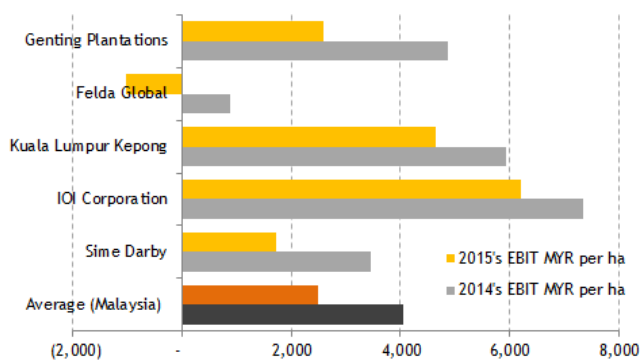
FYE Sep (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	11,130	13,650	14,364	16,188	16,969
EBITDA	1,728	1,578	1,681	1,880	1,991
Core net profit	985	819	910	1,059	1,134
Core EPS (sen)	92.3	76.7	85.3	99.2	106.2
Core EPS growth (%)	10.4	(16.9)	11.2	16.4	7.1
Net DPS (sen)	55.0	45.0	51.2	59.5	63.7
Core P/E (x)	26.6	31.9	28.7	24.7	23.1
P/BV (x)	3.4	2.7	2.5	2.4	2.3
Net dividend yield (%)	2.2	1.8	2.1	2.4	2.6
ROAE (%)	12.9	9.4	9.0	9.9	10.1
ROAA (%)	8.0	5.4	5.1	5.8	6.0
EV/EBITDA (x)	14.2	16.6	17.2	15.4	14.4
Net debt/equity (%)	20.8	26.0	21.9	20.8	17.5
Consensus net profit	-	-	1,223	1,182	1,334
MKE vs. Consensus (%)	-	-	15.9	(10.4)	(15.0)

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## Value Proposition

- Integrated oil palm producer with 207,622 ha of planted area in Malaysia (44%), Indonesia (53%) and Liberia (3%). Among the big players in the region.
- Over 50 years in oil palm planting. Some estates in Klang Valley (2,747 ha) and Iskandar Malaysia (2,118 ha) have been monetised via property development.
- One of the lowest cost producers in the region with all-in upstream cost of production of MYR1,188/t in FY9/15.
- Captures margins along the value chain with its refining & oleochemicals manufacturing. Processing margins thinned in the past 2 years by competition and overexpansion.
- Malaysia's high domestic liquidity, growing pool of shariah funds and lack of shariah-investable assets make KLK a natural favourite among local funds.

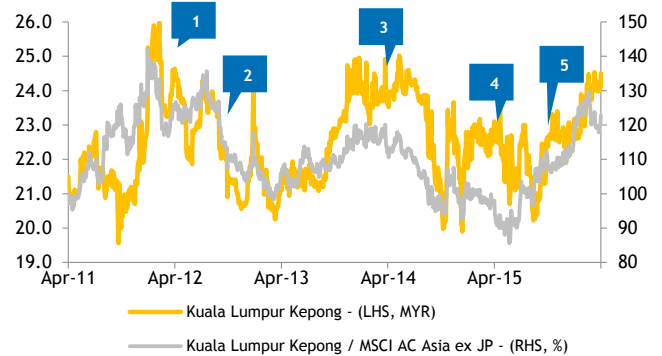
### Operating profits per hectare (in MYR)



Source: Company, Maybank KE

## Price Drivers

### Historical share price



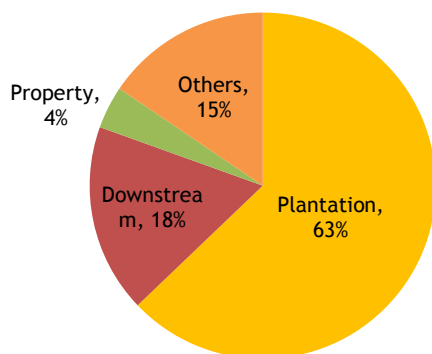
Source: Company, Maybank Kim Eng

1. CPO price peaked at MYR3,613/t in Apr 2012, just as Brent crude peaked at USD127/bbl.
2. CPO price corrected below MYR3,000/t in Sep 2012 on potential ample supply of vegetable oils.
3. False alarm over El Nino.
4. Confirmation of El Nino by Australia Bureau of Meteorology.
5. Haze blanketed the region following severe droughts in Central/South Kalimantan and southern Sumatra.

## Financial Metrics

- CPO price and production volume are two key drivers.
- Upstream cash cow, given its prime tree age profile of 11.5 years.
- Less than 7% margin for downstream.
- Net gearing low at 24% as at 31 Dec 2015. No major capex in next 3 years.
- Property contributions still small, at 4% of FY9/15 EBIT.

### FY9/15 EBIT contribution by division (MYR1,241m)



Source: Company

## Swing Factors

### Upside

- Stronger-than-expected CPO price uptick induced by El Nino.
- Better-than-expected FFB yields.
- Recovery in global economy, especially China, boosting demand for palm oil and oleochemicals.
- Strict implementation of Indonesia's biodiesel B20 mandate, lifting CPO demand.
- Recovery in crude oil prices above USD75/bbl, spurring demand for discretionary biodiesel.

### Downside

- Worse-than-expected FFB yields in 2016, hurt by low rainfall in 2015.
- Actual CPO production in 2016 not as severely affected by El Nino.
- Oleochemicals margins weaken further on competition from petrochemicals as a result of lower feedstock costs.

FYE 30 Sep	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	26.4	30.1	18.4	24.7	23.1
Core P/E (x)	26.6	31.9	28.7	24.7	23.1
P/BV (x)	3.4	2.7	2.5	2.4	2.3
P/NTA (x)	3.5	2.8	2.6	2.5	2.4
Net dividend yield (%)	2.2	1.8	2.1	2.4	2.6
FCF yield (%)	nm	nm	2.8	2.4	3.6
EV/EBITDA (x)	14.2	16.6	17.2	15.4	14.4
EV/EBIT (x)	17.6	22.0	22.5	19.7	18.4

**INCOME STATEMENT (MYR m)**

Revenue	11,130.0	13,650.0	14,364.2	16,187.9	16,968.6
Gross profit	2,115.2	1,914.7	2,057.2	2,361.9	2,508.8
EBITDA	1,728.1	1,578.0	1,680.8	1,879.7	1,991.2
Depreciation	(335.8)	(387.7)	(396.2)	(413.4)	(430.7)
EBIT	1,392.3	1,190.3	1,284.6	1,466.3	1,560.5
Net interest income / (exp)	(87.4)	(104.5)	(103.5)	(101.4)	(99.4)
Associates & JV	5.9	(2.4)	(2.4)	(2.5)	(2.5)
Exceptionals	6.9	51.2	508.1	0.0	0.0
Pretax profit	1,317.7	1,134.6	1,686.9	1,362.4	1,458.6
Income tax	(285.0)	(250.6)	(247.5)	(286.1)	(306.3)
Minorities	(41.0)	(14.1)	(21.0)	(17.0)	(18.2)
Reported net profit	991.7	869.9	1,418.4	1,059.3	1,134.1
Core net profit	984.8	818.7	910.2	1,059.3	1,134.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,295.8	2,083.2	2,192.7	2,122.2	2,324.0
Accounts receivable	1,614.9	2,687.0	2,827.6	3,186.6	3,340.3
Inventory	1,468.7	1,613.8	1,698.3	1,913.9	2,006.2
Property, Plant & Equip (net)	6,552.5	7,495.6	7,576.3	7,639.6	7,685.5
Intangible assets	302.2	345.4	338.5	331.8	325.1
Investment in Associates & JVs	172.7	299.2	782.4	780.0	777.5
Other assets	1,480.8	2,735.5	2,715.6	2,696.7	2,678.7
<b>Total assets</b>	<b>12,887.6</b>	<b>17,259.6</b>	<b>18,131.4</b>	<b>18,670.7</b>	<b>19,137.3</b>
ST interest bearing debt	1,094.2	1,912.8	1,817.2	1,726.3	1,640.0
Accounts payable	999.5	1,417.9	1,492.1	1,681.5	1,762.6
LT interest bearing debt	1,816.2	2,681.2	2,681.2	2,681.2	2,681.2
Other liabilities	795.0	1,120.0	1,120.0	1,120.0	1,120.0
<b>Total Liabilities</b>	<b>4,704.4</b>	<b>7,131.5</b>	<b>7,110.1</b>	<b>7,208.6</b>	<b>7,203.4</b>
Shareholders Equity	7,751.7	9,666.4	10,538.6	10,962.4	11,416.0
Minority Interest	431.5	461.7	482.7	499.7	517.8
<b>Total shareholder equity</b>	<b>8,183.2</b>	<b>10,128.1</b>	<b>11,021.3</b>	<b>11,462.0</b>	<b>11,933.9</b>
<b>Total liabilities and equity</b>	<b>12,887.6</b>	<b>17,259.6</b>	<b>18,131.4</b>	<b>18,670.7</b>	<b>19,137.3</b>

**CASH FLOW (MYR m)**

Pretax profit	1,317.7	1,134.6	1,686.9	1,362.4	1,458.6
Depreciation & amortisation	335.8	387.7	396.2	413.4	430.7
Adj net interest (income)/exp	(87.7)	(104.5)	0.0	0.0	0.0
Change in working capital	(598.5)	(557.1)	(150.9)	(385.2)	(164.9)
Cash taxes paid	(256.7)	(325.6)	(247.5)	(286.1)	(306.3)
Other operating cash flow	0.0	0.0	(485.7)	0.0	0.0
Cash flow from operations	704.8	537.4	1,201.4	1,107.0	1,420.6
Capex	(1,152.8)	(589.7)	(470.0)	(470.0)	(470.0)
Free cash flow	(448.0)	(52.3)	731.4	637.0	950.6
Dividends paid	(614.8)	(635.6)	(546.1)	(635.6)	(680.5)
Change in Debt	550.4	1,536.8	(95.6)	(90.9)	(86.3)
Other invest/financing cash flow	(9.3)	(148.2)	19.9	18.9	18.0
Net cash flow	(521.8)	700.8	109.6	(70.5)	201.8

FYE 30 Sep	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	21.7	22.6	5.2	12.7	4.8
EBITDA growth	13.1	(8.7)	6.5	11.8	5.9
EBIT growth	12.2	(14.5)	7.9	14.1	6.4
Pretax growth	9.8	(13.9)	48.7	(19.2)	7.1
Reported net profit growth	8.1	(12.3)	63.0	(25.3)	7.1
Core net profit growth	10.4	(16.9)	11.2	16.4	7.1
<b>Profitability ratios (%)</b>					
EBITDA margin	15.5	11.6	11.7	11.6	11.7
EBIT margin	12.5	8.7	8.9	9.1	9.2
Pretax profit margin	11.8	8.3	11.7	8.4	8.6
Payout ratio	59.2	55.2	38.5	60.0	60.0
<b>DuPont analysis</b>					
Net profit margin (%)	8.9	6.4	9.9	6.5	6.7
Revenue/Assets (x)	0.9	0.8	0.8	0.9	0.9
Assets/Equity (x)	1.7	1.8	1.7	1.7	1.7
ROAE (%)	12.9	9.4	9.0	9.9	10.1
ROAA (%)	8.0	5.4	5.1	5.8	6.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	61.2	66.9	75.0	72.6	75.2
Days receivable outstanding	46.6	56.7	69.1	66.9	69.2
Days inventory outstanding	50.9	47.3	48.4	47.0	48.8
Days payables outstanding	36.4	37.1	42.6	41.3	42.9
Dividend cover (x)	1.7	1.8	2.6	1.7	1.7
Current ratio (x)	2.0	1.8	1.9	2.0	2.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.7	2.4	2.6	2.6	2.7
Net debt/equity (%)	20.8	26.0	21.9	20.8	17.5
Net interest cover (x)	15.9	11.4	12.4	14.5	15.7
Debt/EBITDA (x)	1.7	2.9	2.7	2.3	2.2
Capex/revenue (%)	10.4	4.3	3.3	2.9	2.8
Net debt/ (net cash)	1,614.6	2,510.9	2,305.7	2,285.4	1,997.2

Source: Company; Maybank

# Mah Sing Group (MSGB MK)

## Turning aggressive

# HOLD

Share Price MYR 1.43  
 12m Price Target MYR 1.36 (-5%)  
 Previous Price Target MYR 1.36

### Management turning more positive

After the cancellation of the land acquisitions in Negeri Sembilan and Puchong in 2015, MSGB is switching on its landbanking mode again and turning more positive on the property market outlook. It is confident of achieving its MYR2.3b sales target for 2016 driven by MYR2.1b worth of new launches. We value MSGB at MYR1.36 RNAV-TP, based on an unchanged 40% discount to RNAV.

### Confident of achieving MYR2.3b

Management has turned positive on the property market outlook and is confident of achieving its MYR2.33b sales target for FY16 (versus our sales assumption of MYR2.1b; FY15: MYR2.30b) supported by: a) MYR2.06b worth of new launches at existing projects - Southville City, Bangi (MYR801m in GDV), Meridin East, Johor (MYR311.5m) and Lakeville Residence (MYR260.8m), b) MYR190m worth of inventories at Dec 2015 and c) about MYR1.6b newly-launched unsold properties as at end-2015.

### Switching on landbanking mode again

After the cancellation of the two land purchases in Negeri Sembilan (960 acres) and Puchong (89 acres) due to breach of terms and conditions of the SPA by the vendors (Negeri Sembilan) and inability to secure certain approvals on time (Puchong), MSGB is switching on its landbanking mode again. As end-Dec 2015, net gearing stood at 0.22x. It can still borrow up to MYR900m before reaching its internal net gearing limit of 0.5x.

### Focus on affordable homes

MSGB's near term focus will continue to be on affordable housing but the management expects to sell more medium range to high-end properties next year. Our 4.6% 3-yr net profit CAGR forecast (2015-18) is based on MYR2.07b sales in 2016 (-10% YoY), and MYR2.15b in 2017. As at end-Dec 2015, MSGB had unbilled sales of MYR4.75b which is 1.8x of our FY16F revenue forecast.

### Company Description

*Mah Sing Group is involved in property development and plastic businesses.*

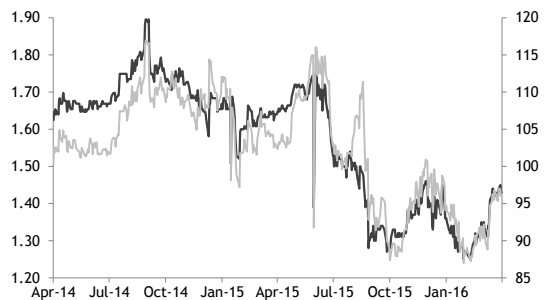
### Statistics

Shariah status	Yes
52w high/low (MYR)	1.75/1.25
3m avg turnover (USDm)	0.3
Free float (%)	51.8
Issued shares (m)	2,409
Market capitalisation	MYR3.4B USD878M

### Major shareholders:

Mayang Teratai Sdn. Bhd.	43.2%
Permodalan Nasional Bhd.	10.5%
Employees Provident Fund	10.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	6	5	(13)
Relative to index (%)	4	2	(6)

Source: FactSet

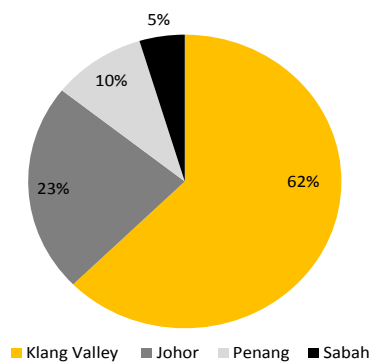
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,905	3,109	2,938	3,186	3,200
EBITDA	493	528	575	625	673
Core net profit	339	339	317	350	388
Core EPS (sen)	18.4	14.1	13.2	14.5	16.1
Core EPS growth (%)	13.8	(23.5)	(6.3)	10.3	10.8
Net DPS (sen)	6.5	6.5	5.3	5.8	6.4
Core P/E (x)	7.8	10.2	10.9	9.8	8.9
P/BV (x)	1.2	1.1	1.0	1.0	0.9
Net dividend yield (%)	4.5	4.5	3.7	4.1	4.5
ROAE (%)	16.1	12.5	9.8	10.2	10.6
ROAA (%)	6.9	5.7	4.6	4.8	5.2
EV/EBITDA (x)	7.9	6.9	6.5	6.0	5.3
Net debt/equity (%)	35.8	4.3	8.4	8.3	3.1
Consensus net profit	-	-	380	403	414
MKE vs. Consensus (%)	-	-	(16.5)	(13.0)	(6.2)

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## Value Proposition

- Famous for its “fast turnaround” strategy that enables it to crystalize land value and generate strong cash flows within a short period.
- To ensure more stable earnings growth over the longer term, MSGB acquired sizeable landbank in Rawang (2011, 2012) and Bangi (2012).
- 63% of the remaining GDV is derived from its central projects, followed by Iskandar Malaysia (23%), Penang (10%) and Sabah (5%).
- Earnings growth is expected to slow due to weaker demand for properties (property downcycle) and the lack of new launches over the last one year.
- ROE to hover ≈10% (10.8% in 2015) on higher contributions from lower profit margin affordable housing products.

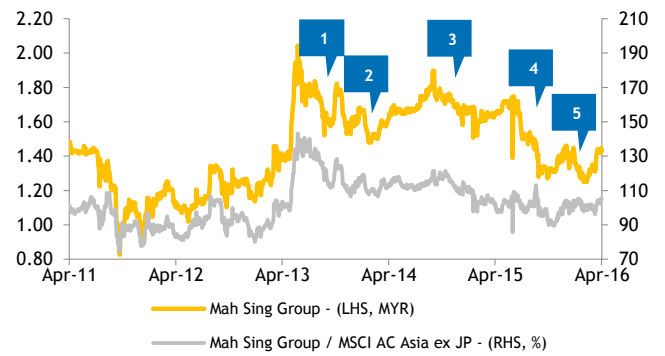
### GDV breakdown by location



Source: Company

## Price Drivers

### Historical Share Price Trend



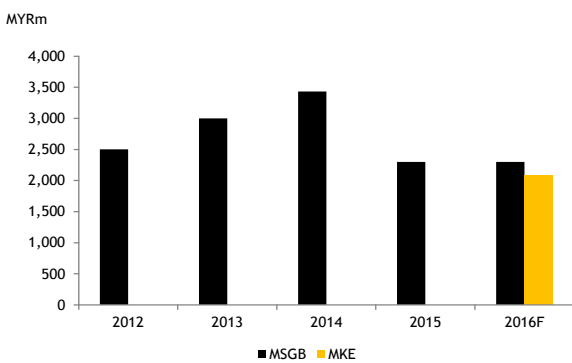
Source: Company, Maybank Kim Eng

1. Re-rating of property stocks post-13<sup>th</sup> General Election in May 2013 on strong liquidity flows, accommodative monetary policies and ongoing infra developments.
2. Announcement of new property cooling measures in Oct 2013.
3. Achieved record sales of MYR3.4b at end-2014.
4. Lowered its property sales target by 33% and cancelled land deals in Negeri Sembilan and Puchong.
5. Results came below market expectations on high administrative costs and liquidated ascertained damages.

## Financial Metrics

- MSGB aims to achieve similar sales in 2016 as in 2015 of MYR2.3b, supported by MYR2.1b worth of new launches.
- MSGB is on the lookout for landbank. At end-Dec 2015, its net gearing stood at 0.22x, including the MYR540m worth of perpetual sukuk. It can still borrow up to MYR900m before reaching its internal net gearing limit of 0.5x.
- Our 4.6% 3-yr net profit CAGR forecast (2015-18) is based on sales of MYR2.07b in 2016 (-10% YoY) and MYR2.15b in 2017. Unbilled sales of MYR4.75b at end-Dec 2015 were 1.8x of our FY16F revenue forecast.

### Actual sales and sales targets/assumptions (MYRm)



Source: Company

## Swing Factors

### Upside

- Potential RNAV-accretive land acquisitions.
- Stronger-than-expected take-up rates for its ongoing and new projects.
- Improving operating margins on cost cutting measures and lower liquidated ascertained damages.

### Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins on higher marketing expenses.





FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	7.8	9.4	10.9	9.8	8.9
Core P/E (x)	7.8	10.2	10.9	9.8	8.9
P/BV (x)	1.2	1.1	1.0	1.0	0.9
P/NTA (x)	1.2	1.1	1.0	1.0	0.9
Net dividend yield (%)	4.5	4.5	3.7	4.1	4.5
FCF yield (%)	12.0	nm	12.3	5.4	11.4
EV/EBITDA (x)	7.9	6.9	6.5	6.0	5.3
EV/EBIT (x)	8.3	7.3	6.9	6.3	5.6

**INCOME STATEMENT (MYR m)**

Revenue	2,904.7	3,108.5	2,938.1	3,186.0	3,199.9
Gross profit	782.6	794.4	910.7	989.1	1,037.0
EBITDA	492.9	527.9	574.6	624.9	673.4
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	468.7	500.0	543.4	590.9	637.0
Net interest income / (exp)	1.6	3.7	(70.1)	(70.8)	(62.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	29.5	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	455.0	503.7	473.3	520.1	574.1
Income tax	(117.3)	(119.1)	(118.3)	(130.0)	(143.5)
Minorities	1.6	(16.4)	(37.5)	(39.8)	(42.5)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	339.2	368.3	317.4	350.2	388.1
Core net profit	339.2	338.8	317.4	350.2	388.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	639.2	1,358.7	1,358.7	1,358.7	1,358.7
Accounts receivable	818.3	1,062.4	827.7	897.6	901.5
Inventory	154.8	190.4	156.5	169.7	170.5
Property, Plant & Equip (net)	115.3	109.5	181.9	198.3	212.3
Intangible assets	7.4	6.2	6.2	6.2	6.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	3,571.1	3,888.5	4,580.0	4,835.0	4,880.2
<b>Total assets</b>	<b>5,306.0</b>	<b>6,615.7</b>	<b>7,111.0</b>	<b>7,465.5</b>	<b>7,529.3</b>
ST interest bearing debt	69.4	102.4	102.4	102.4	102.4
Accounts payable	1,508.5	1,364.7	1,525.8	1,654.5	1,661.8
LT interest bearing debt	1,382.0	1,391.8	1,535.6	1,551.2	1,374.9
Other liabilities	68.0	73.0	73.0	73.0	73.0
<b>Total Liabilities</b>	<b>3,027.7</b>	<b>2,931.6</b>	<b>3,236.4</b>	<b>3,380.8</b>	<b>3,211.7</b>
Shareholders Equity	2,268.6	3,135.6	3,326.1	3,536.2	3,769.1
Minority Interest	9.7	8.5	8.5	8.5	8.5
<b>Total shareholder equity</b>	<b>2,278.3</b>	<b>3,144.1</b>	<b>3,334.6</b>	<b>3,544.7</b>	<b>3,777.6</b>
Perpetual securities	0.0	540.0	540.0	540.0	540.0
<b>Total liabilities and equity</b>	<b>5,306.0</b>	<b>6,615.7</b>	<b>7,111.0</b>	<b>7,465.5</b>	<b>7,529.3</b>

**CASH FLOW (MYR m)**

Pretax profit	455.0	503.7	473.3	520.1	574.1
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	(32.6)	(27.4)	(73.7)	(74.4)	(66.5)
Change in working capital	(40.4)	(559.8)	112.3	(163.4)	(9.2)
Cash taxes paid	(110.5)	(153.1)	(118.3)	(130.0)	(143.5)
Other operating cash flow	44.7	38.3	0.0	0.0	0.0
Cash flow from operations	316.1	(198.3)	424.8	186.2	391.3
Capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	316.1	(198.3)	424.8	186.2	391.3
Dividends paid	(118.1)	(156.6)	(156.6)	(127.0)	(140.1)
Equity raised / (purchased)	79.2	631.8	(337.1)	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(775.9)	389.2	(74.9)	(74.9)	(74.9)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>(498.6)</b>	<b>666.1</b>	<b>(143.8)</b>	<b>(15.6)</b>	<b>176.3</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	44.8	7.0	(5.5)	8.4	0.4
EBITDA growth	26.0	7.1	8.8	8.7	7.8
EBIT growth	27.1	6.7	8.7	8.7	7.8
Pretax growth	22.5	10.7	(6.0)	9.9	10.4
Reported net profit growth	20.9	8.6	(13.8)	10.3	10.8
Core net profit growth	20.9	(0.1)	(6.3)	10.3	10.8
<b>Profitability ratios (%)</b>					
EBITDA margin	17.0	17.0	19.6	19.6	21.0
EBIT margin	16.1	16.1	18.5	18.5	19.9
Pretax profit margin	15.7	16.2	16.1	16.3	17.9
Payout ratio	35.3	42.5	40.0	40.0	40.0
<b>DuPont analysis</b>					
Net profit margin (%)	11.7	11.8	10.8	11.0	12.1
Revenue/Assets (x)	0.5	0.5	0.4	0.4	0.4
Assets/Equity (x)	2.3	2.1	2.1	2.1	2.0
ROAE (%)	16.1	12.5	9.8	10.2	10.6
ROAA (%)	6.9	5.7	4.6	4.8	5.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(137.8)	(87.7)	(110.0)	(136.4)	(146.5)
Days receivable outstanding	86.8	108.9	115.8	97.5	101.2
Days inventory outstanding	19.6	26.8	30.8	26.7	28.3
Days payables outstanding	244.2	223.5	256.6	260.6	276.0
Dividend cover (x)	2.8	2.4	2.5	2.5	2.5
Current ratio (x)	2.5	3.4	3.3	3.3	3.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	2.3	2.2	2.2	2.3
Net debt/equity (%)	35.8	4.3	8.4	8.3	3.1
Net interest cover (x)	na	na	7.7	8.3	10.1
Debt/EBITDA (x)	2.9	2.8	2.9	2.6	2.2
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	812.2	135.6	279.4	295.0	118.7

Source: Company; Maybank

# Malakoff Corporation (MLK MK)

## Primarily a yield play

# BUY

Share Price MYR 1.64  
 12m Price Target MYR 1.80 (+10%)  
 Previous Price Target MYR 1.80

### Recent concerns alleviated

Two key overhangs pertaining to 1) dividends (Malakoff eventually paid out a 7sen DPS in 2015) and 2) a major delay to Tj Bin Energy's plant (successfully commissioned in Mar 2016) have been lifted. With a CEO yet to be appointed, securing new projects is unlikely in the near term. Nevertheless, the stock's c.5% dividend yield is both attractive and sustainable, despite a stepdown in 2017 net profit from Segari's revised PPA terms. We have a BUY rating with a MYR1.80 TP.

### Kapar repairs; Tj Bin Energy commissions

Having experienced outages in 2015, associate Kapar is again undergoing repairs. Kapar is likely to remain loss-making in 2016, with full capacity payments possibly in 2017 at the earliest. Meanwhile, the new 1,000 MW Tj Bin Energy plant successfully commissioned in Mar 2016, thus alleviating concerns over a major delay. By our estimate, Tj Bin Energy would account for 14%/19% of Malakoff's FY16/17 EBITDA respectively.

### Segari's earnings step down in 2017 and 2018

Segari's current PPA expires in Jun 2017, and the revised terms in the extended (10-year) PPA are materially less lucrative, with EBITDAs potentially just a quarter of the current run-rate. Hence, we forecast Malakoff to post net profit declines in 2017 (half year impact) and 2018 (full year impact). Based on our FCF projections, Malakoff would still be able to sustain annual DPS at above 7sen, but this would entail higher payout ratios.

### Sustainable dividends

Malakoff's c.5% dividend yield is both attractive and sustainable, in our view. Our TP is based on a sum-of parts methodology, with each entity valued on a DCF. The flagship 2,100MW Tj Bin Power plant contributes MYR0.74/share to our TP, and Tj Bin Energy another MYR0.17/share. Our TP implies 7.1x EV/EBITDA, 15.8x PER, and 4.4% net yield in 2016.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	5,594	5,302	6,365	6,515	6,195
EBITDA	2,407	2,469	2,973	2,897	2,667
Core net profit	342	453	571	495	375
Core EPS (sen)	9.7	9.1	11.4	9.9	7.5
Core EPS growth (%)	111.4	(6.8)	26.1	(13.4)	(24.3)
Net DPS (sen)	4.5	7.0	8.0	7.9	7.9
Core P/E (x)	16.9	18.1	14.3	16.6	21.9
P/BV (x)	1.5	1.4	1.4	1.4	1.4
Net dividend yield (%)	2.7	4.3	4.9	4.8	4.8
ROAE (%)	8.7	9.3	9.7	8.2	6.2
ROAA (%)	1.2	1.5	1.9	1.6	1.2
EV/EBITDA (x)	na	8.9	7.0	6.6	6.5
Net debt/equity (%)	361.6	238.9	205.8	175.3	148.0
Consensus net profit	-	-	544	531	470
MKE vs. Consensus (%)	-	-	5.0	(6.8)	(20.3)

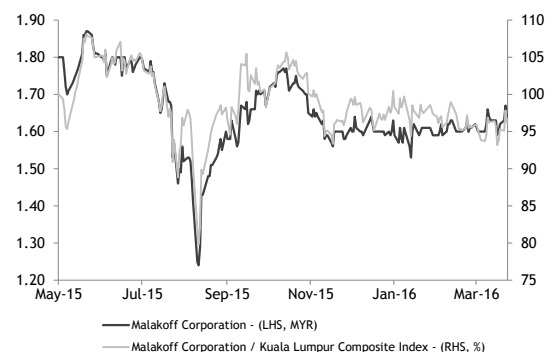
### Company Description

Malakoff Corp owns a portfolio of independent power and water producers.

### Statistics

Shariah status	Yes
52w high/low (MYR)	na/na
3m avg turnover (USDm)	1.7
Free float (%)	75.7
Issued shares (m)	5,000
Market capitalisation	MYR8.2B USD2.1B
Major shareholders:	
MMC Corp. Bhd.	37.6%
Employees Provident Fund	19.1%
Lembaga Tabung Haji	10.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	3	na
Relative to index (%)	1	(0)	na

Source: FactSet

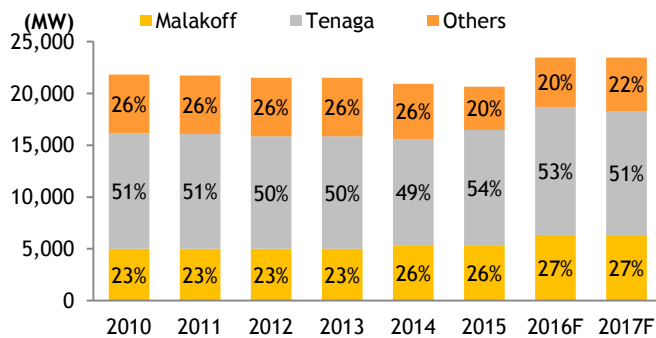
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## Value Proposition

- Malakoff ranks second by generation capacity in Malaysia (after Tenaga) with its portfolio of IPPs.
- Earnings of Malaysian IPPs are inherently stable - PPA terms are pre-determined, and IPPs do not bear fuel risk.
- Malakoff is not adverse to international expansion, but its overseas participation has largely been restricted to associates/JV stakes.
- Low ROICs of 4-7% due to EBIT being suppressed from lease accounting, and a large denominator from substantial intangibles booked during privatisation in 2007.
- Barring substantial new projects, Malakoff's returns profile is unlikely to materially change in the coming years.

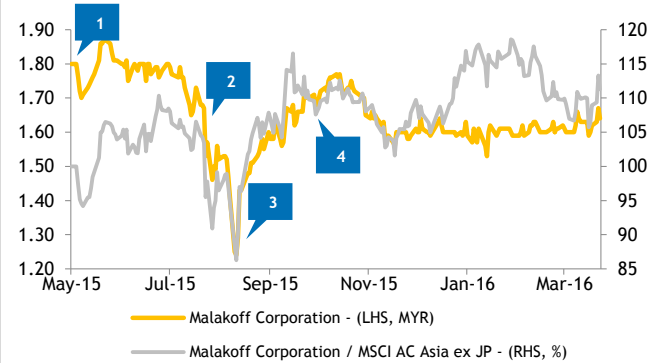
### Peninsular Malaysia installed capacity



Source: Company

## Price Drivers

### Historical share price



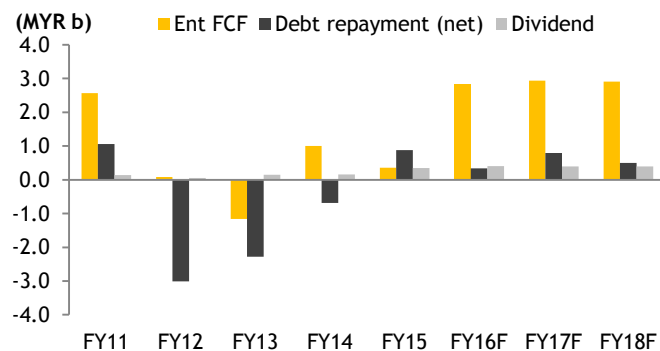
Source: Company, Maybank Kim Eng

- Stock is listed at a price of MYR1.80.
- Concerns on Kapar's outages, which eventually resulted in Malakoff's 2Q15 results missing expectations.
- Management dispels concerns over a potential delay to the commissioning of Tj Bin Energy.
- PD Power to be awarded a short-term extension upon initial PPA expiry.

## Financial Metrics

- FCF has been suppressed in recent years by capex for Tj Bin Energy, and should recover in 2016 when construction is completed and the plant begins operations.
- The less lucrative terms from the extended Segari PPA (original PPA expires in Jun 2017) would result in Malakoff's net profit declining in 2017 and 2018.
- Nevertheless, Segari's impact to 2017 FCF would be offset by the positive contribution from Tj Bin Energy.
- Given the still healthy FCF generation, we expect Malakoff's to sustain DPS at above 7sen beyond 2016.

### FCF, debt repayment and dividends



Source: Company

## Swing Factors

### Upside

- Participation in new domestic green-field projects.
- A permanent fix to associate Kapar's longstanding operational issues.
- Sustaining a 8sen DPS beyond 2016.

### Downside

- Severe unscheduled outages at any of Malakoff's plants, which would have an adverse financial impact.
- A repeat of windfall taxes being imposed on IPPs.

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	16.9	18.1	14.3	16.6	21.9
Core P/E (x)	16.9	18.1	14.3	16.6	21.9
P/BV (x)	1.5	1.4	1.4	1.4	1.4
P/NTA (x)	(3.2)	155.0	36.6	25.4	26.9
Net dividend yield (%)	2.7	4.3	4.9	4.8	4.8
FCF yield (%)	18.9	5.7	34.6	35.9	35.5
EV/EBITDA (x)	na	8.9	7.0	6.6	6.5
EV/EBIT (x)	na	16.9	12.3	11.8	12.4

**INCOME STATEMENT (MYR m)**

Revenue	5,594.5	5,302.0	6,365.0	6,515.2	6,195.2
Gross profit	1,638.4	1,602.3	2,081.7	2,028.7	1,786.7
EBITDA	2,407.1	2,468.8	2,972.8	2,896.6	2,667.4
Depreciation	(563.0)	(625.7)	(758.8)	(748.7)	(733.6)
Amortisation	(511.7)	(534.2)	(535.0)	(535.0)	(535.0)
EBIT	1,332.4	1,308.9	1,679.0	1,612.9	1,398.7
Net interest income / (exp)	(738.6)	(602.6)	(828.0)	(863.9)	(789.2)
Associates & JV	1.7	(4.3)	18.8	35.2	49.3
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	595.5	702.0	869.8	784.2	658.8
Income tax	(182.6)	(206.1)	(233.9)	(229.0)	(232.1)
Minorities	(71.3)	(42.7)	(64.4)	(60.3)	(52.1)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	341.5	453.2	571.5	494.9	374.7
Core net profit	341.5	453.2	571.5	494.9	374.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	3,896.4	3,482.6	4,720.0	5,571.6	6,758.4
Accounts receivable	1,304.3	1,882.6	1,778.7	1,820.7	1,731.3
Inventory	518.4	575.1	668.9	700.6	688.5
Property, Plant & Equip (net)	16,385.3	17,326.7	16,947.8	16,299.1	15,665.5
Intangible assets	4,704.2	4,206.3	3,671.3	3,136.3	2,601.3
Investment in Associates & JVs	1,261.2	1,234.8	1,241.1	1,262.5	1,296.7
Other assets	1,266.3	1,664.6	1,664.6	1,664.6	1,664.6
<b>Total assets</b>	<b>29,336.1</b>	<b>30,372.6</b>	<b>30,692.4</b>	<b>30,455.3</b>	<b>30,406.1</b>
ST interest bearing debt	734.3	723.0	723.0	723.0	723.0
Accounts payable	975.5	824.3	962.3	1,007.9	990.4
LT interest bearing debt	17,493.2	16,624.6	16,291.1	15,498.4	14,996.1
Other liabilities	5,956.0	6,182.0	6,509.0	6,910.0	7,400.0
<b>Total Liabilities</b>	<b>25,159.5</b>	<b>24,354.0</b>	<b>24,485.5</b>	<b>24,139.0</b>	<b>24,109.5</b>
Shareholders Equity	3,963.6	5,803.6	5,975.0	6,074.0	6,055.2
Minority Interest	213.0	215.0	231.9	242.3	241.4
<b>Total shareholder equity</b>	<b>4,176.6</b>	<b>6,018.6</b>	<b>6,206.9</b>	<b>6,316.3</b>	<b>6,296.6</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>29,336.1</b>	<b>30,372.6</b>	<b>30,692.4</b>	<b>30,455.3</b>	<b>30,406.1</b>

**CASH FLOW (MYR m)**

Pretax profit	595.5	702.0	869.8	784.2	658.8
Depreciation & amortisation	1,074.7	1,159.9	1,293.8	1,283.7	1,268.6
Adj net interest (income)/exp	738.6	602.6	828.0	863.9	789.2
Change in working capital	362.6	(455.8)	390.5	317.7	517.5
Cash taxes paid	(150.7)	(218.4)	(149.3)	(174.3)	(175.1)
Other operating cash flow	87.4	104.7	0.0	0.0	0.0
Cash flow from operations	2,702.0	1,899.3	3,214.0	3,040.1	3,009.8
Capex	(1,614.6)	(1,434.3)	(380.0)	(100.0)	(100.0)
Free cash flow	1,087.4	465.0	2,834.0	2,940.1	2,909.8
Dividends paid	(156.7)	(350.0)	(400.0)	(395.9)	(393.4)
Equity raised / (purchased)	0.0	1,800.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	599.3	(1,606.5)	(333.5)	(792.6)	(502.3)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(330.9)	(1,030.1)	(863.0)	(900.0)	(827.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>1,199.1</b>	<b>(721.6)</b>	<b>1,237.5</b>	<b>851.5</b>	<b>1,186.9</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	18.6	(5.2)	20.0	2.4	(4.9)
EBITDA growth	46.1	2.6	20.4	(2.6)	(7.9)
EBIT growth	89.7	(1.8)	28.3	(3.9)	(13.3)
Pretax growth	607.7	17.9	23.9	(9.8)	(16.0)
Reported net profit growth	111.4	32.7	26.1	(13.4)	(24.3)
Core net profit growth	111.4	32.7	26.1	(13.4)	(24.3)
<b>Profitability ratios (%)</b>					
EBITDA margin	43.0	46.6	46.7	44.5	43.1
EBIT margin	23.8	24.7	26.4	24.8	22.6
Pretax profit margin	10.6	13.2	13.7	12.0	10.6
Payout ratio	45.9	77.2	70.0	80.0	nm
<b>DuPont analysis</b>					
Net profit margin (%)	6.1	8.5	9.0	7.6	6.0
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	7.4	5.2	5.1	5.0	5.0
ROAE (%)	8.7	9.3	9.7	8.2	6.2
ROAA (%)	1.2	1.5	1.9	1.6	1.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	41.2	73.8	80.7	75.3	78.3
Days receivable outstanding	82.7	108.2	103.5	99.4	103.2
Days inventory outstanding	45.4	53.2	52.3	54.9	56.7
Days payables outstanding	86.9	87.6	75.1	79.0	81.6
Dividend cover (x)	2.2	1.3	1.4	1.2	1.0
Current ratio (x)	3.2	3.6	4.0	4.4	5.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.2	1.2	1.3	1.3	1.3
Net debt/equity (%)	361.6	238.9	205.8	175.3	148.0
Net interest cover (x)	1.8	2.2	2.0	1.9	1.8
Debt/EBITDA (x)	7.6	7.0	5.7	5.6	5.9
Capex/revenue (%)	28.9	27.1	6.0	1.5	1.6
Net debt/ (net cash)	14,331.1	13,865.0	12,294.1	10,649.9	8,960.7

Source: Company; Maybank

# Malaysia Airports (MAHB MK)

## Traffic slowdown impeding profit recovery

### Stable industry but not reflected in profits yet

MAHB is a global airport operator with operations in Malaysia and Turkey. Its portfolio consists of high quality assets such as the Kuala Lumpur International Airport (KLIA) and Istanbul Sabiha Gökçen Airport (ISG). Traffic growth is the main driver for the group, and of late, the rate has lagged expectations. We rate the stock at a SELL with a TP of MYR5.10, due to its expensive valuations relative to other listed airports globally.

### Cost continue to be erratic

MAHB is at a stage where its costs have yet to stabilise and are erratic on a quarter to quarter basis. The bulk of these costs relate to the KLIA2 repair works and also to the recently acquired ISG. We forecast that it will be another year or two before management can initiate its reform measures and for costs to stabilise.

### Looking ahead

Passenger traffic growth for the Malaysia based airports is forecasted to grow at 3-4% in 2016, driven by organic growth of existing airlines. ISG is recording robust traffic growth, and is approaching its physical limit of 33m; therefore we expect growth to taper in the upcoming years. MAHB will have to rely on cost savings to derive earnings growth as its top-line growth prospects slow. Driving cost savings in the near term, however, will not be an easy feat, in our view.

### Overvalued for now

We value the stock at 0.9x 2016 P/BV, which is its mean multiple during 2004-09. We have chosen to benchmark MAHB's valuations to that period because the group is now in a similar growth trajectory. Compared to other listed airports in the region, MAHB has the lowest passenger growth rate, most erratic cost structure and most expensive valuations.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	3,344	3,871	4,116	4,393	4,653
EBITDA	815	1,679	1,723	1,870	1,976
Core net profit	149	(146)	51	130	179
Core EPS (sen)	11.1	(9.2)	3.2	8.2	11.2
Core EPS growth (%)	(62.3)	nm	nm	155.3	37.9
Net DPS (sen)	2.8	0.0	0.8	2.0	2.8
Core P/E (x)	58.7	(70.9)	203.5	79.7	57.8
P/BV (x)	1.2	1.2	1.2	1.1	1.1
Net dividend yield (%)	0.4	0.0	0.1	0.3	0.4
ROAE (%)	2.2	(1.8)	0.6	1.4	2.0
ROAA (%)	0.9	(0.7)	0.2	0.6	0.9
EV/EBITDA (x)	15.8	8.1	8.4	7.7	7.1
Net debt/equity (%)	58.6	52.2	47.1	43.9	40.0
Consensus net profit	-	-	129	223	287
MKE vs. Consensus (%)	-	-	14.3	1.6	(3.8)

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# SELL

Share Price MYR 6.50  
 12m Price Target MYR 5.10 (-22%)  
 Previous Price Target MYR 5.10

### Company Description

Malaysia Airports Holdings Bhd. manages and operates airports in Malaysia and Turkey.

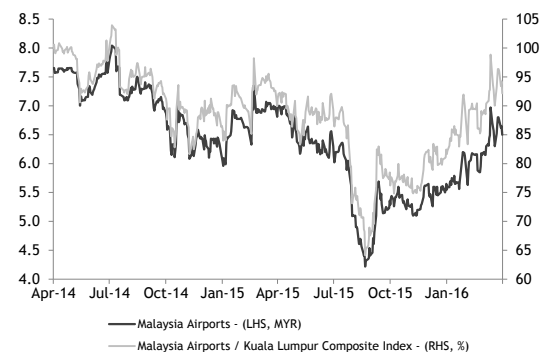
### Statistics

52w high/low (MYR)	7.00/4.22
3m avg turnover (USDm)	2.2
Free float (%)	59.6
Issued shares (m)	1,659
Market capitalisation	MYR10.8B USD2.8B

### Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	36.7%
Employees Provident Fund	13.2%
Bumiputra Investment Foundation	2.7%

### Price Performance



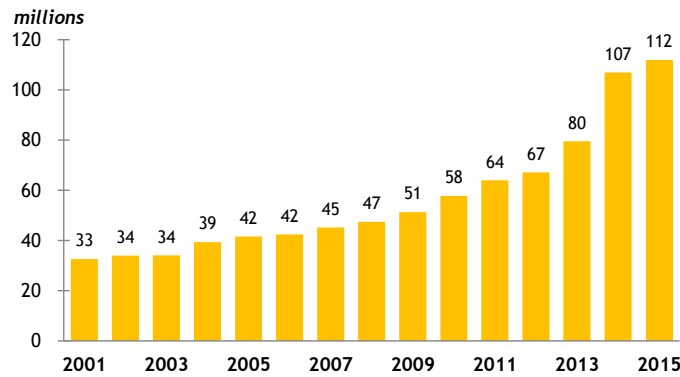
	-1M	-3M	-12M
Absolute (%)	6	15	(5)
Relative to index (%)	4	12	2

Source: FactSet

## Value Proposition

- Exposure to Malaysia’s air travel industry, MAHB has a virtual monopoly on the country’s airport chain with no risk of a new competitor.
- Also owns Turkish Sabiha Gökçen Airport, which is the fastest growing airport in ‘Europe’.
- Monetizing its land-bank adjacent to the airport with retail and commercial ventures. Plenty of development projects in the pipeline.
- Sufficient infrastructure to cater to future growth, unlike its regional rivals that are strained for growth.

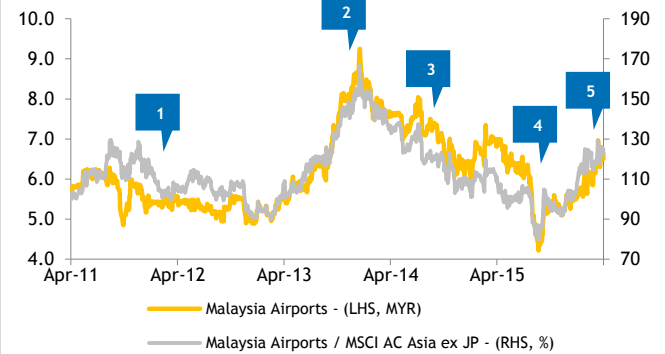
### MAHB total passenger traffic



Source: Company

## Price Drivers

### Historical share price



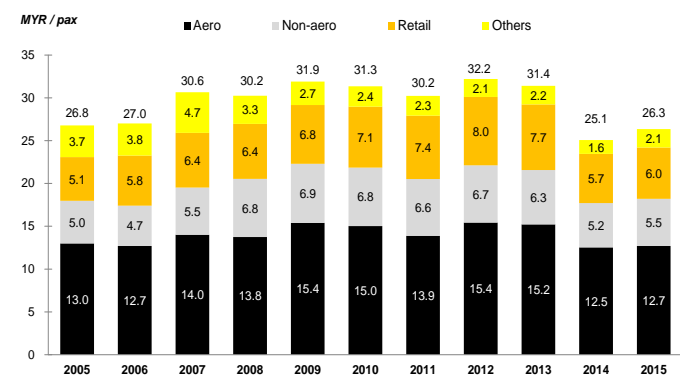
Source: Company, Maybank Kim Eng

1. MAHB did two equity issuances during the period.
2. Stock re-rated on upbeat traffic growth projections and positive strides in KLIA2 development.
3. MH370 incident and later MH17, dented the sector’s rating.
4. MAHB announced a shocking loss in 3Q15, first loss since listing.
5. Stock price recovered in tandem with the market.

## Financial Metrics

- Average revenue per user (ARPU) has decreased in 2014 due to new ISG addition which altered its mix.
- ARPU has since reverted to a normal growth rate of 4-5% p.a. since 2015.
- The completion of KLIA2 and acquisition of ISG has caused gearing to surge to 0.8x due to debt funded Capex.
- Our 2016 earning forecast is premised on 4% traffic growth with 3% growth in revenue per user as retail sales improve and the average aircraft size increases.

### MAHB unit revenue per segment



Source: Company

## Swing Factors

### Upside

- Any recovery in Malaysia’s average airport traffic growth to historical norms of 9% pa will re-rate the stock favourably.
- Rising competition among the domestic airlines will spur more services and traffic volumes.
- Better-than-expected tourist arrivals, which have been languishing over the past 2.5 years.

### Downside

- Persistent negative perception from the effect of the triple air disasters that struck Malaysia in 2014.
- Erratic cost spikes that will further erode our earnings projections.
- Dividend cuts as MAHB opts to reduce its gearing ratio.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	13.2	nm	70.1	45.6	37.5
Core P/E (x)	58.7	(70.9)	203.5	79.7	57.8
P/BV (x)	1.2	1.2	1.2	1.1	1.1
P/NTA (x)	1.3	1.3	1.2	1.2	1.2
Net dividend yield (%)	0.4	0.0	0.1	0.3	0.4
FCF yield (%)	5.7	6.3	11.3	8.9	7.3
EV/EBITDA (x)	15.8	8.1	8.4	7.7	7.1
EV/EBIT (x)	31.5	17.4	18.5	16.3	15.1

**INCOME STATEMENT (MYR m)**

Revenue	3,343.7	3,871.0	4,116.2	4,393.2	4,653.0
Gross profit	2,771.6	3,183.0	3,404.1	3,645.5	3,853.0
EBITDA	815.4	1,679.1	1,722.9	1,869.6	1,975.7
Depreciation	(405.4)	(901.7)	(935.2)	(991.6)	(1,050.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	410.0	777.4	787.6	877.9	925.5
Net interest income / (exp)	(151.3)	(741.9)	(741.9)	(741.9)	(731.5)
Associates & JV	(52.6)	6.1	14.0	16.5	16.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(24.0)	0.0	0.0	0.0	0.0
Pretax profit	749.3	41.7	59.8	152.6	210.5
Income tax	(85.9)	(4.6)	87.8	73.9	65.2
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	663.4	37.1	147.6	226.5	275.7
Core net profit	149.0	(145.8)	50.8	129.7	178.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,041.1	1,286.7	1,572.3	1,803.5	1,851.4
Accounts receivable	606.4	1,026.6	782.1	834.7	884.1
Inventory	154.5	117.6	137.9	147.2	155.9
Property, Plant & Equip (net)	365.1	324.2	628.5	811.7	982.4
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	101.4	101.9	115.9	132.4	148.9
Other assets	18,901.9	19,132.1	18,200.9	17,303.8	16,358.9
<b>Total assets</b>	<b>22,170.5</b>	<b>21,989.1</b>	<b>21,437.5</b>	<b>21,033.3</b>	<b>20,381.6</b>
ST interest bearing debt	705.7	398.3	398.3	398.3	398.3
Accounts payable	752.8	807.3	807.3	807.3	807.3
LT interest bearing debt	5,619.3	5,500.0	5,371.4	5,371.4	5,121.4
Other liabilities	7,783.0	6,446.0	5,947.0	5,430.0	4,890.0
<b>Total Liabilities</b>	<b>14,860.9</b>	<b>13,151.7</b>	<b>12,524.1</b>	<b>12,006.6</b>	<b>11,217.1</b>
Shareholders Equity	7,309.6	8,837.5	8,913.6	9,026.8	9,164.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>7,309.6</b>	<b>8,837.5</b>	<b>8,913.6</b>	<b>9,026.8</b>	<b>9,164.7</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>22,170.5</b>	<b>21,989.3</b>	<b>21,437.7</b>	<b>21,033.4</b>	<b>20,381.8</b>

**CASH FLOW (MYR m)**

Pretax profit	749.3	41.7	59.8	152.6	210.5
Depreciation & amortisation	405.4	901.7	935.2	991.6	1,050.2
Adj net interest (income)/exp	151.3	741.2	741.9	741.9	731.5
Change in working capital	(83.0)	(698.3)	(242.8)	(607.1)	(623.6)
Cash taxes paid	(85.9)	(4.6)	87.8	73.9	65.2
Other operating cash flow	(420.2)	(148.7)	(247.3)	(254.5)	(495.5)
Cash flow from operations	573.7	731.3	1,422.5	1,172.2	1,003.5
Capex	(76.0)	(77.2)	(250.0)	(250.0)	(250.0)
Free cash flow	497.7	654.1	1,172.5	922.2	753.5
Dividends paid	(18.4)	(94.6)	(71.6)	(113.3)	(137.9)
Equity raised / (purchased)	1,105.5	1,367.0	0.0	0.0	0.0
Perpetual securities	1,000.0	0.0	0.0	0.0	0.0
Change in Debt	1,527.2	(1,972.9)	0.0	(250.0)	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(2,410.6)	(1,065.1)	(633.7)	(645.6)	(635.2)
Effect of exch rate changes	0.3	98.2	98.2	98.2	98.2
<b>Net cash flow</b>	<b>1,695.7</b>	<b>(2,199.7)</b>	<b>565.5</b>	<b>11.6</b>	<b>78.7</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(19.1)	15.8	6.3	6.7	5.9
EBITDA growth	(9.4)	105.9	2.6	8.5	5.7
EBIT growth	(34.1)	89.6	1.3	11.5	5.4
Pretax growth	36.8	(94.4)	43.5	155.3	37.9
Reported net profit growth	72.0	(94.4)	298.3	53.5	21.7
Core net profit growth	(58.8)	nm	nm	155.3	37.9
<b>Profitability ratios (%)</b>					
EBITDA margin	24.4	43.4	41.9	42.6	42.5
EBIT margin	12.3	20.1	19.1	20.0	19.9
Pretax profit margin	22.4	1.1	1.5	3.5	4.5
Payout ratio	5.6	0.0	8.6	14.3	16.2
<b>DuPont analysis</b>					
Net profit margin (%)	19.8	1.0	3.6	5.2	5.9
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	3.0	2.5	2.4	2.3	2.2
ROAE (%)	2.2	(1.8)	0.6	1.4	2.0
ROAA (%)	0.9	(0.7)	0.2	0.6	0.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(156.7)	(261.0)	(264.5)	(253.9)	(228.6)
Days receivable outstanding	56.5	75.9	79.1	66.2	66.5
Days inventory outstanding	86.9	71.2	64.6	68.6	68.2
Days payables outstanding	300.1	408.2	408.2	388.7	363.3
Dividend cover (x)	17.8	nm	11.6	7.0	6.2
Current ratio (x)	0.8	1.2	1.2	1.3	1.4
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.7	1.7	1.8	1.8
Net debt/equity (%)	58.6	52.2	47.1	43.9	40.0
Net interest cover (x)	2.7	1.0	1.1	1.2	1.3
Debt/EBITDA (x)	7.8	3.5	3.3	3.1	2.8
Capex/revenue (%)	2.3	2.0	6.1	5.7	5.4
Net debt/ (net cash)	4,283.9	4,611.6	4,197.5	3,966.3	3,668.3

Source: Company; Maybank

# Maxis Bhd (MAXIS MK)

## Still the dominant player

### Less compelling yields

Maxis' superior revenue delivery in 2015 was offset by lower dividends as management attempted to manage gearing levels. With Maxis' investment thesis revolving more around earnings stability these days, the lack of clarity on the 900/1800MHz spectrum fees will continue to dampen sentiment. We have a HOLD rating with a MYR6.60 TP.

### Restructuring success

Following years of revenue share decline, management's restructuring efforts finally bore fruit as Maxis delivered above-industry revenue growth in 2015 (3% growth vs. the industry's 1% decline). Rather than competing on price (Maxis has been the most disciplined among the Malaysia telcos in maintaining its price points), management has instead gone about introducing innovative features such as free basic internet (prepaid) and unlimited voice and sms (postpaid) while preserving its leadership position in network quality.

### Cautious outlook

The earnings outlook for Malaysia mobile players is invariably muted with overall consumer sentiment still weak, and the migrant segment seeing headwinds from the weak Ringgit. Mobile players have guided for flat revenues in 2016. There is also the still unknown 900/1800MHz spectrum fees to contend with. In addition, Maxis' DPS is likely to stay low in 2016 as management retains its prudent approach (a payout based on FCF from a fixed absolute amount previously) to manage gearing.

### Valuations still elevated

EV/EBITDA remains at elevated levels despite the YTD share price correction. Our forecasts have yet to incorporate the incremental 900/1800MHz spectrum fees. Our TP is based on a DCF, assuming 6.7% WACC and 2% long-term growth. Our target price implies 29.3x PER, 13.4x EV/EBITDA and 3.0% dividend yield in 2016.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	8,389	8,601	8,629	8,853	9,073
EBITDA	4,220	4,304	4,315	4,427	4,536
Core net profit	1,718	1,739	1,693	1,757	1,864
Core EPS (sen)	22.9	23.2	22.5	23.4	24.8
Core EPS growth (%)	(2.7)	1.2	(2.7)	3.8	6.1
Net DPS (sen)	40.0	20.0	20.0	25.0	25.0
Core P/E (x)	27.7	27.4	28.2	27.1	25.6
P/BV (x)	10.1	11.4	10.9	11.2	11.2
Net dividend yield (%)	6.3	3.1	3.1	3.9	3.9
ROAE (%)	32.1	39.1	39.5	40.7	43.8
ROAA (%)	9.7	9.4	8.9	9.1	9.7
EV/EBITDA (x)	14.0	13.9	13.0	12.7	12.3
Net debt/equity (%)	158.9	205.5	192.7	196.6	191.7
Consensus net profit	-	-	1,884	1,979	2,048
MKE vs. Consensus (%)	-	-	(10.2)	(11.2)	(9.0)

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# HOLD

Share Price MYR 6.35  
 12m Price Target MYR 6.60 (+4%)  
 Previous Price Target MYR 6.60

### Company Description

Maxis is a leading mobile telecommunication company in Malaysia.

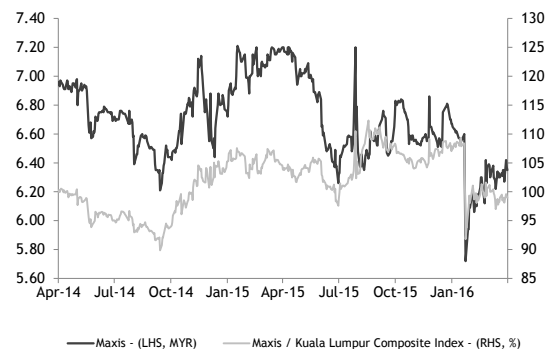
### Statistics

Shariah status	Yes
52w high/low (MYR)	7.20/5.72
3m avg turnover (USDm)	7.8
Free float (%)	34.8
Issued shares (m)	7,506
Market capitalisation	MYR47.7B USD12.2B

### Major shareholders:

Binariang GSM Sdn. Bhd.	64.9%
Permodalan Nasional Bhd.	10.8%
Employees Provident Fund	6.5%

### Price Performance



— Maxis - (LHS, MYR) — Maxis / Kuala Lumpur Composite Index - (RHS, %)

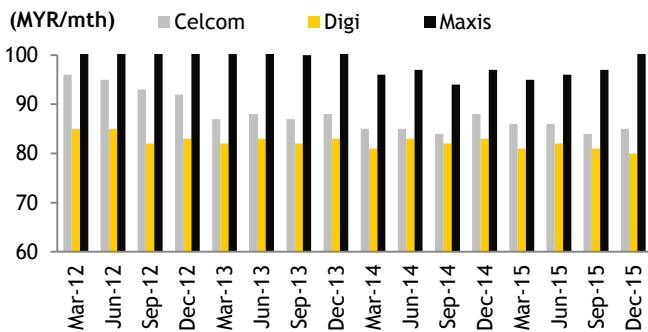
	-1M	-3M	-12M
Absolute (%)	(0)	(5)	(12)
Relative to index (%)	(2)	(8)	(5)

Source: FactSet

## Value Proposition

- Dominant mobile player in Malaysia with leadership position in the postpaid segment.
- Perceived to be the best in terms of network quality, price points are thus at a premium to peers.
- Current management has succeeded in revitalising Maxis' previously struggling prepaid division.
- Malaysia's cellular market is highly penetrated (>150%) and still voice-centric; mobile telcos are thus more cash cows than growth companies.
- Spectrum fees are unlikely to be punitive as the regulator remains largely pro-business, thus ROICs are unlikely to deteriorate sharply from the present 15-20% range.

### Postpaid ARPU

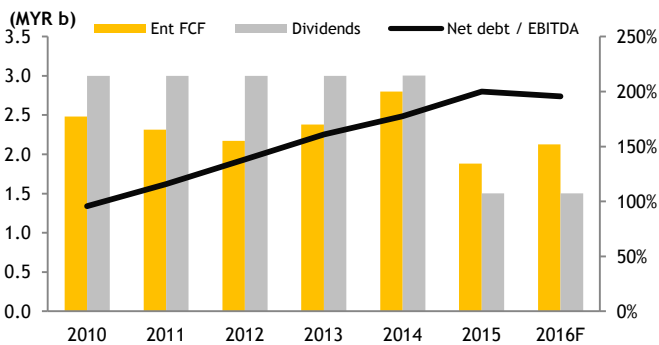


Source: Company, Maybank Kim Eng

## Financial Metrics

- After 3 years of service revenue decline, Maxis finally delivered growth in 2015; EBITDA margins have been sustained at 46%-50% during these years.
- Prior to 2015, Maxis' FCF was insufficient to fully fund its 40sen annual DPS policy; Maxis was effectively borrowing to sustain its dividend.
- DPS halved in 2015 as Maxis adopted a FCF-based approach to manage its gearing; FCF would remain suppressed going forward due to elevated capex from its LTE rollout.

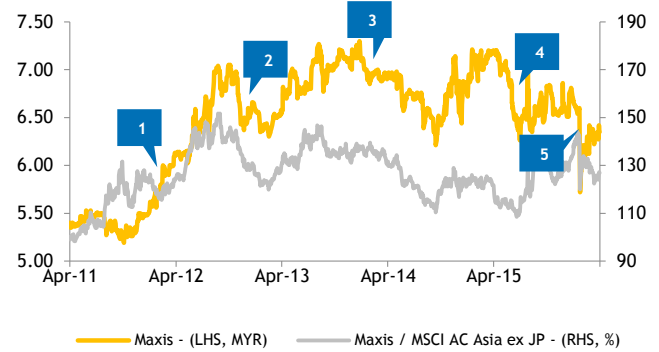
### FCF, dividends and gearing



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price



Source: Company, Maybank Kim Eng

1. Maxis commits to a 40sen annual DPS, making it the highest yielding telco stock in Malaysia.
2. Emergence and subsequent alleviation of margin concerns as margins bottomed in 4Q12.
3. Concerns over Maxis' continued loss of prepaid revenue share, which subsequently dissipated with the appointment of new management.
4. Maxis to end its 40sen DPS practice, and will instead pay dividends based on FCF.
5. Concerns over potential spectrum auctions (auctions were subsequently dismissed by the regulator, but spectrum fees are likely to be raised).

## Swing Factors

### Upside

- A reduction in the overall industry competitive intensity as telcos focus on monetisation.
- An improvement in consumer sentiment, particularly in the migrant segment.
- The regulator announces non-punitive 900/1800MHz spectrum fees.

### Downside

- Competition intensifies as telcos engage in price wars.
- More adverse regulatory developments, particularly pertaining to spectrum fees.
- Further dividend cuts as the company opts for prudence.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	27.7	27.4	28.2	27.1	25.6
Core P/E (x)	27.7	27.4	28.2	27.1	25.6
P/BV (x)	10.1	11.4	10.9	11.2	11.2
P/NTA (x)	(7.4)	(6.7)	(6.9)	(6.8)	(6.8)
Net dividend yield (%)	6.3	3.1	3.1	3.9	3.9
FCF yield (%)	6.5	5.3	5.1	5.7	6.0
EV/EBITDA (x)	14.0	13.9	13.0	12.7	12.3
EV/EBIT (x)	20.9	20.8	19.9	19.3	18.3

**INCOME STATEMENT (MYR m)**

Revenue	8,389.0	8,601.0	8,629.1	8,853.3	9,072.6
Gross profit	5,682.0	5,873.0	5,867.8	6,020.3	6,169.4
EBITDA	4,220.0	4,304.0	4,314.6	4,426.7	4,536.3
Depreciation	(1,155.0)	(1,154.0)	(1,204.7)	(1,231.9)	(1,194.3)
Amortisation	(249.0)	(278.0)	(291.5)	(291.7)	(292.0)
EBIT	2,816.0	2,872.0	2,818.3	2,903.1	3,050.1
Net interest income / (exp)	(380.0)	(412.0)	(456.5)	(451.4)	(449.5)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	2,436.0	2,460.0	2,361.9	2,451.6	2,600.6
Income tax	(711.0)	(713.0)	(661.3)	(686.5)	(728.2)
Minorities	(7.0)	(8.0)	(8.0)	(8.0)	(8.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,718.0	1,739.0	1,692.5	1,757.2	1,864.4
Core net profit	1,718.0	1,739.0	1,692.5	1,757.2	1,864.4

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,531.0	1,296.0	1,463.4	1,529.3	1,764.0
Accounts receivable	998.0	1,453.0	1,418.5	1,455.3	1,491.4
Inventory	12.0	13.0	15.1	15.5	15.9
Property, Plant & Equip (net)	4,008.0	4,227.0	4,322.3	4,190.4	3,996.2
Intangible assets	11,176.0	11,267.0	11,275.5	11,283.7	11,291.8
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	384.0	728.0	728.0	728.0	728.0
<b>Total assets</b>	<b>18,109.0</b>	<b>18,984.0</b>	<b>19,222.8</b>	<b>19,202.3</b>	<b>19,287.2</b>
ST interest bearing debt	909.0	1,106.0	1,106.0	1,106.0	1,106.0
Accounts payable	3,026.0	3,478.0	3,517.8	3,609.2	3,698.6
LT interest bearing debt	8,118.0	8,801.0	8,801.0	8,801.0	8,801.0
Other liabilities	1,340.0	1,409.0	1,417.0	1,425.0	1,433.0
<b>Total Liabilities</b>	<b>13,393.0</b>	<b>14,794.0</b>	<b>14,841.8</b>	<b>14,941.2</b>	<b>15,038.6</b>
Shareholders Equity	4,716.0	4,190.0	4,380.9	4,261.1	4,248.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>4,716.0</b>	<b>4,190.0</b>	<b>4,380.9</b>	<b>4,261.1</b>	<b>4,248.5</b>
<b>Total liabilities and equity</b>	<b>18,109.0</b>	<b>18,984.0</b>	<b>19,222.8</b>	<b>19,202.3</b>	<b>19,287.2</b>

**CASH FLOW (MYR m)**

Pretax profit	2,436.0	2,460.0	2,361.9	2,451.6	2,600.6
Depreciation & amortisation	1,404.0	1,432.0	1,496.2	1,523.6	1,486.2
Adj net interest (income)/exp	348.0	406.0	456.5	451.4	449.5
Change in working capital	449.0	139.0	72.2	54.2	53.0
Cash taxes paid	(636.0)	(681.0)	(661.3)	(686.5)	(728.2)
Other operating cash flow	31.0	256.0	0.0	0.0	0.0
Cash flow from operations	4,064.0	4,018.0	3,725.5	3,794.4	3,861.1
Capex	(974.0)	(1,510.0)	(1,300.0)	(1,100.0)	(1,000.0)
Free cash flow	3,090.0	2,508.0	2,425.5	2,694.4	2,861.1
Dividends paid	(3,002.0)	(2,327.0)	(1,501.6)	(1,877.0)	(1,877.0)
Equity raised / (purchased)	14.0	18.0	0.0	0.0	0.0
Change in Debt	1,227.0	341.0	0.0	0.0	0.0
Other invest/financing cash flow	(606.0)	(775.0)	(756.5)	(751.4)	(749.5)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>723.0</b>	<b>(235.0)</b>	<b>167.4</b>	<b>65.9</b>	<b>234.6</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(7.7)	2.5	0.3	2.6	2.5
EBITDA growth	0.7	2.0	0.2	2.6	2.5
EBIT growth	(0.3)	2.0	(1.9)	3.0	5.1
Pretax growth	(2.4)	1.0	(4.0)	3.8	6.1
Reported net profit growth	(2.7)	1.2	(2.7)	3.8	6.1
Core net profit growth	(2.7)	1.2	(2.7)	3.8	6.1
<b>Profitability ratios (%)</b>					
EBITDA margin	50.3	50.0	50.0	50.0	50.0
EBIT margin	33.6	33.4	32.7	32.8	33.6
Pretax profit margin	29.0	28.6	27.4	27.7	28.7
Payout ratio	nm	86.3	88.7	nm	nm
<b>DuPont analysis</b>					
Net profit margin (%)	20.5	20.2	19.6	19.8	20.6
Revenue/Assets (x)	0.5	0.5	0.4	0.5	0.5
Assets/Equity (x)	3.8	4.5	4.4	4.5	4.5
ROAE (%)	32.1	39.1	39.5	40.7	43.8
ROAA (%)	9.7	9.4	8.9	9.1	9.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(317.2)	(376.2)	(394.3)	(392.4)	(392.7)
Days receivable outstanding	42.2	51.3	59.9	58.4	58.5
Days inventory outstanding	5.5	1.6	1.8	1.9	1.9
Days payables outstanding	364.9	429.1	456.0	452.8	453.1
Dividend cover (x)	0.6	1.2	1.1	0.9	1.0
Current ratio (x)	0.6	0.6	0.6	0.6	0.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.3	1.3	1.3	1.3
Net debt/equity (%)	158.9	205.5	192.7	196.6	191.7
Net interest cover (x)	7.4	7.0	6.2	6.4	6.8
Debt/EBITDA (x)	2.1	2.3	2.3	2.2	2.2
Capex/revenue (%)	11.6	17.6	15.1	12.4	11.0
Net debt/ (net cash)	7,496.0	8,611.0	8,443.6	8,377.7	8,143.0

Source: Company; Maybank

# MBM Resources (MBM MK)

## Proxy to Perodua

# HOLD

Share Price MYR 2.18  
 12m Price Target MYR 2.05 (-6%)  
 Previous Price Target MYR 2.05

### To reap returns of high capex cycle?

MBM has reached the tail-end of its capex cycle and is expected to reap returns from its investment in the OMI alloy wheel plant, while riding on Perodua's (22.6%-associate) growth. However, high depreciation and underutilisation of its newly installed capacity will limit earnings growth for now. Pending further clarity (i.e. target segment and volume) on the upcoming Perodua sedan launch, we stay sideline on MBM. Our MYR2.05 TP is based on 9x FY16 PER.

### All eyes on Perodua's sedan model debuting in 2H16

Undoubtedly the most significant model launch in Malaysia for 2016, Perodua's sedan model is expected to be a hit, as benchmarked against its last A-segment launch, *Axia* (Sep 2014), which sold ~100k units in 2015. While few details have been divulged on this new model, we expect Perodua to maintain its niche in the small economical car segment, potentially pricing it at MYR30k-45k, we estimate. We expect this model to be a direct competitor to entry sedan models (i.e. Proton *Saga*, Mitsubishi *Attrage*) and could cannibalise some of Perodua's existing model line-up (i.e. *Myvi*). We expect Perodua to sell 220k units in 2016, from which we estimate 15k units from the new sedan model.

### Much dependent on Perodua's performance

Perodua is a 22.6%-owned associate which accounts for ~80% of MBM's pretax profit. MBM distributes ~10-11% of Perodua cars sold in Malaysia and it also supplies auto parts (i.e. seatbelts, airbags and wheels) to Perodua via Hirotako and OMI Alloy. Capacity expansion at Perodua and OMI Alloy has not yielded optimum utilisation and this led to earnings contraction in 2015. We expect utilisation and profitability to improve upon the introduction of the Perodua sedan model in 2H16.

### Inexpensive valuations

Trading at just 10x FY16 PER and below book at 0.5x, MBM's valuation is inexpensive but at this stage, much hinges on how quickly the group is able to ramp up capacity utilization to propel earnings.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,774	1,817	1,753	1,772	1,740
EBITDA	18	44	24	29	28
Core net profit	112	84	89	106	110
Core EPS (sen)	28.7	21.4	22.7	27.2	28.3
Core EPS growth (%)	(18.8)	(25.5)	6.4	19.4	4.1
Net DPS (sen)	8.0	10.0	8.0	8.0	8.0
Core P/E (x)	7.6	10.2	9.6	8.0	7.7
P/BV (x)	0.6	0.5	0.5	0.5	0.5
Net dividend yield (%)	3.7	4.6	3.7	3.7	3.7
ROAE (%)	7.6	5.4	5.5	6.3	6.2
ROAA (%)	4.6	3.5	3.6	4.1	4.1
EV/EBITDA (x)	91.1	32.0	50.5	40.6	42.5
Net debt/equity (%)	13.1	10.1	2.7	net cash	net cash
Consensus net profit	-	-	90	108	118
MKE vs. Consensus (%)	-	-	(1.1)	(1.7)	(6.4)

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### Company Description

MBM Resources operates as an investment holding company, which engages in automotive businesses.

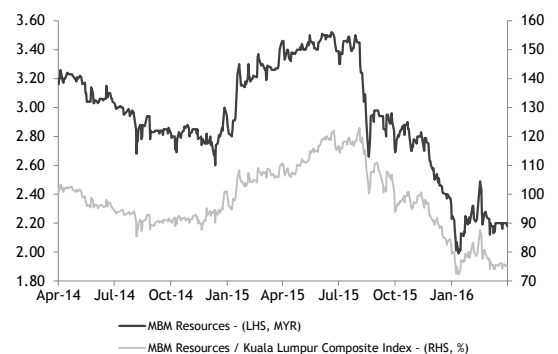
### Statistics

Shariah status	Yes
52w high/low (MYR)	3.52/1.99
3m avg turnover (USDm)	0.1
Free float (%)	44.3
Issued shares (m)	391
Market capitalisation	MYR851.7M
	USD217M

### Major shareholders:

Med Bumikar Mara Sdn. Bhd.	49.5%
Employees Provident Fund	15.5%
AIA Bhd.	4.1%

### Price Performance



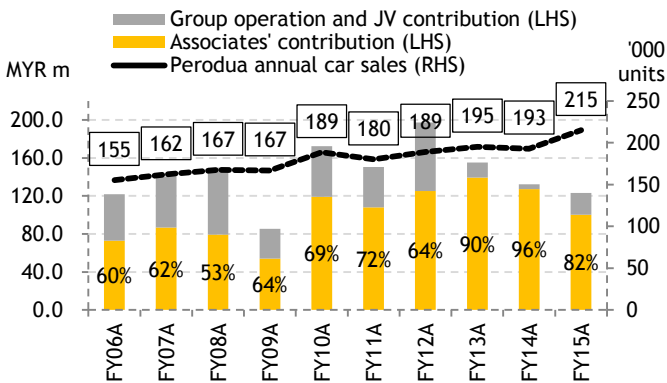
	-1M	-3M	-12M
Absolute (%)	(3)	(6)	(37)
Relative to index (%)	(4)	(9)	(32)

Source: FactSet

## Value Proposition

- MBM's crown jewel is 22.6% stake in Perodua, the largest auto player in Malaysia. Also a multi-brand dealer and one of the biggest manufacturers of auto parts.
- ~90% of bottomline is from associates Perodua and Hino. Performance of these two brands dictates profitability.
- MBM owns an unutilised greenfield manufacturing license, a wild card, which could warrant a re-rating should it partner a prominent passenger car marque.
- Annual returns hinge on new model launches to drive volume sales growth which could also improve demand for its auto parts businesses.

### Pre-tax profit breakdown driven by Perodua

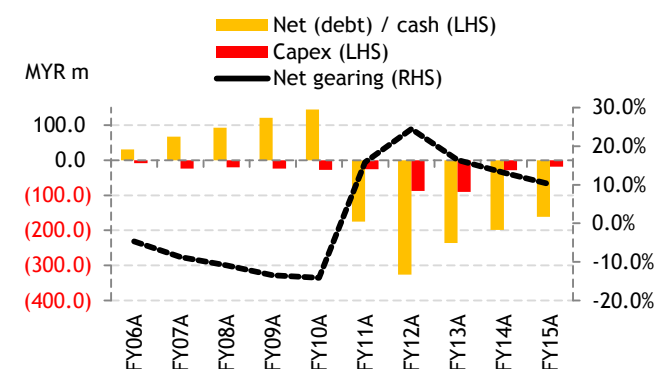


Source: Company

## Financial Metrics

- Having invested heavily in capex over the last four years at the company and associate (Perodua & Hino) levels, earnings have been affected by depreciation and underutilisation of the new plants.
- Earnings should recover over the longer term when utilisation improves on better demand.
- The line-up of new car models for marques within the group is key revenue driver.
- Stable USD/MYR and JPY/MYR forex has strong influence on earnings; Perodua and Hino's imported component costs are in USD and JPY.
- Capex cycle has reached its tail-end; balance sheet should improve as better earnings are reported.

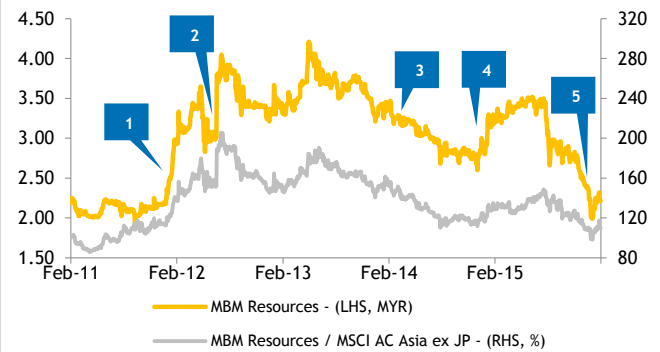
### Capex vs gearing trend



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. Acquisition of auto parts manufacturer Hirotako Holdings.
2. Proposed bonus issue, rights issue with warrants.
3. Sustained losses from OMI Alloy's new plant.
4. Popular demand for the new Perodua Axia launched in Sep 2014.
5. Weak profits stemming from slow associates contribution i.e. mainly Perodua.

## Swing Factors

### Upside

- Alignment of Perodua's old and new manufacturing facilities to cater for export market. Better export sales will lift utilisation and earnings growth.
- Qualification by new clients on OMI's alloy wheel plant could see losses narrowing faster than expected.
- Enforcement of the TPPA could expand MBM's addressable market for its auto parts business.
- Forex: MYR's recovery against USD and JPY - positive cost impact.

### Downside

- Weak car demand in Malaysia coupled with aggressive competition by other marques especially in the small car segment poses risk to margins and earnings.
- MYR's further weakness against USD or JPY will impact profit margins and associates' contribution negatively.
- Tighter HP financing guidelines by banks tends to impact the small car segment which is more dependent on financing terms.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	7.6	10.6	9.6	8.0	7.7
Core P/E (x)	7.6	10.2	9.6	8.0	7.7
P/BV (x)	0.6	0.5	0.5	0.5	0.5
P/NTA (x)	0.6	0.6	0.6	0.6	0.5
Net dividend yield (%)	3.7	4.6	3.7	3.7	3.7
FCF yield (%)	1.8	1.3	10.0	0.8	1.0
EV/EBITDA (x)	91.1	32.0	50.5	40.6	42.5
EV/EBIT (x)	nm	66.0	nm	nm	nm

**INCOME STATEMENT (MYR m)**

Revenue	1,774.1	1,816.7	1,752.8	1,771.6	1,739.8
Gross profit	120.4	148.1	121.0	128.0	124.7
EBITDA	17.8	43.9	24.0	28.9	27.8
Depreciation	(21.3)	(22.1)	(22.8)	(22.3)	(21.8)
Amortisation	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
EBIT	(4.0)	21.3	0.7	6.1	5.5
Net interest income / (exp)	(14.3)	(14.2)	(14.3)	(10.9)	(9.5)
Associates & JV	150.5	115.9	117.0	128.2	132.4
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	132.2	123.0	103.3	123.4	128.4
Income tax	(8.6)	(19.7)	(5.2)	(6.2)	(6.4)
Minorities	(11.4)	(22.9)	(9.3)	(11.1)	(11.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	112.2	80.4	88.9	106.1	110.5
Core net profit	112.2	83.5	88.9	106.1	110.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	217.0	212.3	329.2	376.7	379.5
Accounts receivable	164.5	174.4	178.1	179.6	177.0
Inventory	182.5	182.2	178.8	180.1	177.0
Property, Plant & Equip (net)	336.5	347.4	339.6	332.3	325.4
Intangible assets	184.4	184.4	183.9	183.4	182.8
Investment in Associates & JVs	1,099.6	1,132.5	1,171.9	1,216.9	1,314.1
Other assets	244.4	156.7	156.7	156.7	156.7
<b>Total assets</b>	<b>2,429.0</b>	<b>2,389.9</b>	<b>2,538.1</b>	<b>2,625.7</b>	<b>2,712.6</b>
ST interest bearing debt	113.6	107.3	107.3	107.3	107.3
Accounts payable	229.7	142.2	223.5	225.2	221.2
LT interest bearing debt	302.5	266.8	266.8	266.8	266.8
Other liabilities	8.0	8.0	8.0	8.0	8.0
<b>Total Liabilities</b>	<b>653.6</b>	<b>524.1</b>	<b>605.4</b>	<b>607.0</b>	<b>603.1</b>
Shareholders Equity	1,522.3	1,598.0	1,655.6	1,730.5	1,809.7
Minority Interest	253.0	267.8	277.1	288.2	299.8
<b>Total shareholder equity</b>	<b>1,775.4</b>	<b>1,865.8</b>	<b>1,932.7</b>	<b>2,018.7</b>	<b>2,109.5</b>
<b>Total liabilities and equity</b>	<b>2,429.0</b>	<b>2,389.9</b>	<b>2,538.1</b>	<b>2,625.7</b>	<b>2,712.6</b>

**CASH FLOW (MYR m)**

Pretax profit	132.2	123.0	103.3	123.4	128.4
Depreciation & amortisation	21.8	22.6	23.3	22.8	22.3
Adj net interest (income)/exp	(14.3)	(14.2)	(14.3)	(10.9)	(9.5)
Change in working capital	32.0	(16.9)	81.0	(1.2)	1.8
Cash taxes paid	(7.9)	(11.4)	(5.2)	(6.2)	(6.4)
Other operating cash flow	(120.0)	(73.9)	(88.4)	(106.4)	(113.5)
Cash flow from operations	43.9	29.3	99.8	21.5	23.2
Capex	(28.4)	(18.2)	(15.0)	(15.0)	(15.0)
Free cash flow	15.5	11.1	84.8	6.5	8.2
Dividends paid	(35.5)	(51.3)	(31.3)	(31.3)	(31.3)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(62.5)	(35.7)	0.0	0.0	0.0
Other invest/financing cash flow	46.9	55.0	48.0	57.0	10.5
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(35.7)	(20.9)	101.6	32.2	(12.5)

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(9.5)	2.4	(3.5)	1.1	(1.8)
EBITDA growth	(33.3)	146.4	(45.3)	20.5	(3.8)
EBIT growth	nm	nm	(96.9)	814.6	(9.9)
Pretax growth	(14.9)	(7.0)	(16.0)	19.4	4.1
Reported net profit growth	(18.7)	(28.4)	10.5	19.4	4.1
Core net profit growth	(18.7)	(25.5)	6.4	19.4	4.1
<b>Profitability ratios (%)</b>					
EBITDA margin	1.0	2.4	1.4	1.6	1.6
EBIT margin	nm	1.2	0.0	0.3	0.3
Pretax profit margin	7.5	6.8	5.9	7.0	7.4
Payout ratio	27.9	48.6	35.2	29.4	28.3
<b>DuPont analysis</b>					
Net profit margin (%)	6.3	4.4	5.1	6.0	6.3
Revenue/Assets (x)	0.7	0.8	0.7	0.7	0.6
Assets/Equity (x)	1.6	1.5	1.5	1.5	1.5
ROAE (%)	7.6	5.4	5.5	6.3	6.2
ROAA (%)	4.6	3.5	3.6	4.1	4.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	32.9	32.8	35.7	26.5	26.9
Days receivable outstanding	35.4	33.6	36.2	36.3	36.9
Days inventory outstanding	48.6	39.3	39.8	39.3	39.8
Days payables outstanding	51.0	40.1	40.3	49.1	49.8
Dividend cover (x)	3.6	2.1	2.8	3.4	3.5
Current ratio (x)	2.1	2.3	2.1	2.2	2.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.7	4.6	4.2	4.3	4.5
Net debt/equity (%)	13.1	10.1	2.7	net cash	net cash
Net interest cover (x)	na	1.5	0.0	0.6	0.6
Debt/EBITDA (x)	nm	8.5	15.6	12.9	13.4
Capex/revenue (%)	1.6	1.0	0.9	0.8	0.9
Net debt/ (net cash)	199.1	161.8	44.9	(2.6)	(5.4)

Source: Company; Maybank

# Media Prima (MPR MK)

# HOLD

Share Price MYR 1.45  
 12m Price Target MYR 1.48 (+2%)  
 Previous Price Target MYR 1.48

## Good proxy to potential adex sentiment recovery

### At an inflexion point?

Already an integrated media group with diverse media interests, Media Prima (MPR) is expanding in the recession resistant radio segment. Notwithstanding, we expect its existing FTA TV segment to receive a big boost this year due to the adex friendly UEFA Euro Cup and Summer Olympics. HOLD with MYR1.48 TP. Attractive net dividend yields of >7% p.a. should limit any downside risk to its share price.

### Expanding in recession resistant radio segment

After a nearly four year hiatus from acquisitions, MPR acquired 100% of Copyright Laureate Sdn. Bhd. (CL) for MYR20m cash on 30 Sep 2015. CL had operated two radio stations, Ultra FM and Pi Mai FM. MPR re-launched Ultra FM as Kool FM on 29 Feb 2016. We view this development favourably as we note that radio adex is resilient during times of poor adex sentiment. Kool FM brings the number of radio stations operated by MPR to four. MPR does not plan to utilise the frequency of Pi Mai FM yet.

### FTA TV segment to receive a big boost this year

After two awful years, we expect adex sentiment to recover in 2016 thanks to adex friendly events (UEFA Euro Cup and Summer Olympics) and the non-recurrence of negative catalysts that featured in the last two years (fuel price hikes, electricity tariff hikes, 6% Goods & Services Tax). We forecast MPR's FTA TV adex to grow 5% in 2016 after falling 12% in 2014 and 3% in 2015. The FTA TV segment is important as we estimate that it will contribute 55-60% to group earnings going forward.

### HOLD with MYR1.48 TP - dividend yields >7% p.a.

Note that our 2016 EBITDA forecast is a tad lower YoY as we conservatively assume that Kool FM and a home shopping channel that it just launched, CJ Wow Shop, will not be immediately EBITDA accretive. Our TP is based on 1x end-FY16 P/BV. We will revisit our HOLD call if MPR's 2016 FTA TV adex growth accelerates beyond our current 5% forecast, yielding upside potential to our earnings estimates.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,507	1,428	1,465	1,526	1,591
EBITDA	311	326	314	324	338
Core net profit	142	139	143	156	172
Core FDEPS (sen)	12.6	12.5	12.8	14.0	15.4
Core FDEPS growth(%)	(34.2)	(0.9)	2.5	9.4	10.2
Net DPS (sen)	11.0	10.0	11.0	12.0	13.0
Core FD P/E (x)	11.5	11.6	11.3	10.3	9.4
P/BV (x)	1.0	1.0	1.0	1.0	1.0
Net dividend yield (%)	7.6	6.9	7.6	8.3	9.0
ROAE (%)	8.7	8.6	8.8	9.5	10.3
ROAA (%)	5.6	5.8	6.1	7.0	8.1
EV/EBITDA (x)	6.0	4.0	4.7	4.4	4.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	147	156	159
MKE vs. Consensus (%)	-	-	(2.5)	0.5	8.3

### Company Description

Integrated media company with interests in television, radio, outdoor, digital, content creation and print.

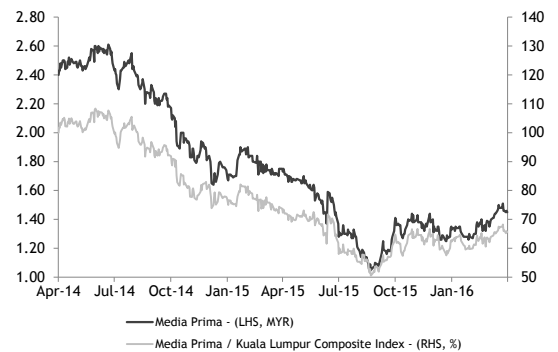
### Statistics

52w high/low (MYR)	1.75/1.05
3m avg turnover (USDm)	0.2
Free float (%)	80.9
Issued shares (m)	1,109
Market capitalisation	MYR1.6B USD411M

### Major shareholders:

Employees Provident Fund	13.9%
Government of Malaysia	11.1%
Altima, Inc.	8.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	4	7	(17)
Relative to index (%)	3	4	(11)

Source: FactSet

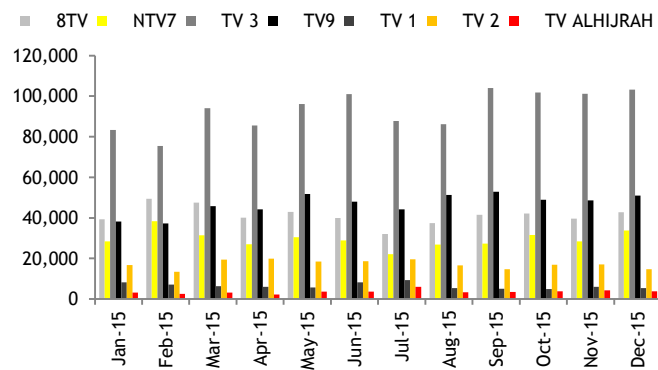
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## Value Proposition

- Integrated media group with interests in FTA TV, radio, outdoor, digital, content creation and print.
- MPR's four FTA TV channels (TV3, NTV7, 8TV and 9TV) command ~90% net FTA TV adex share.
- Competition will come from potential new entrants into FTA TV space but only after analogue switch off in Jun 2018.
- Focus on new media has yet to yield material earnings. Forecast ROEs to stay <10% in FY16 and FY17.
- Being net cash, dividend yields of >7% are sustainable with a dividend policy of 60%-80% DPR.

### 2015 gross FTA TV adex (MYR'000)

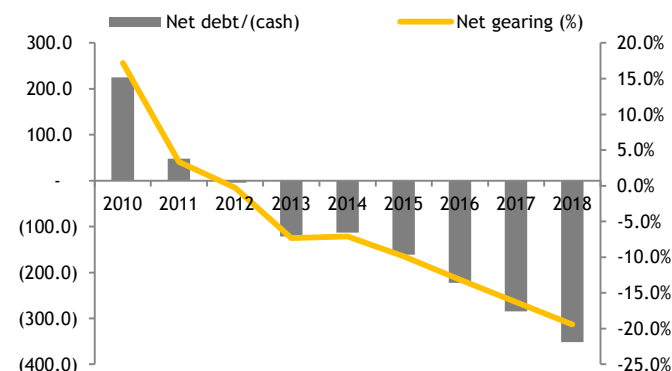


Source: Nielsen Media Research

## Financial Metrics

- Adex is the key earnings driver for both the FTA TV and print segments. Both account for ~80% of total revenue.
- Forecast FY16 adex growth of 5% YoY due to better consumer sentiment and adex friendly sporting events.
- That said, forecast FY16 EPS growth to be flattish YoY due to start-up losses for Kool FM and CJ Wow Shop.
- Forecast FY17 and FY18 EPS growth of 9-10% YoY on adex growth of 5% YoY and less start-up losses.
- Balance sheet position is strong with resounding net cash at MYR0.11/sh as at end-FY15.

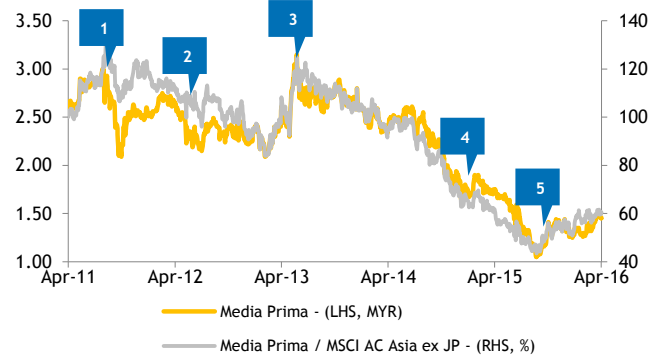
### Net debt/(cash) (MYRm) vs. net gearing (%)



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. Eurozone sovereign debt crisis caused European multinational companies in Malaysia to cut their ad spend.
2. Pre-13th General Election jitters caused advertisers to cut their ad spend.
3. 13th General Election returns ruling Barisan Nasional coalition to power. Advertisers resumed ad spending.
4. Goods & Services Tax (GST) implemented on 1 Apr 2015, weakening both consumer and adex sentiment.
5. 2Q15 core net profit grew 23% YoY, snapping six consecutive quarters of YoY earnings contraction.

## Swing Factors

### Upside

- Adex sentiment recovers via improved consumer sentiment and adex friendly events.
- Successful cost rationalisation via less newsprint consumption and staff rationalisation.
- Less discounts on FTA TV adex and lower agency commission rates will grow margins.

### Downside

- Adex sentiment declines via poorer consumer sentiment driven by fuel price and/or electricity tariff hikes.
- FTA TV segment especially vulnerable to poorer adex due to the relatively fixed nature of its costs.
- Weaker MYR versus USD will increase operating costs (e.g. content and newsprint).



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	21.2	11.6	11.2	10.3	9.3
Core P/E (x)	11.3	11.6	11.2	10.3	9.3
Core FD P/E (x)	11.5	11.6	11.3	10.3	9.4
P/BV (x)	1.0	1.0	1.0	1.0	1.0
P/NTA (x)	1.3	1.3	1.3	1.3	1.3
Net dividend yield (%)	7.6	6.9	7.6	8.3	9.0
FCF yield (%)	8.0	8.8	10.4	10.5	11.0
EV/EBITDA (x)	6.0	4.0	4.7	4.4	4.2
EV/EBIT (x)	8.8	5.9	6.9	6.4	5.9

**INCOME STATEMENT (MYR m)**

Revenue	1,507.0	1,427.7	1,464.8	1,526.5	1,591.2
EBITDA	310.8	325.8	313.5	324.0	337.8
Depreciation	(100.4)	(103.1)	(100.4)	(100.4)	(100.4)
EBIT	210.4	222.6	213.1	223.6	237.4
Net interest income / (exp)	(22.9)	(15.3)	(14.5)	(7.2)	0.0
Associates & JV	(6.3)	(7.2)	(6.3)	(6.3)	(6.3)
Exceptionals	(79.8)	0.0	0.0	0.0	0.0
Pretax profit	101.4	200.1	192.4	210.1	231.1
Income tax	(24.8)	(61.4)	(47.7)	(51.9)	(57.0)
Minorities	(1.1)	0.0	(1.7)	(1.8)	(1.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	75.5	138.7	143.0	156.4	172.2
Core net profit	141.6	138.7	143.0	156.4	172.2

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	565.0	420.7	464.9	193.5	226.2
Accounts receivable	342.3	368.7	378.3	394.2	410.9
Inventory	74.3	53.3	55.7	58.1	60.6
Property, Plant & Equip (net)	740.5	720.3	719.9	719.5	719.2
Intangible assets	388.0	421.2	421.2	421.2	421.2
Investment in Associates & JVs	163.7	156.5	150.2	143.9	137.6
Other assets	204.7	189.4	175.3	175.3	175.3
<b>Total assets</b>	<b>2,478.5</b>	<b>2,330.1</b>	<b>2,365.4</b>	<b>2,105.7</b>	<b>2,151.0</b>
ST interest bearing debt	151.7	0.0	300.1	0.0	0.0
Accounts payable	343.4	319.4	333.7	348.5	363.3
LT interest bearing debt	300.1	300.1	0.0	0.0	0.0
Other liabilities	70.0	75.0	74.0	74.0	75.0
<b>Total Liabilities</b>	<b>865.3</b>	<b>694.9</b>	<b>707.6</b>	<b>422.9</b>	<b>438.2</b>
Shareholders Equity	1,592.6	1,620.7	1,641.6	1,664.9	1,692.9
Minority Interest	20.6	14.5	16.2	18.0	19.9
<b>Total shareholder equity</b>	<b>1,613.2</b>	<b>1,635.1</b>	<b>1,657.8</b>	<b>1,682.9</b>	<b>1,712.8</b>
<b>Total liabilities and equity</b>	<b>2,478.5</b>	<b>2,330.1</b>	<b>2,365.4</b>	<b>2,105.7</b>	<b>2,151.0</b>

**CASH FLOW (MYR m)**

Pretax profit	101.4	200.1	192.4	210.1	231.1
Depreciation & amortisation	100.4	103.1	100.4	100.4	100.4
Adj net interest (income)/exp	6.1	1.6	14.5	7.2	0.0
Change in working capital	52.2	(30.2)	2.3	(3.6)	(4.4)
Cash taxes paid	(64.1)	(41.7)	(49.3)	(51.4)	(56.4)
Other operating cash flow	9.5	(7.0)	6.3	6.3	6.3
Cash flow from operations	205.5	225.9	266.6	269.0	277.0
Capex	(78.0)	(85.0)	(100.0)	(100.0)	(100.0)
Free cash flow	127.5	140.9	166.6	169.0	177.0
Dividends paid	(154.8)	(110.9)	(122.0)	(133.1)	(144.2)
Equity raised / (purchased)	15.4	0.2	0.0	0.0	0.0
Change in Debt	(51.7)	(142.7)	0.0	(300.1)	0.0
Other invest/financing cash flow	6.1	(23.1)	(0.3)	(7.2)	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(57.4)	(135.8)	44.2	(271.5)	32.8

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(12.5)	(5.3)	2.6	4.2	4.2
EBITDA growth	(23.9)	4.8	(3.8)	3.3	4.2
EBIT growth	(31.5)	5.8	(4.3)	4.9	6.2
Pretax growth	(65.0)	97.2	(3.8)	9.2	10.0
Reported net profit growth	(64.7)	83.7	3.1	9.4	10.2
Core net profit growth	(33.9)	(2.0)	3.1	9.4	10.2
<b>Profitability ratios (%)</b>					
EBITDA margin	20.6	22.8	21.4	21.2	21.2
EBIT margin	14.0	15.6	14.6	14.6	14.9
Pretax profit margin	6.7	14.0	13.1	13.8	14.5
Payout ratio	nm	80.0	85.3	85.1	83.7
<b>DuPont analysis</b>					
Net profit margin (%)	5.0	9.7	9.8	10.2	10.8
Revenue/Assets (x)	0.6	0.6	0.6	0.7	0.7
Assets/Equity (x)	1.6	1.4	1.4	1.3	1.3
ROAE (%)	8.7	8.6	8.8	9.5	10.3
ROAA (%)	5.6	5.8	6.1	7.0	8.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	9.4	2.2	6.7	6.0	5.9
Days receivable outstanding	87.0	89.6	91.8	91.1	91.1
Days inventory outstanding	28.9	20.8	17.0	17.0	17.0
Days payables outstanding	106.5	108.3	102.1	102.1	102.2
Dividend cover (x)	0.6	1.3	1.2	1.2	1.2
Current ratio (x)	2.1	2.8	1.5	2.0	2.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.9	3.4	3.3	5.0	4.9
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	9.2	14.5	14.7	30.9	nm
Debt/EBITDA (x)	1.5	0.9	1.0	0.0	0.0
Capex/revenue (%)	5.2	6.0	6.8	6.6	6.3
Net debt/ (net cash)	(113.2)	(120.5)	(164.8)	(193.5)	(226.2)

Source: Company; Maybank

# My E.G. Services (MYEG MK)

## Unrivalled in its space

# Not Rated

Share Price

MYR 2.11

### Premium valuations for its market dominance

MyEG is the largest e-Government service provider linking Malaysian Government agencies (i.e. Road Transport Department and Immigration Department) to citizens and businesses for efficient online transactions. Over the years, MyEG has built up strong reliance for its services and growth will be anchored by its (i) foreign worker permit renewal (FWPR) services and (ii) maiden contribution from the custom service tax monitoring (CSTM) system. The stock is NOT RATED.

### 1HFY6/16 earnings surged 125% YoY to MYR59m

Following the discontinuation of counter service (Apr 2015) for the foreign worker permit renewal at the immigration department's offices in Peninsular Malaysia, employers now renew their foreign workers' permits via MyEG's online service, effectively increasing MyEG's market share to 100% in Peninsular Malaysia (from just 25%-30%). Monopoly in this service has also significantly increased MyEG's commission revenue from both (i) insurance for foreign workers and (ii) prepaid telecommunication services (tie-up with Celcom) used by these workers.

### Still warming up before the sprint

Apart from increased contribution from its FWPR services, MyEG has also been appointed to handle the rehiring/amnesty programme, starting mid-Feb 2016, for illegal foreign workers in Malaysia; estimated at ~2m-3m workers, potentially adding MYR200m-300m to MyEG's revenue. Also, successful launch of the Phase 1 CSTM system in mid-2016 could potentially grow MyEG's revenue by another MYR50m for FY17 should all requirements be met (MyEG aims to install 50k units of its CSTM dongles in F&B and entertainment outlets for Phase 1). A total of some 500k dongles are expected to be installed over the longer term.

### Premium valuations for its market dominance

MyEG's asset-light business model with long-term recurring revenue presents a strong and stable investment case. Based on consensus, MyEG now trades at 25x CY16 PER (based on consensus), above its 5-year mean of 18x PER (1SD = 5.2x).

FYE Jun (MYR m)	FY11A	FY12A	FY13A	FY14A	FY15A
Revenue	59	67	76	110	142
EBITDA	23	27	34	50	67
Core net profit	22	27	35	50	68
Core EPS (sen)	0.9	1.2	1.5	2.1	2.9
Core EPS growth (%)	4.5	25.0	28.7	43.9	33.8
Net DPS (sen)	0.3	0.4	0.5	0.6	1.0
Core P/E (x)	229.3	183.5	142.6	99.1	74.0
P/BV (x)	50.7	42.5	35.7	28.2	18.5
Net dividend yield (%)	0.1	0.2	0.2	0.3	0.5
ROAE (%)	24.0	25.0	27.0	31.7	30.2
ROAA (%)	20.3	20.1	21.0	24.0	19.9
EV/EBITDA (x)	19.0	12.9	27.3	36.0	48.3
Net debt/equity (%)	5.2	1.5	net cash	net cash	net cash

### Company Description

My E.G. Services engages in the business of development and implementation of electronic government services and provision of related services.

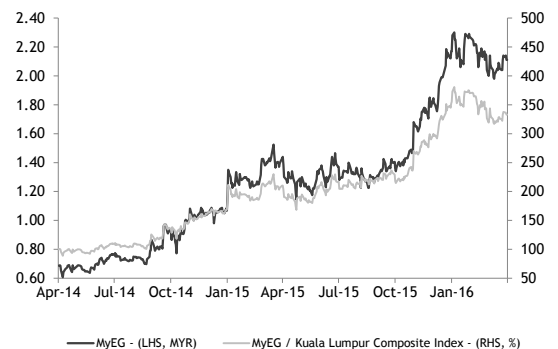
### Statistics

Shariah status	Yes
52w high/low (MYR)	2.30/1.15
3m avg turnover (USDm)	6.2
Free float (%)	53.0
Issued shares (m)	2,404
Market capitalisation	MYR5.1B USD1.3B

### Major shareholders:

Asia Internet Holdings Sdn. Bhd.	30.7%
WONG THEAN SOON	7.1%
Kumpulan Wang Persaraan	6.1%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	(3)	48
Relative to index (%)	2	(6)	58

Source: FactSet

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FYE 30 Jun	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Metrics</b>					
P/E (reported) (x)	nm	nm	nm	99.1	74.0
Core P/E (x)	229.3	183.5	142.6	99.1	74.0
P/BV (x)	50.7	42.5	35.7	28.2	18.5
P/NTA (x)	65.5	52.8	42.6	32.2	20.0
Net dividend yield (%)	0.1	0.2	0.2	0.3	0.5
FCF yield (%)	nm	0.1	0.5	0.2	1.6
EV/EBITDA (x)	19.0	12.9	27.3	36.0	48.3
EV/EBIT (x)	18.3	12.5	26.2	35.0	47.1
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	58.8	66.9	76.5	109.9	141.5
Gross profit	48.8	57.6	54.8	88.1	115.3
EBITDA	22.8	27.5	33.7	49.9	66.5
Depreciation	(7.2)	(8.7)	(11.2)	(13.2)	(15.3)
Amortisation	(0.9)	(0.9)	(1.4)	(1.5)	(1.6)
EBIT	23.7	28.4	35.1	51.4	68.2
Net interest income / (exp)	(0.6)	(0.8)	(0.8)	(1.0)	(1.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	23.3	27.6	34.4	50.7	68.2
Income tax	(0.8)	(0.3)	0.5	(0.6)	(0.2)
Minorities	0.0	0.0	0.0	0.0	0.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	22.1	27.3	34.8	50.1	68.1
Core net profit	22.1	27.3	34.8	50.1	68.1
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	5.3	9.8	18.4	21.9	132.0
Accounts receivable	18.4	34.0	54.8	89.7	151.8
Inventory	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	69.8	74.6	77.5	76.5	110.1
Intangible assets	22.5	23.2	22.7	22.0	21.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	6.1	8.4	8.7	25.9	32.9
<b>Total assets</b>	<b>122.1</b>	<b>150.0</b>	<b>182.1</b>	<b>236.0</b>	<b>447.8</b>
ST interest bearing debt	3.8	4.1	4.0	9.9	5.8
Accounts payable	3.1	7.7	15.8	16.4	113.7
LT interest bearing debt	6.8	7.6	8.2	8.1	6.6
Other liabilities	8.0	12.0	15.0	25.0	48.0
<b>Total Liabilities</b>	<b>22.1</b>	<b>31.3</b>	<b>42.5</b>	<b>59.4</b>	<b>173.9</b>
Shareholders Equity	100.0	118.7	139.6	176.7	273.9
Minority Interest	0.0	0.0	0.0	0.0	(0.0)
<b>Total shareholder equity</b>	<b>100.0</b>	<b>118.7</b>	<b>139.6</b>	<b>176.7</b>	<b>273.9</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>122.1</b>	<b>150.0</b>	<b>182.1</b>	<b>236.0</b>	<b>447.8</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	23.3	27.6	34.4	50.7	68.2
Depreciation & amortisation	8.1	9.6	12.6	14.6	16.9
Adj net interest (income)/exp	(0.6)	(0.8)	(0.8)	(1.0)	(1.1)
Change in working capital	2.5	(6.9)	(0.9)	(37.0)	61.8
Cash taxes paid	0.2	0.1	0.4	0.3	0.5
Other operating cash flow	0.3	(0.1)	(0.3)	(0.2)	0.4
Cash flow from operations	33.0	29.3	44.3	26.7	145.7
Capex	(35.9)	(14.0)	(10.7)	(5.0)	(45.3)
Free cash flow	(5.2)	7.3	26.2	11.8	83.0
Dividends paid	(3.6)	(9.6)	(8.3)	(10.6)	(18.0)
Equity raised / (purchased)	0.0	(2.0)	(5.6)	(2.5)	40.4
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	1.9	(4.2)	(2.9)	(0.6)	(8.2)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	0.4	4.3	(8.4)	(5.3)	(4.4)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(3.5)	4.5	8.6	2.4	109.8



FYE 30 Jun	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(5.3)	13.8	14.3	43.7	28.8
EBITDA growth	11.0	20.8	22.8	47.9	33.3
EBIT growth	11.2	19.9	23.8	46.3	32.6
Pretax growth	10.8	18.4	24.6	47.5	34.5
Reported net profit growth	6.0	23.6	27.4	43.8	36.0
Core net profit growth	nm	23.6	27.4	43.8	36.0
<b>Profitability ratios (%)</b>					
EBITDA margin	38.7	41.1	44.1	45.4	47.0
EBIT margin	40.2	42.4	45.9	46.8	48.2
Pretax profit margin	39.6	41.3	45.0	46.2	48.2
Payout ratio	29.9	30.4	30.4	29.3	33.3
<b>DuPont analysis</b>					
Net profit margin (%)	37.6	40.9	45.6	45.6	48.2
Revenue/Assets (x)	0.5	0.4	0.4	0.5	0.3
Assets/Equity (x)	1.2	1.3	1.3	1.3	1.6
ROAE (%)	24.0	25.0	27.0	31.7	30.2
ROAA (%)	20.3	20.1	21.0	24.0	19.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	131.7	140.8	209.0	236.8	307.1
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	81.3	208.3	194.8	265.5	894.4
Dividend cover (x)	3.3	3.3	3.3	3.4	3.0
Current ratio (x)	2.0	2.2	2.4	2.7	1.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	5.5	4.8	4.3	4.0	2.6
Net debt/equity (%)	5.2	1.5	net cash	net cash	net cash
Net interest cover (x)	39.8	34.4	44.1	53.4	63.1
Debt/EBITDA (x)	0.5	0.4	0.4	0.4	0.2
Capex/revenue (%)	61.1	20.9	14.0	4.6	32.0
Net debt/ (net cash)	5.2	1.8	(6.3)	(3.9)	(119.6)

Source: Company; Maybank

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# Petronas Chemicals (PCHEM MK)

# BUY

Share Price MYR 6.70  
 12m Price Target MYR 7.80 (+16%)  
 Previous Price Target MYR 7.80

## Lowest cost petrochemical producer in Asia-Pacific

### A steady Eddie in what is a volatile industry

PCHEM is a renowned petrochemical producer in the Asia-Pacific region, with unrivalled production cost and a very reputable customer solutions provider. The demand for its products remains steady and the product prices are holding out better relative to crude oil prices, thus preserving its high margins and ROEs. Thus far, 2016 is progressing better than initially thought. Present valuations are attractive. We have a BUY call and a TP of MYR7.80 (17.8x 2016 PER).

### Recovering oil prices, weaker MYR/USD are catalysts

Our 2016 core net profit growth forecast of 27% is based on: (i) USD/MYR of 4.14; (ii) ASPs decreasing by 3% YoY to MYR2,750/ton; and (iii) factory utilisation rate of 88%. Hence, a stronger-than-expected USD/MYR or higher factory utilisation rate will provide upside to our forecasts. It is important to note that petrochemical prices are highly correlated to the price of crude oil. Our in-house estimate is for crude oil to gradually increase to USD42/bbl in 2016, and this forms our basis for ASPs to rise.

### Better 2016 on higher utilisation rate

PCHEM's ASP has risen by 5.2% year-to-date, based on our estimates, which is a positive surprise and could potentially lead us to raise our earnings forecasts. The USD/MYR remains volatile, but is thus far broadly in line with expectations. Additionally, its new SAMUR urea fertiliser plant will be fully commissioned by the end of 1H16, and this will provide a further boost to sales volume.

### Deserves premium valuation

We value the stock at 17.8x FY16 PER and derive a target price of MYR7.80. Our PER multiple is based on the industry average plus 10% premium to reward PCHEM for its strong balance sheet and its strong dividend paying abilities.

### Company Description

*Petronas Chemicals Group Bhd manufactures, markets, and sells petrochemicals.*

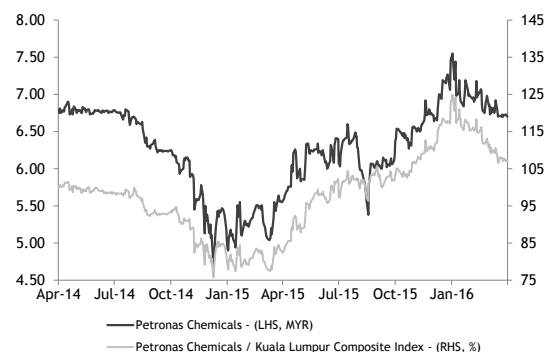
### Statistics

Shariah status	Yes
52w high/low (MYR)	7.55/5.38
3m avg turnover (USDm)	11.9
Free float (%)	35.5
Issued shares (m)	8,000
Market capitalisation	MYR53.6B USD13.7B

### Major shareholders:

Government of Malaysia	64.4%
Employees Provident Fund	10.1%
Permodalan Nasional Bhd.	7.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(4)	(11)	21
Relative to index (%)	(5)	(13)	30

Source: FactSet

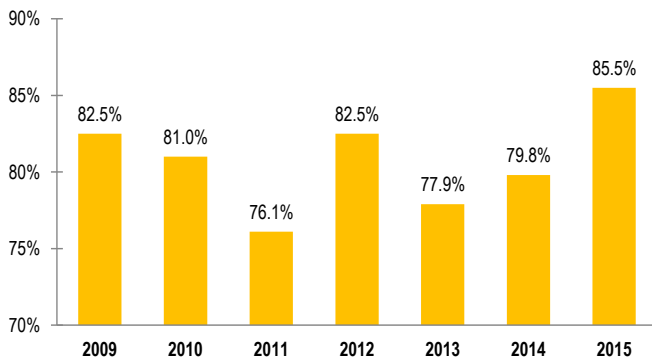
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	14,597	13,536	14,862	15,643	17,087
EBITDA	4,650	5,036	5,797	5,635	5,125
Core net profit	2,790	2,754	3,504	3,345	2,949
Core EPS (sen)	34.9	34.4	43.8	41.8	36.9
Core EPS growth (%)	(11.6)	(1.3)	27.2	(4.5)	(11.8)
Net DPS (sen)	16.0	18.0	21.9	20.9	18.4
Core P/E (x)	19.2	19.5	15.3	16.0	18.2
P/BV (x)	2.4	2.2	2.0	1.9	1.8
Net dividend yield (%)	2.4	2.7	3.3	3.1	2.8
ROAE (%)	12.6	11.6	13.6	12.1	10.0
ROAA (%)	9.9	9.3	11.1	10.1	8.5
EV/EBITDA (x)	7.6	10.2	7.3	7.1	7.5
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	2,891	3,131	3,139
MKE vs. Consensus (%)	-	-	21.2	6.8	(6.0)

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## Value Proposition

- Asia Pacific's lowest cost producer due to a well-designed integrated facility, low cost feedstock supply and a comprehensive supply chain to customers.
- Commands the largest market share domestically and a leading exporter to China and Southeast Asia.
- Focused and highly institutionalised management team, very conservative and risk averse.
- Factory utilisation rates are structurally improving, thanks to major upgrading and rejuvenation exercise in 2013-14.
- Strong capacity growth pipeline based on the RAPID project up till 2020-21.

### Factory utilisation rate

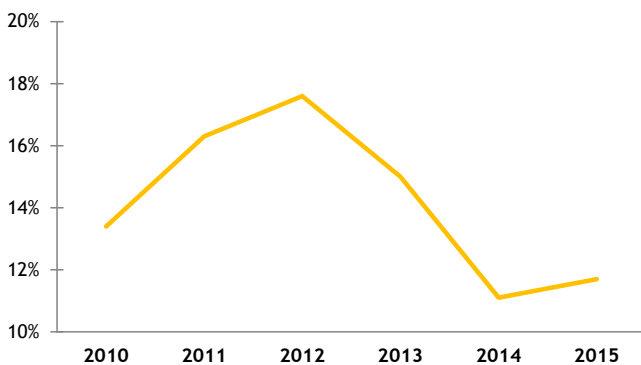


Source: Company

## Financial Metrics

- Net cash of MYR9.3b (Dec 2015), which is the highest for a petrochemical group globally.
- Strong cashflow generator (>MYR3b/year) and religiously maintains a 50% dividend payout ratio.
- Our 2016 earnings forecast is based on a USD/MYR average of 4.14, factory utilisation rate of 88%, ASP decline of 3%.
- Assuming everything else remains equal, a 1% increase in ASP will boost PATAMI by 1.8%.

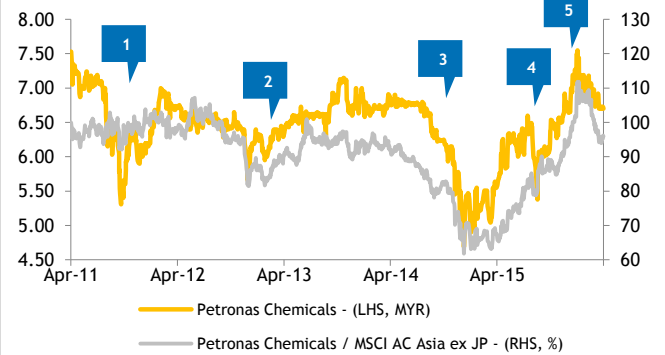
### PCHEM ROE



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

1. Weak 2Q11 results due to series of unscheduled factory maintenance which reduced capacity utilisation rate.
2. Management revealed that it was dedicating significant downtime to upgrade its facilities for future benefit.
3. Decline in oil prices results in customers drawing down on their existing inventory and holding back on forward purchases.
4. Weakening China PMI data and lower fuel prices dented market sentiment.
5. Weak MYR against USD lifted profits.

## Swing Factors

### Upside

- Factory utilisation rate consistently maintained at high levels.
- Petrochemical prices are tracking crude oil prices, but weak MYR against USD provides margin protection.
- SAMUR fertiliser plant commissioning at end of 1H15 will enable the group to be deemed as a growth group.

### Downside

- Price taker, no control over ASPs which tend to be volatile at the moment.
- A much faster economic slowdown in China, especially in the manufacturing sector, which would further dent sentiment towards the sector.
- One of the feedstock supply contracts expires in Aug 2016, quantum of cost increase unknown for now.

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FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	21.7	19.3	15.3	16.0	18.2
Core P/E (x)	19.2	19.5	15.3	16.0	18.2
P/BV (x)	2.4	2.2	2.0	1.9	1.8
P/NTA (x)	2.4	2.2	2.0	1.9	1.8
Net dividend yield (%)	2.4	2.7	3.3	3.1	2.8
FCF yield (%)	0.7	3.9	7.6	7.7	6.3
EV/EBITDA (x)	7.6	10.2	7.3	7.1	7.5
EV/EBIT (x)	10.4	13.7	9.3	9.2	10.0

**INCOME STATEMENT (MYR m)**

Revenue	14,597.0	13,536.0	14,862.1	15,642.7	17,087.2
Gross profit	4,447.0	4,547.0	5,338.2	5,135.4	4,585.2
EBITDA	4,650.0	5,036.0	5,796.8	5,634.5	5,125.2
Depreciation	(1,219.0)	(1,279.0)	(1,216.0)	(1,262.7)	(1,309.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	3,431.0	3,757.0	4,580.8	4,371.9	3,815.8
Net interest income / (exp)	(46.0)	(11.0)	0.0	0.0	0.0
Associates & JV	166.0	87.0	293.5	308.2	323.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	3,551.0	3,833.0	4,874.3	4,680.1	4,139.5
Income tax	(834.0)	(779.0)	(1,049.5)	(1,027.9)	(919.7)
Minorities	(261.0)	(309.0)	(321.3)	(306.8)	(270.5)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	2,465.0	2,782.0	3,503.5	3,345.4	2,949.3
Core net profit	2,790.0	2,754.0	3,503.5	3,345.4	2,949.3

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	9,807.0	8,707.0	12,836.9	15,075.0	16,990.9
Accounts receivable	1,239.0	1,404.0	2,229.3	2,346.4	2,563.1
Inventory	1,674.0	1,692.0	1,333.3	1,471.0	1,750.3
Property, Plant & Equip (net)	14,255.0	16,597.0	14,137.0	13,574.3	12,965.0
Intangible assets	7.0	5.0	10.0	10.0	10.0
Investment in Associates & JVs	866.0	1,280.0	744.0	744.0	744.0
Other assets	615.0	1,148.0	764.0	764.0	764.0
<b>Total assets</b>	<b>28,463.0</b>	<b>30,833.0</b>	<b>32,054.6</b>	<b>33,984.8</b>	<b>35,787.3</b>
ST interest bearing debt	0.0	30.0	0.0	0.0	0.0
Accounts payable	2,395.0	2,902.0	1,981.6	2,085.7	2,278.3
LT interest bearing debt	0.0	0.0	0.0	0.0	0.0
Other liabilities	1,591.0	1,311.0	1,622.0	1,622.0	1,622.0
<b>Total Liabilities</b>	<b>3,986.0</b>	<b>4,243.0</b>	<b>3,603.6</b>	<b>3,707.7</b>	<b>3,900.3</b>
Shareholders Equity	22,722.0	24,783.0	26,798.0	28,624.1	30,233.9
Minority Interest	1,755.0	1,807.0	1,653.0	1,653.0	1,653.0
<b>Total shareholder equity</b>	<b>24,477.0</b>	<b>26,590.0</b>	<b>28,451.0</b>	<b>30,277.1</b>	<b>31,886.9</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>28,463.0</b>	<b>30,833.0</b>	<b>32,054.6</b>	<b>33,984.7</b>	<b>35,787.2</b>

**CASH FLOW (MYR m)**

Pretax profit	3,551.0	3,833.0	4,874.3	4,680.1	4,139.5
Depreciation & amortisation	1,219.0	1,279.0	1,216.0	1,262.7	1,309.3
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	0.0	0.0	0.0	0.0	0.0
Cash taxes paid	(733.0)	(724.8)	(1,049.5)	(1,027.9)	(919.7)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	2,166.1	4,010.8	4,784.1	4,843.2	4,102.9
Capex	(1,800.0)	(1,900.0)	(700.0)	(700.0)	(700.0)
Free cash flow	366.1	2,110.8	4,084.1	4,143.2	3,402.9
Dividends paid	(1,600.0)	(1,280.0)	(1,538.0)	(1,912.4)	(1,826.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	254.2	279.6	293.5	308.2	323.6
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(979.7)	1,110.4	2,839.6	2,539.0	1,900.5

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(4.0)	(7.3)	9.8	5.3	9.2
EBITDA growth	(14.1)	8.3	15.1	(2.8)	(9.0)
EBIT growth	(20.9)	9.5	21.9	(4.6)	(12.7)
Pretax growth	(22.1)	7.9	27.2	(4.0)	(11.6)
Reported net profit growth	(21.9)	12.9	25.9	(4.5)	(11.8)
Core net profit growth	(11.6)	(1.3)	27.2	(4.5)	(11.8)
<b>Profitability ratios (%)</b>					
EBITDA margin	31.9	37.2	39.0	36.0	30.0
EBIT margin	23.5	27.8	30.8	27.9	22.3
Pretax profit margin	24.3	28.3	32.8	29.9	24.2
Payout ratio	51.9	51.8	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	16.9	20.6	23.6	21.4	17.3
Revenue/Assets (x)	0.5	0.4	0.5	0.5	0.5
Assets/Equity (x)	1.3	1.2	1.2	1.2	1.2
ROAE (%)	12.6	11.6	13.6	12.1	10.0
ROAA (%)	9.9	9.3	11.1	10.1	8.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(4.6)	(3.5)	8.9	31.0	35.3
Days receivable outstanding	35.1	35.1	44.0	52.7	51.7
Days inventory outstanding	51.0	67.4	57.2	48.0	46.4
Days payables outstanding	90.7	106.1	92.3	69.7	62.8
Dividend cover (x)	1.9	1.9	2.0	2.0	2.0
Current ratio (x)	5.2	4.1	7.8	8.6	8.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	7.1	7.3	8.9	9.2	9.2
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	74.6	nm	nm	nm	nm
Debt/EBITDA (x)	0.0	0.0	0.0	0.0	0.0
Capex/revenue (%)	12.3	14.0	4.7	4.5	4.1
Net debt/ (net cash)	(9,807.0)	(8,677.0)	(12,836.9)	(15,075.0)	(16,990.9)

Source: Company; Maybank

# Petronas Dagangan (PETD MK)

## Stabilization en route?

# Not Rated

Share Price

MYR 23.86

### Marketing arm of Petronas

Petronas Dagangan (PetDag) acts as the domestic marketing arm for PETRONAS and is the market leader in Malaysia for downstream oil and gas products by volume. While operational challenges abound, cost rationalisation and better inventory management should allow it to sustain profitability. PetDaG is NOT RATED.

### Retail and Commercial as core segments

Through its retail segment, PetDag has the largest petroleum retail network in Malaysia with >1,000 Petronas stations and >750 'Kedai Mesra' outlets. PetDag also markets bulk products such as gasoline, jet fuel, kerosene, diesel, fuel oil and bitumen to the transportation, industrial and construction industries through its commercial segment. Both its retail and commercial segments make up ~87% of FY15 volume. On the LPG and lubricant business, PetDag supplies both cooking gas and lubricant products respectively to both consumers and industrial users.

### Cost rationalisation amidst uncertainties

We understand PetDag has outlined targets to lower its capex in FY16 to MYR400m by reducing new openings of stations (10-15 in FY16) and instead, offer better product mix to leverage on its existing retail network. Better inventory management will also improve operating profits from lower stockholding losses. However, despite the operational initiatives within PetDag to sustain profitability, the risk of uncertainty remains with volatile oil prices and a weak consumer sentiment.

### Net-cash positions; decent dividends

With a dividend policy to pay a minimum of 50% of earnings, PetDag's net cash warchest of MYR1.05b as of end Dec 2015 also presents an opportunity for a special dividend to further boost its payout. Consensus currently has 4 HOLD and 4 SELL calls based on Bloomberg, possibly reflecting its good share price run (+49% in FY15) as well as the cautious outlook on the oil and gas sector. The stock currently trades at 26.7x FY16 PER (based on consensus FY16 earnings).

FYE Dec (MYR m)	FY11A	FY12A	FY13A	FY14A	FY15A
Revenue	23,268	29,515	32,342	32,341	25,171
EBITDA	1,505	1,468	1,442	1,069	1,462
Core net profit	876	837	812	502	790
Core EPS (sen)	88.2	84.2	81.7	50.5	79.5
Core EPS growth (%)	na	(4.5)	(3.0)	(38.2)	57.5
Net DPS (sen)	100.0	70.0	70.0	60.0	60.0
Core P/E (x)	27.1	28.3	29.2	47.3	30.0
P/BV (x)	4.9	4.9	4.9	5.0	4.8
Net dividend yield (%)	4.2	2.9	2.9	2.5	2.5
ROAE (%)	na	17.4	16.9	10.5	16.3
ROAA (%)	na	9.1	8.1	5.1	9.0
EV/EBITDA (x)	11.1	16.1	21.8	14.7	16.2
Net debt/equity (%)	net cash	4.4	4.7	net cash	net cash

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### Company Description

*Petronas Dagangan Bhd is the retail and marketing arm of downstream oil and gas products for the state-owned Petroliaam Nasional.*

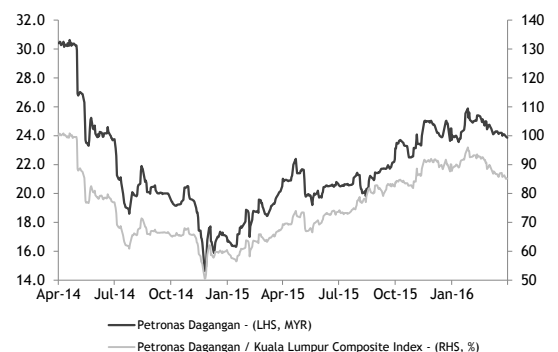
### Statistics

Sariah status	Yes
52w high/low (MYR)	25.88/19.20
3m avg turnover (USDm)	4.3
Free float (%)	29.0
Issued shares (m)	993
Market capitalisation	MYR23.7B USD6.1B

### Major shareholders:

Government of Malaysia	69.9%
Permodalan Nasional Bhd.	10.7%
Employees Provident Fund	5.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(3)	16
Relative to index (%)	(4)	(5)	25

Source: FactSet

FYE 31 Dec	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Metrics</b>					
P/E (reported) (x)	27.1	28.3	29.2	47.3	30.0
Core P/E (x)	27.1	28.3	29.2	47.3	30.0
P/BV (x)	4.9	4.9	4.9	5.0	4.8
P/NTA (x)	4.9	4.9	4.9	4.9	4.8
Net dividend yield (%)	4.2	2.9	2.9	2.5	2.5
FCF yield (%)	3.2	5.8	3.7	9.1	1.3
EV/EBITDA (x)	11.1	16.1	21.8	14.7	16.2
EV/EBIT (x)	13.8	20.1	28.0	21.6	21.6

**INCOME STATEMENT (MYR m)**

Revenue	23,267.6	29,515.0	32,341.9	32,341.0	25,171.2
Gross profit	2,100.7	2,217.4	2,235.6	1,908.5	2,032.9
EBITDA	1,505.1	1,467.8	1,441.8	1,069.0	1,462.3
Depreciation	(274.4)	(264.7)	(288.5)	(314.0)	(341.5)
Amortisation	(21.5)	(29.0)	(28.3)	(26.6)	(26.5)
EBIT	1,209.2	1,174.2	1,125.0	728.4	1,094.3
Net interest income / (exp)	23.7	11.5	(1.5)	1.8	41.1
Associates & JV	0.8	1.6	3.7	1.9	3.8
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,208.9	1,165.2	1,109.4	709.3	1,084.6
Income tax	(333.0)	(321.9)	(290.5)	(201.1)	(290.0)
Minorities	0.0	(6.4)	(7.2)	(6.6)	(4.6)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	875.9	836.8	811.8	501.6	790.0
Core net profit	875.9	836.8	811.8	501.6	790.0

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,026.2	251.3	358.6	1,839.7	1,258.6
Accounts receivable	2,668.9	4,181.0	4,220.6	2,119.1	1,649.3
Inventory	832.6	1,278.7	1,193.2	1,032.0	625.6
Property, Plant & Equip (net)	3,583.4	3,765.7	3,891.9	4,031.1	3,989.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	8.8	12.7	6.6	9.5	13.3
Other assets	364.9	434.4	496.4	509.1	534.0
<b>Total assets</b>	<b>8,484.7</b>	<b>9,923.7</b>	<b>10,167.3</b>	<b>9,540.5</b>	<b>8,070.6</b>
ST interest bearing debt	0.0	324.7	443.1	359.6	98.5
Accounts payable	3,351.1	4,301.0	4,532.1	4,059.5	2,602.2
LT interest bearing debt	16.2	139.0	139.6	134.7	113.3
Other liabilities	287.0	314.0	223.0	195.0	273.0
<b>Total Liabilities</b>	<b>3,654.1</b>	<b>5,078.4</b>	<b>5,337.8</b>	<b>4,748.7</b>	<b>3,086.6</b>
Shareholders Equity	4,794.9	4,810.0	4,790.1	4,752.2	4,952.3
Minority Interest	35.6	35.3	39.4	39.6	31.7
<b>Total shareholder equity</b>	<b>4,830.6</b>	<b>4,845.3</b>	<b>4,829.5</b>	<b>4,791.8</b>	<b>4,984.0</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>8,484.7</b>	<b>9,923.7</b>	<b>10,167.3</b>	<b>9,540.5</b>	<b>8,070.6</b>

**CASH FLOW (MYR m)**

Pretax profit	1,208.9	1,165.2	1,109.4	709.3	1,084.6
Depreciation & amortisation	295.9	293.6	316.8	340.6	368.0
Adj net interest (income)/exp	24.1	11.7	1.5	20.3	52.2
Change in working capital	(150.4)	(1,008.2)	277.0	1,790.0	(581.0)
Cash taxes paid	(335.0)	(323.0)	(399.0)	(236.8)	(242.8)
Other operating cash flow	24.3	1,731.8	31.8	(68.9)	(19.6)
Cash flow from operations	1,043.9	1,868.4	1,351.5	2,553.3	619.0
Capex	(289.2)	(488.3)	(466.2)	(395.1)	(315.0)
Free cash flow	754.8	1,380.1	885.3	2,158.2	304.0
Dividends paid	(633.3)	(763.7)	(828.8)	(551.4)	(615.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	16.2	(609.7)	119.2	(92.4)	(284.3)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(23.9)	(225.6)	(71.2)	(34.8)	16.5
Effect of exch rate changes	0.0	0.0	2.8	1.4	4.5
<b>Net cash flow</b>	<b>113.7</b>	<b>(218.9)</b>	<b>104.6</b>	<b>1,479.7</b>	<b>(579.8)</b>



FYE 31 Dec	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	na	26.8	9.6	(0.0)	(22.2)
EBITDA growth	na	(2.5)	(1.8)	(25.9)	36.8
EBIT growth	na	(2.9)	(4.2)	(35.3)	50.2
Pretax growth	na	(3.6)	(4.8)	(36.1)	52.9
Reported net profit growth	na	(4.5)	(3.0)	(38.2)	57.5
Core net profit growth	na	(4.5)	(3.0)	(38.2)	57.5
<b>Profitability ratios (%)</b>					
EBITDA margin	6.5	5.0	4.5	3.3	5.8
EBIT margin	5.2	4.0	3.5	2.3	4.3
Pretax profit margin	5.2	3.9	3.4	2.2	4.3
Payout ratio	113.4	83.1	85.7	118.8	75.5
<b>DuPont analysis</b>					
Net profit margin (%)	3.8	2.8	2.5	1.6	3.1
Revenue/Assets (x)	2.7	3.0	3.2	3.4	3.1
Assets/Equity (x)	1.8	2.1	2.1	2.0	1.6
ROAE (%)	na	17.4	16.9	10.5	16.3
ROAA (%)	na	9.1	8.1	5.1	9.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	na	5.2	8.7	(2.4)	(12.0)
Days receivable outstanding	na	41.8	46.8	35.3	26.9
Days inventory outstanding	na	13.9	14.8	13.2	12.9
Days payables outstanding	na	50.5	52.8	50.8	51.8
Dividend cover (x)	0.9	1.2	1.2	0.8	1.3
Current ratio (x)	1.3	1.2	1.2	1.1	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.3	2.0	1.9	2.0	2.6
Net debt/equity (%)	net cash	4.4	4.7	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.0	0.3	0.4	0.5	0.1
Capex/revenue (%)	1.2	1.7	1.4	1.2	1.3
Net debt/ (net cash)	(1,010.0)	212.4	224.0	(1,345.3)	(1,046.8)

Source: Company; Maybank

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# Petronas Gas (PTG MK)

## A cash proxy

### Stable earnings profile

Pet Gas' second regas plant is still scheduled to commission in 2018 despite PETRONAS' announced capex cuts. Pet Gas is a stock with a very stable earnings profile, and almost functions as a cash proxy. We have a HOLD rating with a MYR24.00 TP.

### Recent rise in maintenance

4Q15 saw all segments post sequentially lower EBIT primarily due to increased maintenance and repair activities. There is some slight volatility in quarterly EBIT due to the timing of maintenance and repair activities. Nevertheless on a full-year basis, these fluctuations tend to normalise. Pet Gas' processing and transportation assets are over 20 years old, and thus require constant maintenance to achieve optimal performance.

### Pengerang regas plant still progressing

The low oil price environment has resulted in parent PETRONAS reviewing its capex plans. Nevertheless, the Pengerang project is progressing as planned, meaning Pet Gas' second regas plant is still scheduled to commission in 2018. Meanwhile, there have been no further updates on the development of the Air Separation Unit with Linde. The Heads of Agreement has now been extended multiple times.

### Defensiveness in play

Valuations are near peak levels. Nevertheless, its share price has continued to hold up as investors reward the stock for its earnings defensiveness. We do not rule out Pet Gas raising dividend payouts in future given its lazy balance sheet (62sen net cash/share end-Dec 2015). Our TP is based on a DCF, assuming 6.5% WACC and 2% long-term growth. Our target price implies a PER of 26.5x and net yield of 2.6% in 2016.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	4,392	4,456	4,551	4,580	5,223
EBITDA	2,988	2,967	3,113	3,178	3,553
Core net profit	1,785	1,750	1,790	1,808	2,066
Core EPS (sen)	90.2	88.4	90.5	91.4	104.4
Core EPS growth (%)	17.9	(2.0)	2.3	1.0	14.3
Net DPS (sen)	55.0	60.0	63.3	63.9	73.1
Core P/E (x)	25.1	25.6	25.0	24.8	21.7
P/BV (x)	4.2	3.9	3.7	3.6	3.4
Net dividend yield (%)	2.4	2.7	2.8	2.8	3.2
ROAE (%)	17.2	15.9	15.3	14.8	16.1
ROAA (%)	13.5	12.7	12.2	11.9	13.0
EV/EBITDA (x)	14.8	15.1	14.4	14.1	12.4
Net debt/equity (%)	2.3	net cash	net cash	net cash	net cash
Consensus net profit	-	-	1,825	1,845	2,058
MKE vs. Consensus (%)	-	-	(1.9)	(2.0)	0.4

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# HOLD

Share Price	MYR 22.62
12m Price Target	MYR 24.00 (+6%)
Previous Price Target	MYR 24.00

### Company Description

*Petronas Gas is the gas infrastructure arm of national oil company PETRONAS.*

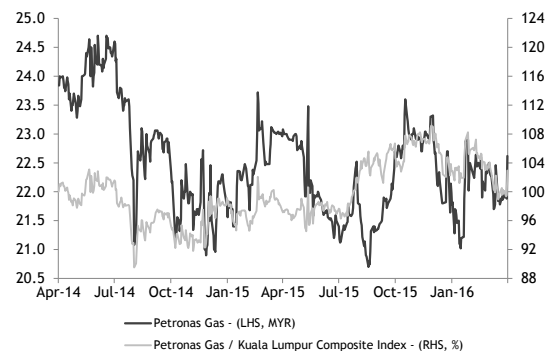
### Statistics

Shariah status	Yes
52w high/low (MYR)	23.60/20.70
3m avg turnover (USDm)	5.4
Free float (%)	39.0
Issued shares (m)	1,979
Market capitalisation	MYR44.8B USD11.4B

### Major shareholders:

Government of Malaysia	60.7%
Employees Provident Fund	13.6%
Permodalan Nasional Bhd.	7.7%

### Price Performance



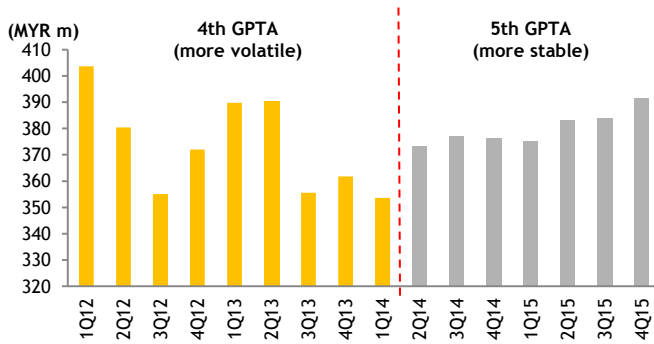
	-1M	-3M	-12M
Absolute (%)	1	3	(1)
Relative to index (%)	(0)	(0)	6

Source: FactSet

## Value Proposition

- The gas infrastructure (processing, transportation and re-gasification) subsidiary of national oil company PETRONAS, Pet Gas does not bear gas price risk.
- Revenue comprises mainly of fixed reservation charges and transportation fees from parent PETRONAS, governed by respective agreements reviewed every five years.
- High ROICs (15-20%) are partly legacy, as initial GPTA was signed when infra projects were yielding >10% IRRs, and subsequent GPTA terms were maintained or improved.
- Returns profile is unlikely to deteriorate materially in future; Pet Gas' profits are also partly channelled back to parent PETRONAS via dividends.

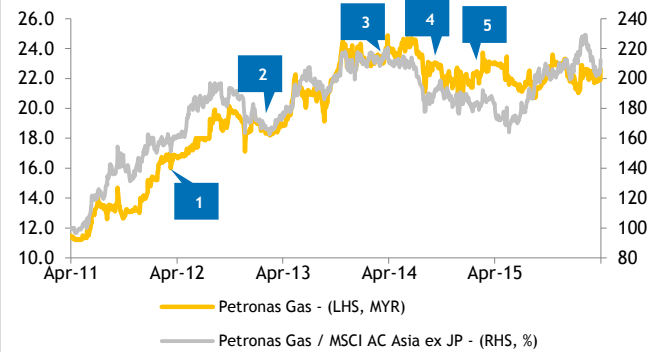
### More stable processing revenue



Source: Company

## Price Drivers

### Historical price chart



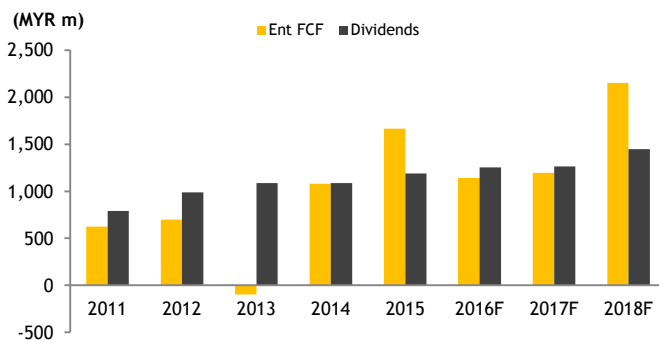
Source: Company, Maybank Kim Eng

1. Anticipation of incremental earnings from the Melaka regasification, and Kimanis power plants.
2. Commencement of the Melaka regas plant is delayed for six months.
3. The fifth Gas Processing and Transportation Agreement (GPTA) came into effect, resulting in a more stable revenue base.
4. Decline in crude oil prices weighed down on sentiment.
5. Petronas Gas is awarded a second re-gasification plant (Pengerang) by parent PETRONAS.

## Financial Metrics

- Pet Gas almost functions as a cash proxy given its highly stable earnings base.
- While its revenue base is inherently stable, there are slight fluctuations in quarterly margins due to the timing of maintenance and repair activities.
- We expect FCF to be slightly depressed in 2016-17 due to the capex for the Pengerang regas plant, but Pet Gas should still preserve its net cash position.
- There is room for higher dividend payouts, but Pet Gas has thus far maintained payout ratios at 60-70%.

### FCF and dividends



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- An improvement in future GPTA terms.
- Participation in new accretive projects from parent PETRONAS.
- An increase in future dividend payout.

### Downside

- Parent PETRONAS halting the Pengerang project.
- A deterioration of future GPTA terms, including the need for Petronas Gas to pay for its internal gas consumption.
- Unexpectedly severe plant outages.

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	24.3	22.5	25.0	24.8	21.7
Core P/E (x)	25.1	25.6	25.0	24.8	21.7
P/BV (x)	4.2	3.9	3.7	3.6	3.4
P/NTA (x)	4.2	3.9	3.7	3.6	3.4
Net dividend yield (%)	2.4	2.7	2.8	2.8	3.2
FCF yield (%)	2.9	3.7	2.6	2.8	4.9
EV/EBITDA (x)	14.8	15.1	14.4	14.1	12.4
EV/EBIT (x)	20.0	20.5	19.3	19.2	16.5

**INCOME STATEMENT (MYR m)**

Revenue	4,391.7	4,456.0	4,551.3	4,580.5	5,222.9
Gross profit	2,308.4	2,344.6	2,394.8	2,410.1	2,748.2
EBITDA	2,988.3	2,967.2	3,113.0	3,177.9	3,553.2
Depreciation	(786.9)	(776.8)	(793.0)	(835.1)	(874.3)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,201.3	2,190.4	2,320.0	2,342.8	2,678.9
Net interest income / (exp)	(39.4)	(58.3)	(44.5)	(49.5)	(52.4)
Associates & JV	288.7	75.2	60.7	64.7	70.4
Exceptionals	(96.2)	(205.2)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	2,354.5	2,002.1	2,336.2	2,357.9	2,696.8
Income tax	(512.4)	(16.2)	(546.1)	(550.4)	(630.4)
Minorities	1.1	1.6	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,843.2	1,987.5	1,790.1	1,807.6	2,066.5
Core net profit	1,784.9	1,749.6	1,790.1	1,807.6	2,066.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	637.7	1,230.8	1,130.5	1,072.9	1,791.5
Accounts receivable	608.7	644.4	660.9	665.1	758.4
Inventory	43.4	46.4	47.3	47.6	54.2
Property, Plant & Equip (net)	10,858.5	11,328.4	11,930.4	12,490.3	12,360.9
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	600.7	675.7	712.5	753.1	798.9
Other assets	511.4	456.4	456.4	456.4	456.4
<b>Total assets</b>	<b>13,260.5</b>	<b>14,382.0</b>	<b>14,937.8</b>	<b>15,485.3</b>	<b>16,220.4</b>
ST interest bearing debt	21.0	28.7	28.7	28.7	28.7
Accounts payable	668.2	796.5	815.3	820.6	935.7
LT interest bearing debt	861.2	1,029.6	1,029.6	1,029.6	1,029.6
Other liabilities	1,141.0	932.0	932.0	932.0	932.0
<b>Total Liabilities</b>	<b>2,691.5</b>	<b>2,787.1</b>	<b>2,805.9</b>	<b>2,811.1</b>	<b>2,926.2</b>
Shareholders Equity	10,533.9	11,438.8	11,975.8	12,518.1	13,138.0
Minority Interest	35.1	156.1	156.1	156.1	156.1
<b>Total shareholder equity</b>	<b>10,569.0</b>	<b>11,594.9</b>	<b>12,132.0</b>	<b>12,674.2</b>	<b>13,294.2</b>
<b>Total liabilities and equity</b>	<b>13,260.5</b>	<b>14,382.0</b>	<b>14,937.8</b>	<b>15,485.3</b>	<b>16,220.4</b>

**CASH FLOW (MYR m)**

Pretax profit	2,354.5	2,002.1	2,336.2	2,357.9	2,696.8
Depreciation & amortisation	786.9	776.8	793.0	835.1	874.3
Adj net interest (income)/exp	39.4	58.3	44.5	49.5	52.4
Change in working capital	(248.3)	89.7	1.4	0.7	15.1
Cash taxes paid	(375.8)	(169.0)	(546.1)	(550.4)	(630.4)
Other operating cash flow	175.4	(74.1)	0.0	0.0	0.0
Cash flow from operations	2,539.6	2,813.9	2,568.3	2,628.2	2,938.0
Capex	(1,253.8)	(1,169.0)	(1,395.0)	(1,395.0)	(745.0)
Free cash flow	1,285.8	1,644.9	1,173.3	1,233.2	2,193.0
Dividends paid	(1,583.0)	(1,147.7)	(1,253.1)	(1,265.3)	(1,446.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	23.0	103.5	(20.6)	(25.5)	(27.8)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(274.1)	600.8	(100.3)	(57.6)	718.6

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	12.8	1.5	2.1	0.6	14.0
EBITDA growth	12.9	(0.7)	4.9	2.1	11.8
EBIT growth	14.4	(0.5)	5.9	1.0	14.3
Pretax growth	24.2	(15.0)	16.7	0.9	14.4
Reported net profit growth	(11.3)	7.8	(9.9)	1.0	14.3
Core net profit growth	17.9	(2.0)	2.3	1.0	14.3
<b>Profitability ratios (%)</b>					
EBITDA margin	68.0	66.6	68.4	69.4	68.0
EBIT margin	50.1	49.2	51.0	51.1	51.3
Pretax profit margin	53.6	44.9	51.3	51.5	51.6
Payout ratio	59.0	59.7	70.0	70.0	70.0
<b>DuPont analysis</b>					
Net profit margin (%)	42.0	44.6	39.3	39.5	39.6
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.3	1.3	1.2	1.2	1.2
ROAE (%)	17.2	15.9	15.3	14.8	16.1
ROAA (%)	13.5	12.7	12.2	11.9	13.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(84.2)	(66.6)	(75.1)	(75.7)	(71.3)
Days receivable outstanding	54.1	50.6	51.6	52.1	49.1
Days inventory outstanding	7.1	7.7	7.8	7.9	7.4
Days payables outstanding	145.4	124.9	134.5	135.7	127.7
Dividend cover (x)	1.7	1.7	1.4	1.4	1.4
Current ratio (x)	1.6	2.3	2.2	2.1	2.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.9	5.2	5.3	5.5	5.5
Net debt/equity (%)	2.3	net cash	net cash	net cash	net cash
Net interest cover (x)	55.8	37.6	52.1	47.3	51.1
Debt/EBITDA (x)	0.3	0.4	0.3	0.3	0.3
Capex/revenue (%)	28.5	26.2	30.7	30.5	14.3
Net debt/ (net cash)	244.5	(172.6)	(72.2)	(14.6)	(733.2)

Source: Company; Maybank

# Prestariang Bhd (PRES MK)

## The training expert

# Not Rated

Share Price

MYR 2.96

### New catalysts - SKIN and ESBLA?

Current business activities continue to provide stable and recurring returns. In addition, Prestariang is eyeing two new key projects (SKIN: national immigration system and ESBLA: teacher upskilling programme) which could drive long-term growth. The stock is NOT RATED.

### A leading ICT services & training provider in Malaysia

Prestariang is a leading ICT software distributor and manager in Malaysia. It is also the sole distributor and manager of Microsoft solutions for all government agencies in Malaysia. Prestariang also provides other IT solutions, ICT training and certifications, technical and vocational education (eg. to the oil and gas sector). Its strength is in providing a holistic chain of ICT services, solutions and training. As for its education division, this remains a slight drag due to slower growth in enrolment. UniMy is the first boutique university in Malaysia specialising in ICT. Better branding exercise and an increase in strategic partnerships could help drive growth in the longer term.

### New leg of growth?

Prestariang has identified a new leg of growth - Technology and Services in border security. We understand that Prestariang is a potential beneficiary of SKIN (national immigration system) and this could be a potential key rerating catalyst. Other key projects include ESBLA (teacher upskilling programme). At this juncture, we understand that negotiations for SKIN and ESBLA are still ongoing.

### In net cash position

A net cash position of MYR128m provides Prestariang the opportunity to further invest into other higher margin projects. Prestariang is also a stock with a slight dividend appeal as it has a dividend policy of min. 50% DPR. Reflecting its decent growth potential, the stock is trading at 30.8x FY16E PER (based on consensus FY16 earnings).

### Company Description

*Prestariang engages in the provision of education, training and certification, and software license distribution services.*

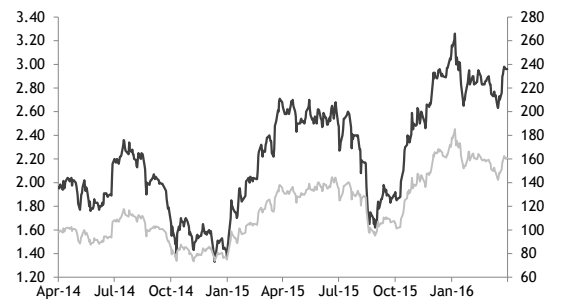
### Statistics

Shariah status	Yes
52w high/low (MYR)	3.26/1.62
3m avg turnover (USDm)	0.7
Free float (%)	71.6
Issued shares (m)	484
Market capitalisation	MYR1.4B USD365M

### Major shareholders:

EkoHati Sdn. Bhd.	20.7%
Kumpulan Wang Persaraan	12.2%
AIA Bhd.	9.7%

### Price Performance



— Prestariang - (LHS, MYR) — Prestariang / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	3	(4)	10
Relative to index (%)	1	(7)	18

Source: FactSet

FYE Dec (MYR m)	FY11A	FY12A	FY13A	FY14A	FY15A
Revenue	112	110	120	79	115
EBITDA	35	35	40	17	17
Core net profit	34	37	42	20	17
Core EPS (sen)	8.1	8.5	9.6	4.4	3.5
Core EPS growth (%)	135.2	4.6	13.0	(54.3)	(19.2)
Net DPS (sen)	5.0	4.0	6.0	4.2	3.8
Core P/E (x)	36.6	35.0	31.0	67.7	83.9
P/BV (x)	19.5	16.3	13.4	8.5	8.5
Net dividend yield (%)	1.7	1.4	2.0	1.4	1.3
ROAE (%)	70.3	50.9	47.6	15.2	10.1
ROAA (%)	51.3	39.2	38.2	13.6	9.1
EV/EBITDA (x)	3.1	5.2	14.3	30.6	77.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

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FYE 31 Dec	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Metrics</b>					
P/E (reported) (x)	36.6	35.0	31.0	67.7	83.9
Core P/E (x)	36.6	35.0	31.0	67.7	83.9
P/BV (x)	19.5	16.3	13.4	8.5	8.5
P/NTA (x)	20.3	16.9	13.8	8.7	8.7
Net dividend yield (%)	1.7	1.4	2.0	1.4	1.3
FCF yield (%)	0.6	1.2	0.6	nm	nm
EV/EBITDA (x)	3.1	5.2	14.3	30.6	77.8
EV/EBIT (x)	3.0	5.2	14.1	30.5	77.8

**INCOME STATEMENT (MYR m)**

Revenue	111.8	110.1	119.6	78.8	115.5
Gross profit	47.8	51.9	67.3	38.6	38.5
EBITDA	34.6	35.0	39.5	17.3	16.8
Depreciation	(1.3)	(1.4)	(1.5)	(1.7)	(1.8)
Amortisation	(0.4)	(0.5)	(0.5)	(0.0)	0.0
EBIT	35.0	35.4	40.0	17.4	16.8
Net interest income / (exp)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	34.4	36.6	42.2	20.3	22.4
Income tax	(0.8)	0.6	(0.1)	(0.1)	(5.4)
Minorities	0.0	0.0	0.0	0.0	0.1
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	33.6	37.2	42.1	20.2	17.1
Core net profit	33.6	37.2	42.1	20.2	17.1

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	48.1	62.6	71.5	137.7	128.4
Accounts receivable	23.3	23.7	28.8	23.3	47.6
Inventory	3.7	2.5	1.9	1.0	1.8
Property, Plant & Equip (net)	9.3	10.9	11.6	13.1	13.0
Intangible assets	2.4	2.9	2.7	3.4	5.2
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	0.4	0.4	0.9	1.2	1.9
<b>Total assets</b>	<b>87.2</b>	<b>102.8</b>	<b>117.5</b>	<b>179.7</b>	<b>197.9</b>
ST interest bearing debt	0.4	0.3	0.3	0.3	0.1
Accounts payable	14.9	12.6	7.8	5.5	16.1
LT interest bearing debt	1.9	1.3	1.0	0.8	0.6
Other liabilities	3.0	9.0	11.0	4.0	12.0
<b>Total Liabilities</b>	<b>20.5</b>	<b>23.1</b>	<b>20.5</b>	<b>10.7</b>	<b>28.4</b>
Shareholders Equity	66.7	79.7	96.9	169.0	169.1
Minority Interest	0.0	0.0	0.0	0.0	0.4
<b>Total shareholder equity</b>	<b>66.7</b>	<b>79.7</b>	<b>96.9</b>	<b>169.0</b>	<b>169.5</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>87.2</b>	<b>102.8</b>	<b>117.5</b>	<b>179.7</b>	<b>197.9</b>

**CASH FLOW (MYR m)**

Pretax profit	34.4	36.6	42.2	20.3	22.4
Depreciation & amortisation	1.7	1.8	2.0	1.7	1.8
Adj net interest (income)/exp	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)
Change in working capital	(9.8)	5.2	(7.6)	(3.0)	(8.0)
Cash taxes paid	0.0	0.7	0.2	0.1	4.4
Other operating cash flow	1.0	(0.6)	(0.6)	(1.3)	(6.5)
Cash flow from operations	26.9	42.6	35.5	17.7	9.7
Capex	(4.3)	(3.7)	(2.1)	(3.9)	(3.5)
Free cash flow	7.3	15.6	7.4	(9.4)	(7.6)
Dividends paid	(16.8)	(24.2)	(26.3)	(23.9)	(15.7)
Equity raised / (purchased)	17.8	0.0	1.5	75.7	(1.2)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1.9)	(0.6)	(0.3)	(0.3)	(0.3)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(1.1)	(0.5)	(19.7)	(4.3)	(9.8)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	21.9	14.3	(11.3)	61.6	(19.0)



FYE 31 Dec	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	91.1	(1.6)	8.6	(34.1)	46.5
EBITDA growth	137.3	1.2	13.0	(56.2)	(2.8)
EBIT growth	140.2	1.3	12.8	(56.6)	(3.0)
Pretax growth	127.4	6.3	15.2	(51.8)	10.5
Reported net profit growth	122.6	10.7	13.0	(51.9)	(15.4)
Core net profit growth	122.6	10.7	13.0	(51.9)	(15.4)
<b>Profitability ratios (%)</b>					
EBITDA margin	30.9	31.8	33.1	22.0	14.6
EBIT margin	31.3	32.2	33.4	22.0	14.6
Pretax profit margin	30.8	33.2	35.3	25.8	19.4
Payout ratio	61.8	47.3	62.8	95.9	nm
<b>DuPont analysis</b>					
Net profit margin (%)	30.1	33.8	35.2	25.7	14.8
Revenue/Assets (x)	1.3	1.1	1.0	0.4	0.6
Assets/Equity (x)	1.3	1.3	1.2	1.1	1.2
ROAE (%)	70.3	50.9	47.6	15.2	10.1
ROAA (%)	51.3	39.2	38.2	13.6	9.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	10.4	10.9	24.2	72.9	66.5
Days receivable outstanding	46.6	76.9	79.1	118.9	110.4
Days inventory outstanding	14.6	18.9	15.2	13.2	6.5
Days payables outstanding	50.9	84.9	70.1	59.2	50.4
Dividend cover (x)	1.6	2.1	1.6	1.0	0.9
Current ratio (x)	4.1	4.1	5.3	nm	6.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.2	4.5	5.7	nm	7.0
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	nm	nm	nm	52.5
Debt/EBITDA (x)	0.1	0.0	0.0	0.1	0.0
Capex/revenue (%)	3.9	3.4	1.7	5.0	3.0
Net debt/ (net cash)	(45.8)	(60.9)	(70.2)	(136.7)	(127.7)

Source: Company; Maybank

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# Public Bank (PBK MK)

## Malaysia's premier retail bank

# HOLD

Share Price MYR 19.02  
 12m Price Target MYR 19.60 (+3%)  
 Previous Price Target MYR 19.60

### Setting benchmarks for the industry

Public Bank, Malaysia's leading retail bank, continues to set the benchmark for other banks in the country to emulate, especially in terms of asset quality, efficiency, and profitability. A premium for the bank is undoubtedly justified, and this is reflected in its FY16 P/BV of >2x, which we believe is fair. HOLD maintained with a TP of MYR19.60.

### Growing loans at above the industry's pace

Public Bank's loan growth was a robust 11.6% in FY15, 10.2% excluding the forex effect on foreign loans. In keeping ahead of the industry, management targets domestic loan growth of 8-9% in FY16, which would still be ahead of our estimated industry loan growth pace of 6-7%. Focusing on what it does best, the bank will undoubtedly maintain its dominant position in the mortgage, commercial property and hire purchase financing segments.

### Management's targets for FY16

Asset quality continues to be superior to that of its peers with a gross impaired loans ratio of just 0.5% end-2015 (industry: 1.6%) while its loan loss coverage was a whopping 259% (including regulatory reserves) as at end-2015. Loan growth aside, management's other FY16 targets include i) deposit growth of 7-8% (MKE: 7%), ii) <15bps credit cost (MKE: 8bps) and iii) ROAE >15% (MKE: 15.7%).

### Strong fundamentals factored in

We expect earnings growth to moderate in FY16 on the back of more moderate forex income growth and ongoing NIM compression, but credit costs are nevertheless expected to be benign. Capital ratios are comfortable with a group CET1 ratio of 10.9% as at end-2015. Trading at a FY16 P/BV of >2x for ROEs of about 15.7%, much of the strong fundamentals are already factored into the group's share price, we believe. HOLD maintained with a TP of MYR19.60 (FY16 P/BV of 2.2x).

### Company Description

Public Bank is a leading retail bank with a dominant market share in the residential property, commercial property and auto financing segments.

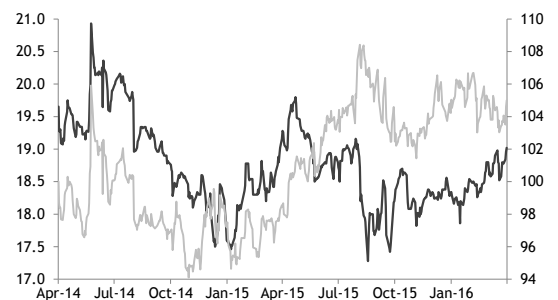
### Statistics

52w high/low (MYR)	19.80/17.28
3m avg turnover (USDm)	28.3
Free float (%)	353,192.6
Issued shares (m)	3,861
Market capitalisation	MYR73.4B
	USD18.8B

### Major shareholders:

Employees Provident Fund	14.0%
Permodalan Nasional Bhd.	6.6%
Sekuriti Pejal Sdn. Bhd.	6.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	1	4	(1)
Relative to index (%)	(0)	1	7

Source: FactSet

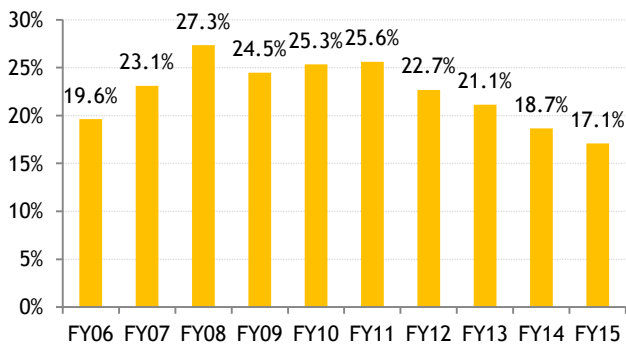
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Operating income	8,673	9,439	9,806	10,341	10,942
Pre-provision profit	6,067	6,524	6,797	7,135	7,573
Core net profit	4,519	4,955	5,176	5,381	5,618
Core EPS (MYR)	1.17	1.28	1.34	1.39	1.45
Core EPS growth (%)	4.1	9.7	4.5	4.0	4.4
Net DPS (MYR)	0.54	0.56	0.58	0.60	0.62
Core P/E (x)	16.3	14.8	14.2	13.6	13.1
P/BV (x)	2.6	2.4	2.1	1.9	1.7
Net dividend yield (%)	2.8	2.9	3.0	3.2	3.3
Book value (MYR)	7.26	8.09	9.01	9.94	10.91
ROAE (%)	18.7	16.7	15.7	14.7	14.0
ROAA (%)	1.4	1.4	1.4	1.3	1.3
Consensus net profit	-	-	4,924	5,187	5,618
MKE vs. Consensus (%)	-	-	5.1	3.7	(0.0)

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## Value Proposition

- Malaysia's third largest financial institution by asset size and the most profitable in terms of ROEs.
- Domestically, the bank commands the largest loan market share for residential property, commercial property, as well as hire purchase financing.
- Overseas operations make up about 9% of group pretax profit, with contributions from Hong Kong/China, Cambodia and Vietnam.
- 100%-owned Public Mutual, with its AUM of MYR63b end-Jan 2016, is the largest local private unit trust company.
- Much of its strong fundamentals stem from a dedicated and proactive management team as well as its almost sole focus on retail banking.

### ROAE trends

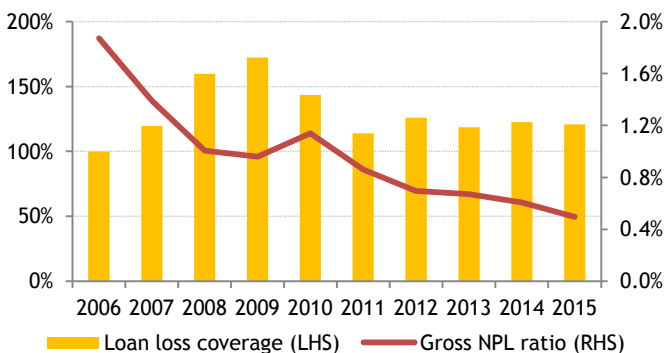


Source: Company

## Financial Metrics

- Asset quality is head and shoulders above its peers' with a gross impaired loan ratio of <1% versus >1% for the industry. Moreover, loan loss coverage including regulatory reserves of >250% is more than comfortable.
- Public Bank is also the most efficient domestic FI with a cost/income ratio of <35% versus >40% for its peers.
- Capital levels remain comfortable with a CET1 ratio of close to 11%.

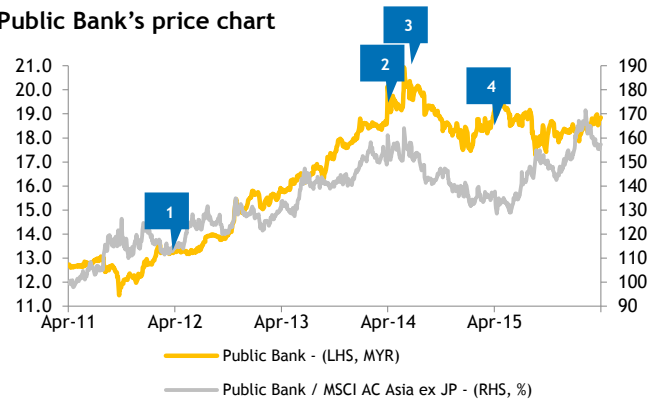
### Gross impaired loans ratio and loan loss coverage



Source: Company

## Price Drivers

### Public Bank's price chart



Source: Company, Maybank Kim Eng

1. Strong year end results with 14% YoY growth in FY11 group net profit.
2. Proposed rights issue to raise up to MYR5b for working capital purposes.
3. Increased free float weightage following MSCI portfolio rebalancing.
4. FY14 results above consensus expectations with group net profit rising 11% YoY.

## Swing Factors

### Upside

- The ability to re-price upwards its loans, given its market leading position in the retail segment, would help strengthen margins.
- Any further improvements to its loan recovery rate assumptions could promote the write-back of collective allowances and bolster earnings.
- Further weakness in the MYR could boost contributions from its overseas operations as well as its forex income.

### Downside

- Greater-than-expected compression in net interest margins from a build-up in cost pressures.
- A significant deterioration in consumer sentiment could give rise to asset quality issues in its retail book.
- Renewed competition in the auto segment could drive rates down again and impact the profitability of the hire purchase division.

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FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
Core P/E (x)	16.3	14.8	14.2	13.6	13.1
Core FD P/E (x)	16.3	14.8	14.2	13.6	13.1
P/BV (x)	2.6	2.4	2.1	1.9	1.7
P/NTA (x)	2.8	2.5	2.3	2.0	1.8
Net dividend yield (%)	2.8	2.9	3.0	3.2	3.3

**INCOME STATEMENT (MYR m)**

Interest income	12,636.1	14,218.5	14,401.4	15,450.8	16,502.0
Interest expense	(6,705.6)	(7,841.5)	(7,881.5)	(8,629.1)	(9,310.6)
<b>Net interest income</b>	<b>5,930.5</b>	<b>6,377.0</b>	<b>6,520.0</b>	<b>6,821.7</b>	<b>7,191.4</b>
Islamic banking income	831.2	828.6	861.8	904.9	950.1
Net insurance income	0.0	0.0	0.0	0.0	0.0
Net fees and commission	1,381.7	1,552.8	1,684.2	1,808.3	1,923.2
Other income	530.0	680.3	740.3	805.8	877.4
<b>Total non-interest income</b>	<b>1,911.7</b>	<b>2,233.1</b>	<b>2,424.5</b>	<b>2,614.2</b>	<b>2,800.6</b>
<b>Operating income</b>	<b>8,673.4</b>	<b>9,438.8</b>	<b>9,806.3</b>	<b>10,340.8</b>	<b>10,942.1</b>
Staff costs	(1,878.6)	(2,078.0)	(2,181.9)	(2,356.4)	(2,497.8)
Other operating expenses	(727.3)	(837.2)	(827.2)	(849.0)	(871.7)
<b>Operating expenses</b>	<b>(2,605.9)</b>	<b>(2,915.2)</b>	<b>(3,009.0)</b>	<b>(3,205.4)</b>	<b>(3,369.5)</b>
<b>Pre-provision profit</b>	<b>6,067.5</b>	<b>6,523.6</b>	<b>6,797.3</b>	<b>7,135.4</b>	<b>7,572.7</b>
Loan impairment allowances	(259.0)	(146.2)	(236.3)	(309.0)	(440.1)
Other allowances	0.8	(0.6)	0.0	0.0	0.0
Associates & JV income	5.0	7.6	7.9	8.3	8.7
<b>Pretax profit</b>	<b>5,814.3</b>	<b>6,384.4</b>	<b>6,568.9</b>	<b>6,834.7</b>	<b>7,141.3</b>
Income tax	(1,250.9)	(1,370.2)	(1,326.9)	(1,380.6)	(1,442.5)
Minorities	(44.5)	(59.1)	(65.6)	(72.8)	(80.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>4,518.8</b>	<b>4,955.2</b>	<b>5,176.4</b>	<b>5,381.3</b>	<b>5,618.0</b>
<b>Core net profit</b>	<b>4,518.8</b>	<b>4,955.2</b>	<b>5,176.4</b>	<b>5,381.3</b>	<b>5,618.0</b>

**BALANCE SHEET (MYR m)**

Cash & deposits with banks	16,816.8	14,831.1	15,572.6	16,351.2	17,168.8
Sec. under resale agreements	6,314.5	4,379.2	4,598.1	2,299.1	2,758.9
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	18,364.0	3,102.8	3,257.9	3,420.8	3,591.8
Available-for-sale securities	45,873.2	51,851.8	53,407.3	58,748.0	61,685.4
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	243,221.8	271,814.5	294,555.4	315,924.0	335,636.6
Central bank deposits	8,063.7	9,514.4	9,821.2	10,467.6	11,073.9
Investment in associates/JVs	157.4	190.9	198.9	207.2	215.9
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,475.6	1,422.9	1,465.5	1,509.5	1,554.8
Intangible assets	2,083.1	2,375.9	2,375.9	2,375.9	2,375.9
Other assets	3,351.7	4,274.9	4,391.9	4,512.6	4,637.3
<b>Total assets</b>	<b>345,721.9</b>	<b>363,758.2</b>	<b>389,644.7</b>	<b>415,815.9</b>	<b>440,699.4</b>
Deposits from customers	276,540.2	301,157.1	321,918.5	343,022.8	362,850.4
Deposits from banks & FIs	20,669.7	9,969.5	10,468.0	10,991.4	11,541.0
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	5,453.0	5,451.9	5,951.9	5,951.9	5,951.9
Other securities in issue	4,089.1	4,212.9	4,212.9	4,212.9	4,212.9
Other borrowings	3,807.7	3,924.1	4,173.9	4,456.3	4,775.3
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	6,287.5	6,735.0	7,032.3	7,658.5	8,087.1
<b>Total liabilities</b>	<b>316,847.2</b>	<b>331,450.5</b>	<b>353,757.5</b>	<b>376,293.8</b>	<b>397,418.7</b>
Share capital	3,882.1	3,882.1	3,882.1	3,882.1	3,882.1
Reserves	24,142.5	27,349.0	30,908.7	34,516.7	38,256.5
Shareholders' funds	28,024.7	31,231.1	34,790.8	38,398.9	42,138.6
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	850.1	1,076.6	1,096.4	1,123.2	1,142.1
Total equity	28,874.8	32,307.7	35,887.3	39,522.1	43,280.7
<b>Total liabilities &amp; equity</b>	<b>345,721.9</b>	<b>363,758.2</b>	<b>389,644.7</b>	<b>415,815.9</b>	<b>440,699.4</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	6.5	7.5	2.2	4.6	5.4
Non-interest income	9.2	16.8	8.6	7.8	7.1
Operating expenses	4.1	11.9	3.2	6.5	5.1
Pre-provision profit	7.3	7.5	4.2	5.0	6.1
Core net profit	11.2	9.7	4.5	4.0	4.4
Gross loans	10.8	11.6	8.5	7.4	6.4
Customer deposits	10.2	8.9	6.9	6.6	5.8
Total assets	13.1	5.2	7.1	6.7	6.0
<b>Profitability (%)</b>					
Non-int. income/Total income	22.0	23.7	24.7	25.3	25.6
Average lending yields	4.32	4.45	4.26	4.26	4.27
Average cost of funds	2.64	2.85	2.89	3.18	3.24
Net interest margin	2.24	2.16	2.09	2.04	2.02
Cost/income	30.0	30.9	30.7	31.0	30.8
<b>Liquidity (%)</b>					
Loans/customer deposits	88.0	90.3	91.5	92.1	92.5
<b>Asset quality (%)</b>					
Net NPL	0.6	0.5	0.5	0.6	0.6
Gross NPL	0.6	0.5	0.6	0.7	0.7
(SP+GP)/average gross loans	0.1	0.1	0.1	0.1	0.1
Loan loss coverage	122.4	120.8	124.2	121.3	128.0
<b>Capital adequacy (%)</b>					
CET1	10.8	10.9	12.3	12.8	13.3
Tier 1 capital	12.2	12.0	13.2	13.5	13.9
Risk-weighted capital	15.8	15.5	16.1	16.3	16.6
<b>Returns (%)</b>					
ROAE	18.7	16.7	15.7	14.7	14.0
ROAA	1.4	1.4	1.4	1.3	1.3
Shareholders equity/assets	8.1	8.6	8.9	9.2	9.6

Source: Company; Maybank

# QL Resources (QLG MK)

## A steady growth story

### Diversified activities provide earnings resilience

Going forward, we believe that QL's well diversified consumer-based activities will continue to provide earnings resilience. We project a net profit growth of 11% for FYE3/17, mainly driven by ongoing capacity expansion at its marine and livestock divisions. QL's strong fundamentals and growth potential are reflected in valuations, in our view. HOLD with an unchanged DCF-TP of MYR4.20.

### Three pronged growth strategy

QL's unique and diversified consumer based activities provide earnings resilience and a three pronged growth strategy. It has three business divisions, namely (i) marine products manufacturing (MPM) with surimi, fishmeal and frozen food production, shrimp farming and deep sea fishing; (ii) Integrated livestock farming (ILF), whereby it is one of the largest egg producers and animal feed raw materials distributors domestically; and (iii) palm oil related activities.

### Incremental expansion to support growth

In the near term, we believe the MPM division will continue to be the main growth driver on the back of ongoing capacity expansion, acting as a buffer to a weaker ILF division on potentially higher egg farming costs (weaker MYR). Continuous incremental expansion in capacity will support growth in the longer term, with annual capex of about MYR300m. This will go mainly towards the expansion of its surimi lines, food manufacturing, prawn aquaculture and egg production capacity.

### A resilient stock

QL's strong share price reflects its strong fundamentals and growth potential. Valuations wise, it is however not cheap, trading at 24x FY17 PER (about 1SD above its 5-year mean). We maintain our HOLD call and DCF-TP of MYR4.20 (assuming 7.4% WACC and 2% long-term growth).

FYE Mar (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,457	2,708	2,754	3,014	3,159
EBITDA	300	341	385	423	461
Core net profit	160	183	205	226	250
Core EPS (sen)	12.8	14.7	16.4	18.1	20.0
Core EPS growth (%)	21.4	14.5	11.9	10.5	10.4
Net DPS (sen)	3.5	4.3	5.0	6.0	6.0
Core P/E (x)	34.3	30.0	26.8	24.3	22.0
P/BV (x)	4.3	3.8	3.5	3.2	2.9
Net dividend yield (%)	0.8	1.0	1.1	1.4	1.4
ROAE (%)	14.7	13.5	13.6	13.6	13.7
ROAA (%)	7.5	7.6	7.5	7.6	7.9
EV/EBITDA (x)	15.2	16.4	16.2	15.0	13.8
Net debt/equity (%)	31.2	39.0	38.3	40.3	38.6
Consensus net profit	-	-	207	233	267
MKE vs. Consensus (%)	-	-	(1.2)	(3.0)	(6.3)

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# HOLD

Share Price MYR 4.40  
 12m Price Target MYR 4.20 (-5%)  
 Previous Price Target MYR 4.20

### Company Description

QL Resources Bhd. engages in the livestock farming, surimi manufacturing, and palm oil businesses.

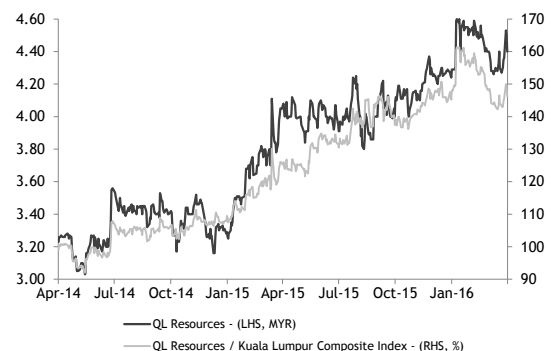
### Statistics

Shariah status	Yes
52w high/low (MYR)	4.60/3.80
3m avg turnover (USDm)	0.6
Free float (%)	40.7
Issued shares (m)	1,248
Market capitalisation	MYR5.5B USD1.4B

### Major shareholders:

CBG Holdings Sdn. Bhd.	42.1%
Farsathy Holdings Sdn. Bhd.	12.1%
Affin Hwang Asset Management Bhd.	2.1%

### Price Performance



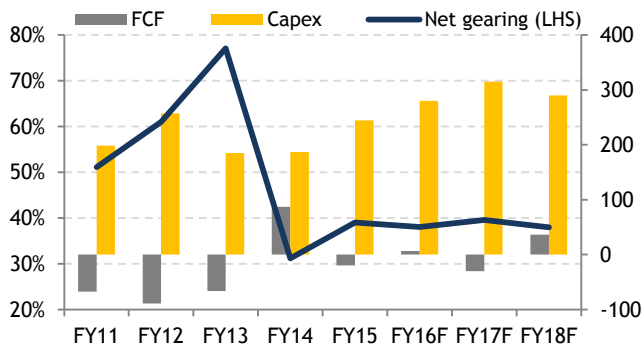
	-1M	-3M	-12M
Absolute (%)	0	4	9
Relative to index (%)	(1)	1	17

Source: FactSet

## Value Proposition

- QL's diversified consumer-based activities provide earnings resilience and a three pronged growth strategy.
- Marine division - Strong market share of surimi, fishmeal and frozen products in Malaysia and ASEAN. Scale is difficult to replicate.
- Livestock division - As one of the largest egg producers and also feed distributors in MY, it has cost advantage over peers. Expect growth from capacity expansion and increasing egg consumption in Vietnam and Indonesia.
- Palm oil activities - 3rd leg of growth on maturing palm.
- Sustainable returns on its staple offerings, strong CF and manageable gearing levels allow for continuous incremental expansion, both domestically and overseas.

### FCF, Capex, Net gearing (%)

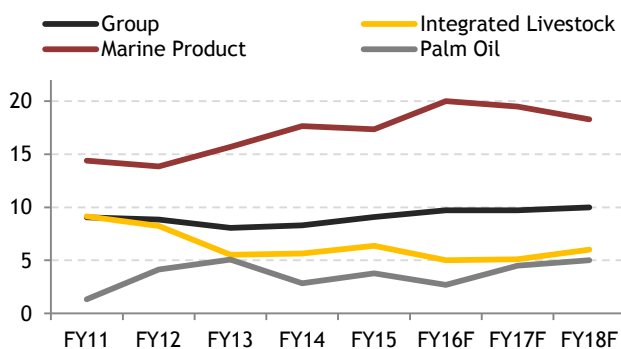


Source: Company

## Financial Metrics

- Low earnings volatility and relative swing stability - a result of diversified and integrated business model.
- On FX, impact of higher USD feed costs (mainly corn and soybean for its livestock division) is mitigated by marine division's export sales (>50% of marine division sales).
- Expect near term growth to be supported by relatively stable product prices, supply demand conditions and incremental expansion in all three business divisions.
- Sizeable capex in marine and livestock divisions going forward; food manufacturing (marine), prawn aquaculture expansion and upping overall group egg production.

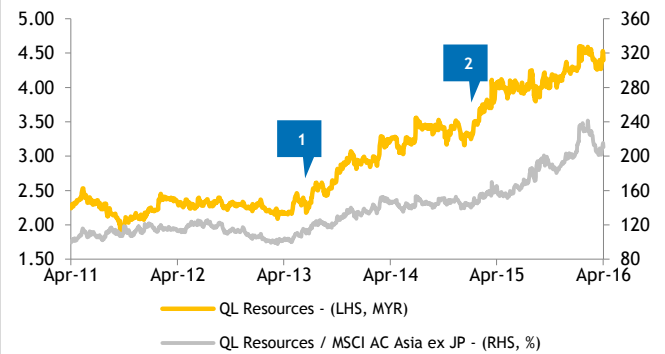
### Pretax margins (%)



Source: Company

## Price Drivers

### Share price trend



Source: Company, Maybank Kim Eng

1. Investors anticipated recovery in FYE3/14 for integrated livestock farming segment as it was impacted by higher raw material prices and lower egg prices in FY3/13. Also, stronger volume growth and expansion in margins from marine product manufacturing division. Start of uptrend in share price as investors buy into QL's long term growth story - continuity of sizeable capex and successful strategy execution track record.
2. Stock continues to re-rate on solid earnings delivery despite softer consumer sentiment.

## Swing Factors

### Upside

- Quicker-than-expected expansion of capacity which will lead to improved contributions from incremental expansion.
- Higher poultry farm produce prices.
- Further improvement in marine product margins (>50% export sales in marine product division).

### Downside

- Larger-than-expected impact of weaker MYR on feed costs.
- Departure of key management.
- Prolonged weaker farm produce prices on unfavourable supply/demand situation.





FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	34.3	28.7	26.8	24.3	22.0
Core P/E (x)	34.3	30.0	26.8	24.3	22.0
P/BV (x)	4.3	3.8	3.5	3.2	2.9
P/NTA (x)	4.7	4.2	3.8	3.4	3.1
Net dividend yield (%)	0.8	1.0	1.1	1.4	1.4
FCF yield (%)	1.6	nm	0.1	nm	0.7
EV/EBITDA (x)	15.2	16.4	16.2	15.0	13.8
EV/EBIT (x)	20.6	22.1	22.4	20.5	18.8

**INCOME STATEMENT (MYR m)**

Revenue	2,457.2	2,707.8	2,753.8	3,014.3	3,158.9
Gross profit	404.3	467.5	497.7	552.1	595.4
EBITDA	300.0	340.9	384.9	423.1	461.3
Depreciation	(78.2)	(88.5)	(106.4)	(113.5)	(121.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	221.7	252.4	278.5	309.5	339.8
Net interest income / (exp)	(32.6)	(29.7)	(36.5)	(42.1)	(44.4)
Associates & JV	14.6	23.3	20.1	22.1	24.2
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	203.8	246.0	262.0	289.5	319.7
Income tax	(37.0)	(50.0)	(52.4)	(57.9)	(63.9)
Minorities	(6.8)	(4.5)	(4.8)	(5.3)	(5.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	159.9	191.4	204.8	226.2	249.9
Core net profit	159.9	183.1	204.8	226.2	249.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	253.2	200.7	295.4	197.3	159.3
Accounts receivable	272.4	306.8	312.1	341.6	358.0
Inventory	229.0	334.6	337.0	367.7	382.9
Property, Plant & Equip (net)	1,043.2	1,239.4	1,412.9	1,614.4	1,783.0
Intangible assets	118.8	123.3	123.3	123.3	123.3
Investment in Associates & JVs	101.4	94.7	114.7	136.8	161.0
Other assets	223.8	285.8	290.6	298.7	306.7
<b>Total assets</b>	<b>2,241.6</b>	<b>2,585.3</b>	<b>2,886.0</b>	<b>3,079.7</b>	<b>3,274.0</b>
ST interest bearing debt	386.1	431.0	400.0	400.0	400.0
Accounts payable	168.0	238.3	240.0	261.9	272.7
LT interest bearing debt	268.2	326.0	500.0	500.0	500.0
Other liabilities	74.0	91.0	87.0	87.0	87.0
<b>Total Liabilities</b>	<b>895.9</b>	<b>1,085.8</b>	<b>1,227.4</b>	<b>1,249.3</b>	<b>1,260.1</b>
Shareholders Equity	1,285.8	1,426.6	1,578.3	1,742.2	1,917.1
Minority Interest	59.9	72.9	80.3	88.3	96.8
<b>Total shareholder equity</b>	<b>1,345.7</b>	<b>1,499.5</b>	<b>1,658.6</b>	<b>1,830.5</b>	<b>2,014.0</b>
<b>Total liabilities and equity</b>	<b>2,241.6</b>	<b>2,585.3</b>	<b>2,886.0</b>	<b>3,079.7</b>	<b>3,274.0</b>

**CASH FLOW (MYR m)**

Pretax profit	203.8	246.0	262.0	289.5	319.7
Depreciation & amortisation	78.2	88.5	106.4	113.5	121.4
Adj net interest (income)/exp	32.6	29.7	36.5	42.1	44.4
Change in working capital	13.8	(84.5)	(5.9)	(38.4)	(20.7)
Cash taxes paid	(30.0)	(36.9)	(52.4)	(57.9)	(63.9)
Other operating cash flow	(26.6)	(31.2)	(20.1)	(22.1)	(24.2)
Cash flow from operations	274.1	225.1	284.7	279.3	326.8
Capex	(187.1)	(244.7)	(280.0)	(315.0)	(290.0)
Free cash flow	87.1	(19.6)	4.7	(35.7)	36.8
Dividends paid	(37.4)	(43.7)	(53.0)	(62.4)	(74.9)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(217.5)	70.3	143.0	0.0	0.0
Other invest/financing cash flow	271.2	(64.5)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>103.3</b>	<b>(57.5)</b>	<b>94.7</b>	<b>(98.1)</b>	<b>(38.0)</b>

FYE 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	14.5	10.2	1.7	9.5	4.8
EBITDA growth	15.1	13.7	12.9	9.9	9.0
EBIT growth	15.4	13.8	10.3	11.2	9.8
Pretax growth	18.0	20.7	6.5	10.5	10.4
Reported net profit growth	21.4	19.7	7.0	10.5	10.4
Core net profit growth	21.4	14.5	11.9	10.5	10.4
<b>Profitability ratios (%)</b>					
EBITDA margin	12.2	12.6	14.0	14.0	14.6
EBIT margin	9.0	9.3	10.1	10.3	10.8
Pretax profit margin	8.3	9.1	9.5	9.6	10.1
Payout ratio	27.3	27.7	30.5	33.1	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	6.5	7.1	7.4	7.5	7.9
Revenue/Assets (x)	1.1	1.0	1.0	1.0	1.0
Assets/Equity (x)	1.7	1.8	1.8	1.8	1.7
ROAE (%)	14.7	13.5	13.6	13.6	13.7
ROAA (%)	7.5	7.6	7.5	7.6	7.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	51.7	51.1	55.9	53.9	55.0
Days receivable outstanding	40.4	38.5	40.5	39.0	39.9
Days inventory outstanding	39.3	45.3	53.6	51.5	52.7
Days payables outstanding	28.1	32.6	38.2	36.7	37.5
Dividend cover (x)	3.7	3.6	3.3	3.0	3.3
Current ratio (x)	1.6	1.4	1.6	1.5	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.5	2.4	2.4	2.5	2.6
Net debt/equity (%)	31.2	39.0	38.3	40.3	38.6
Net interest cover (x)	6.8	8.5	7.6	7.4	7.7
Debt/EBITDA (x)	2.2	2.2	2.3	2.1	2.0
Capex/revenue (%)	7.6	9.0	10.2	10.5	9.2
Net debt/ (net cash)	401.1	556.3	604.6	702.7	740.7

Source: Company; Maybank

# RHB Capital (RHBC MK)

## Restructuring benefits

# HOLD

Share Price MYR 6.10  
 12m Price Target MYR 5.85 (-4%)  
 Previous Price Target MYR 5.85

### Internal restructuring is a positive

What is positive about RHB Capital's (RHB) internal restructuring exercise is that it will eliminate the holding company's double leverage ratio issue and pave the way for the possible reinstatement of the group's 30% dividend payout policy. Operationally, we expect cost savings to provide the impetus to earnings growth in FY16. We maintain our TP of MYR5.85 and HOLD call.

### Rights issue completed, listing of RHB Bank next

Following its recent rights issue, RHB's capital position is now comfortable, with a fully loaded CET1 ratio of 12% at the group level and 10% at the bank level, as at end-2015. Next up is its restructuring exercise, which involves RHB Bank assuming RHB's listing status. At this juncture, we estimate a share swap ratio of 1.25 RHB Bank shares for every 1 RHB share, though the actual ratio can only be determined closer to completion.

### Targets for 2016

Management's operational targets for 2016 include loans growth of 8% (6% in FY15), cost/income ratio <53% (56% in FY15 excluding the Career Transition Scheme [CTS]) and an ROE of 10% (FY15: 7.3% reported, 8.4% normalized).

### Maintain HOLD for now

NIM pressure is expected to persist into FY16 (FY15: -13bps to 2.16%) but management hopes to hold NIMs above 2% for the year. Positively though its recent CTS should provide savings of up to MYR200m per annum to support earnings growth in FY16. Group loan loss coverage is still low relative to peers, but is nonetheless decent at about 83% including regulatory reserves. Our TP of MYR5.85 pegs on a 2016 P/BV of 0.9x, with a projected ROE of 8.9% for FY16.

### Company Description

RHB Capital provides integrated financial services such as commercial banking, Islamic banking, investment banking, and stock broking, among others.

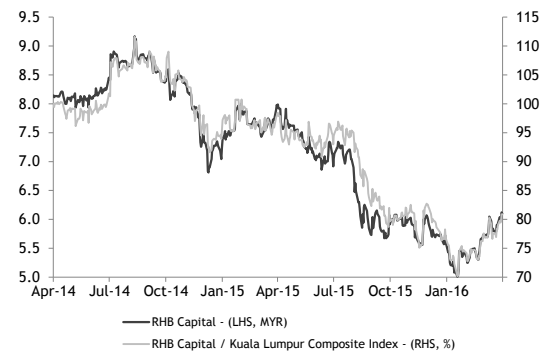
### Statistics

52w high/low (MYR)	7.99/5.01
3m avg turnover (USDm)	2.0
Free float (%)	71.8
Issued shares (m)	3,075
Market capitalisation	MYR18.8B USD4.8B

### Major shareholders:

Employees Provident Fund	41.6%
Aabar Investments PJSC (Private Equity)	18.2%
OSK Holdings Bhd.	10.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	6	10	(23)
Relative to index (%)	5	6	(17)

Source: FactSet

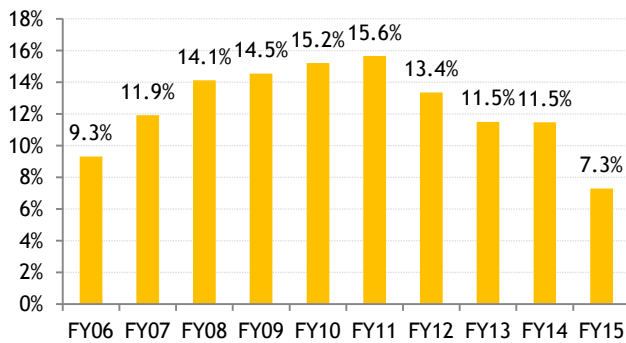
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Operating income	6,235	6,191	6,303	6,573	6,871
Pre-provision profit	2,824	2,398	2,863	2,992	3,142
Core net profit	1,926	1,689	1,776	1,831	1,881
Core EPS (MYR)	0.71	0.65	0.57	0.59	0.60
Core EPS growth (%)	3.2	(9.2)	(11.5)	2.6	2.2
Net DPS (MYR)	0.06	0.12	0.14	0.15	0.16
Core P/E (x)	8.5	9.4	10.6	10.3	10.1
P/BV (x)	0.8	0.8	1.1	1.0	1.0
Net dividend yield (%)	1.0	2.0	2.3	2.5	2.6
Book value (MYR)	7.31	7.51	5.40	5.89	6.37
ROAE (%)	10.8	8.1	8.9	10.5	9.9
ROAA (%)	0.9	0.8	0.8	0.8	0.7
Consensus net profit	-	-	1,920	2,123	2,202
MKE vs. Consensus (%)	-	-	(7.5)	(13.7)	(14.6)

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## Value Proposition

- Malaysia's fourth largest financial institution in terms of asset size.
- The group has three substantial shareholders, comprising the EPF (42%), Aabar Investments (17.8%) and OSK Holdings (10.1%)
- Recent rights issue places the group on a better financial footing with a fully-loaded CET1 ratio of 12% at the group level and 10% at the bank level.
- Pending completion is the proposed elimination of the financial holding company structure, with RHB Bank assuming the listing status of RHB.

### ROAE trends

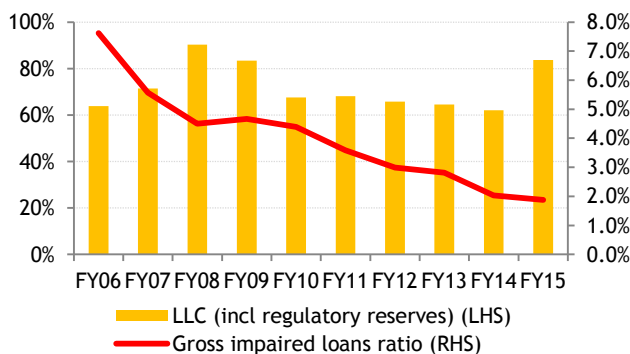


Source: Company

## Financial Metrics

- Management's targets for FY16 include loan growth of 8%, CIR <53% and an ROE of 10%.
- Cost savings from its recent CTS should start to filter through in 2016 - management expects annual savings of up to MYR200m per annum. The CTS involved a 14.7% reduction in headcount to 15,100 personnel, at a cost of MYR308m.
- The group's gross NPL ratio improved to 1.88% end-2015 (1.94% end-Sep 2015) and while its loan loss coverage is still low relative to peers, it is nonetheless decent at 83% including regulatory reserves.

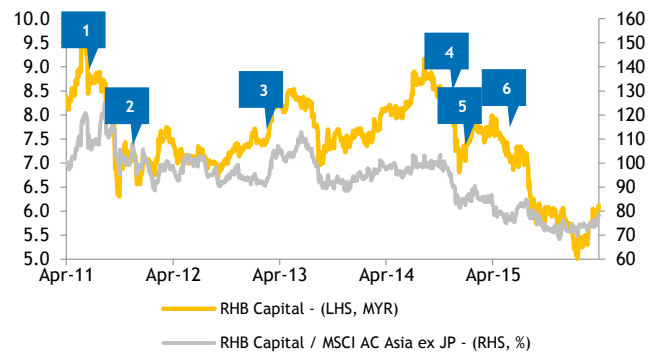
### Gross impaired loans ratio and loan loss coverage



Source: Company

## Price Drivers

### RHB Capital's price chart



Source: Company, Maybank Kim Eng

1. Proposed merger negotiations with either Maybank or CIMB called off.
2. BNM approval obtained to commence merger talks with OSK Holdings.
3. Entered into amended agreement to acquire a 40% stake in PT Bank Mestika.
4. BNM approval obtained to commence merger negotiations with CIMB and MBSB.
5. Proposed merger with CIMB and MBSB called off.
6. Proposed 1-for-6 rights issue and internal restructuring.

## Swing Factors

### Upside

- Greater-than-expected cost savings from its CTS would be positive to bottomline growth.
- Pick-up in capital market activity would be positive to its non-interest income.

### Downside

- Loan loss coverage is still one of the lowest in the industry and any need to top up would result in a spike in credit costs.
- Liquidity coverage ratio is currently <100% and so NIM compression could be larger than expected if it competes aggressively for funds.

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
Core P/E (x)	8.5	9.4	10.6	10.3	10.1
Core FD P/E (x)	8.5	9.4	10.6	10.3	10.1
P/BV (x)	0.8	0.8	1.1	1.0	1.0
P/NTA (x)	1.2	1.1	1.1	1.0	1.0
Net dividend yield (%)	1.0	2.0	2.3	2.5	2.6

**INCOME STATEMENT (MYR m)**

Interest income	7,469.7	7,935.3	8,410.2	8,890.4	9,389.7
Interest expense	(4,178.4)	(4,635.5)	(5,083.6)	(5,449.4)	(5,827.1)
<b>Net interest income</b>	<b>3,291.3</b>	<b>3,299.8</b>	<b>3,326.6</b>	<b>3,441.0</b>	<b>3,562.6</b>
Islamic banking income	732.2	875.9	919.7	965.7	1,014.0
Net insurance income	144.2	141.8	156.0	171.6	188.8
Net fees and commission	1,453.8	1,298.6	1,350.5	1,404.5	1,460.7
Other income	613.3	575.1	550.3	589.8	644.6
<b>Total non-interest income</b>	<b>2,211.4</b>	<b>2,015.5</b>	<b>2,056.8</b>	<b>2,166.0</b>	<b>2,294.1</b>
<b>Operating income</b>	<b>6,234.9</b>	<b>6,191.2</b>	<b>6,303.2</b>	<b>6,572.7</b>	<b>6,870.6</b>
Staff costs	(2,027.6)	(2,010.3)	(2,110.8)	(2,216.4)	(2,327.2)
Other operating expenses	(1,383.6)	(1,782.9)	(1,329.0)	(1,364.7)	(1,401.4)
<b>Operating expenses</b>	<b>(3,411.2)</b>	<b>(3,793.2)</b>	<b>(3,439.8)</b>	<b>(3,581.1)</b>	<b>(3,728.6)</b>
<b>Pre-provision profit</b>	<b>2,823.7</b>	<b>2,398.0</b>	<b>2,863.4</b>	<b>2,991.6</b>	<b>3,142.0</b>
Loan impairment allowances	(206.2)	(340.3)	(469.6)	(555.7)	(639.1)
Other allowances	117.3	48.8	20.0	20.0	20.0
Associates & JV income	0.3	0.3	0.3	0.3	0.3
<b>Pretax profit</b>	<b>2,735.1</b>	<b>2,106.7</b>	<b>2,414.1</b>	<b>2,456.2</b>	<b>2,523.2</b>
Income tax	(671.6)	(582.7)	(627.7)	(614.1)	(630.8)
Minorities	(25.5)	(12.6)	(10.7)	(11.1)	(11.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>2,038.0</b>	<b>1,511.4</b>	<b>1,775.7</b>	<b>1,831.1</b>	<b>1,881.1</b>
<b>Core net profit</b>	<b>1,925.6</b>	<b>1,689.2</b>	<b>1,775.7</b>	<b>1,831.1</b>	<b>1,881.1</b>

**BALANCE SHEET (MYR m)**

Cash & deposits with banks	18,535.5	14,258.5	11,406.8	13,117.8	12,330.7
Sec. under resale agreements	491.5	188.4	203.5	219.7	237.3
Derivatives financial assets	0.0	0.0	0.0	0.0	0.0
Dealing securities	2,930.7	1,752.6	1,840.3	1,932.3	2,028.9
Available-for-sale securities	40,072.0	45,271.0	47,987.3	51,346.4	54,940.7
Investment securities	0.0	0.0	0.0	0.0	0.0
Loans & advances	140,693.0	149,591.0	158,398.5	166,997.6	175,713.9
Central bank deposits	5,421.0	5,272.2	5,642.6	5,888.2	6,228.8
Investment in associates/JVs	21.0	15.8	39.5	39.5	39.5
Insurance assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	1,030.7	1,041.9	1,062.7	1,084.0	1,105.7
Intangible assets	5,273.9	5,347.5	0.0	0.0	0.0
Other assets	4,885.1	7,978.8	8,180.5	8,388.8	8,603.8
<b>Total assets</b>	<b>219,354.4</b>	<b>230,717.7</b>	<b>234,761.6</b>	<b>249,014.2</b>	<b>261,229.2</b>
Deposits from customers	157,134.0	158,151.0	166,058.6	174,361.5	183,079.6
Deposits from banks & FIs	21,349.6	20,645.9	21,678.2	22,762.1	23,900.2
Derivatives financial instruments	0.0	0.0	0.0	0.0	0.0
Subordinated debt	6,099.4	5,895.8	5,895.8	5,895.8	5,895.8
Other securities in issue	601.5	601.9	600.0	600.0	600.0
Other borrowings	9,622.9	13,922.0	14,323.7	14,745.5	15,188.4
Insurance liabilities	0.0	0.0	0.0	0.0	0.0
Other liabilities	5,652.9	8,391.7	9,467.7	12,314.7	12,606.6
<b>Total liabilities</b>	<b>200,460.4</b>	<b>207,608.3</b>	<b>218,023.9</b>	<b>230,679.5</b>	<b>241,270.5</b>
Share capital	2,572.5	3,074.7	3,090.7	3,106.7	3,122.7
Reserves	16,221.8	20,010.1	13,611.6	15,181.6	16,778.2
Shareholders' funds	18,794.3	23,084.8	16,702.3	18,288.3	19,900.9
Preference shares	0.0	0.0	0.0	0.0	0.0
Minority interest	99.8	24.6	35.3	46.4	57.7
Total equity	18,894.1	23,109.4	16,737.6	18,334.7	19,958.7
<b>Total liabilities &amp; equity</b>	<b>219,354.4</b>	<b>230,717.7</b>	<b>234,761.6</b>	<b>249,014.2</b>	<b>261,229.2</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth (%)</b>					
Net interest income	0.5	0.3	0.8	3.4	3.5
Non-interest income	6.0	(8.9)	2.1	5.3	5.9
Operating expenses	11.8	11.2	(9.3)	4.1	4.1
Pre-provision profit	(2.6)	(15.1)	19.4	4.5	5.0
Core net profit	5.2	(12.3)	5.1	3.1	2.7
Gross loans	17.0	6.2	6.2	5.8	5.6
Customer deposits	14.1	0.6	5.0	5.0	5.0
Total assets	14.8	5.2	1.8	6.1	4.9
<b>Profitability (%)</b>					
Non-int. income/Total income	35.5	32.6	32.6	33.0	33.4
Average lending yields	4.33	4.26	4.33	4.35	4.35
Average cost of funds	2.68	2.74	2.99	3.13	3.19
Net interest margin	2.12	2.02	1.97	1.94	1.91
Cost/income	54.7	61.3	54.6	54.5	54.3
<b>Liquidity (%)</b>					
Loans/customer deposits	89.5	94.6	95.4	95.8	96.0
<b>Asset quality (%)</b>					
Net NPL	1.7	1.5	1.3	1.0	0.7
Gross NPL	2.0	1.9	2.0	2.0	2.1
(SP+GP)/average gross loans	0.2	0.2	0.3	0.3	0.4
Loan loss coverage	62.0	63.2	75.7	90.2	103.6
<b>Capital adequacy (%)</b>					
CET1	10.3	12.7	11.7	11.4	11.8
Tier 1 capital	10.8	13.2	15.7	17.4	18.2
Risk-weighted capital	15.6	18.6	20.5	21.3	20.8
<b>Returns (%)</b>					
ROAE	10.8	8.1	8.9	10.5	9.9
ROAA	0.9	0.8	0.8	0.8	0.7
Shareholders equity/assets	8.6	10.0	7.1	7.3	7.6

Source: Company; Maybank

# SP Setia (SPSB MK)

## A defensive play

# BUY

Share Price MYR 3.18  
 12m Price Target MYR 3.86 (+21%)  
 Previous Price Target MYR 3.76

### Reaping the fruits of overseas expansion

Overseas earnings start featuring in 2015-2017 with the completion of Fulton Lane, Battersea Power Station phase 1 and Parque Melbourne projects in end 2016/2017. Management expects to achieve a similar sales trend (MYR4b) in 2016. We continue to like SP Setia (SPSB) for its earnings defensiveness, product/pricing flexibility and balance sheet strength. Our MYR3.86 TP is based on a 30% discount to RNAV - BUY.

### Strong earnings visibility

We expect 2016 net profit to decline by -30% YoY after the record profit in 2015 on lumpy earnings recognition of its Fulton Lane project. However, earnings should pick up strongly in 2017 with the completion of Battersea Power Station phase 1 and Parque Melbourne by end 2016-2017. At Dec 2015, unbilled sales stood at MYR9.2b (1.9x of our FY16F revenue forecast), providing strong medium-term earnings visibility.

### Management sets MYR4b sales target

SPSB aims to achieve strong MYR4b sales in 2016 (MKE: MYR3.7b; 2015: MYR4.3b), despite a weak property market outlook. This will be backed by MYR4.8b of new launches (74% from Klang Valley, followed by 12% from Penang). Elsewhere, management is on the lookout for new landbank after a two-year pause due to expensive land pricing.

### Fundamentally strong

SPSB can be considered as one of the most defensive property stocks under our coverage for its: i) manageable net gearing ratio of 0.29x, ii) dividend payout policy of 50% - it has been paying >60% of net profit as dividends since 2012 and 3) its strategically located landbank at cheap land costs, which makes it more defensive in term of pricing and product flexibility in times of uncertainty.

### Company Description

SP Setia is involved in the real estate business. Its reputable projects include Setia Alam and Setia Eco Park.

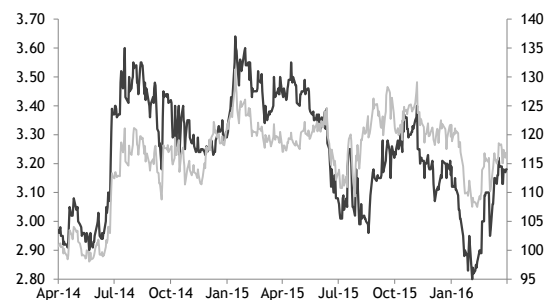
### Statistics

Shariah status	Yes
52w high/low (MYR)	3.55/2.80
3m avg turnover (USDm)	0.3
Free float (%)	48.1
Issued shares (m)	2,628
Market capitalisation	MYR8.4B USD2.1B

### Major shareholders:

Bumiputra Investment Foundation	51.0%
Kumpulan Wang Persaraan	9.4%
Employees Provident Fund	6.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	3	1	(8)
Relative to index (%)	1	(2)	(1)

Source: FactSet

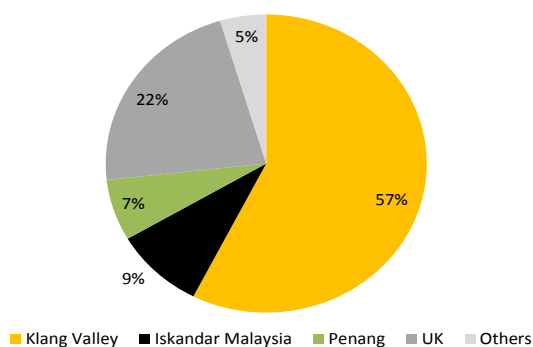
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	3,810	6,746	5,320	6,457	4,682
EBITDA	1,108	2,063	1,170	1,420	1,030
Core net profit	376	918	660	941	548
Core EPS (sen)	14.9	35.7	24.9	35.5	20.7
Core EPS growth (%)	(17.2)	140.1	(30.2)	42.6	(41.7)
Net DPS (sen)	9.7	23.0	14.9	21.3	12.4
Core P/E (x)	21.4	8.9	12.8	9.0	15.4
P/BV (x)	1.0	0.8	0.8	0.8	0.8
Net dividend yield (%)	3.1	7.2	4.7	6.7	3.9
ROAE (%)	6.6	13.9	8.8	12.0	6.7
ROAA (%)	2.9	6.2	3.8	5.1	2.8
EV/EBITDA (x)	10.1	4.9	8.9	7.4	10.2
Net debt/equity (%)	32.5	19.5	21.5	20.5	19.9
Consensus net profit	-	-	669	790	653
MKE vs. Consensus (%)	-	-	(1.4)	19.1	(16.0)

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## Value Proposition

- A versatile property developer with mid- to high-end projects, which include the reputable Setia Alam, Setia Eco Park and Battersea Power Station.
- Overseas earnings (London, Melbourne) will start to show, boosting SPSB's medium-term outlook.
- Staff turnover has stabilised after the departure of some of its senior management. A well-planned transition strategy is in place to drive its property business forward.
- 57% of its total GDV derived from Klang Valley followed by UK (22%), Iskandar Malaysia (9%), Penang (7%) and others.

### GDV breakdown by location

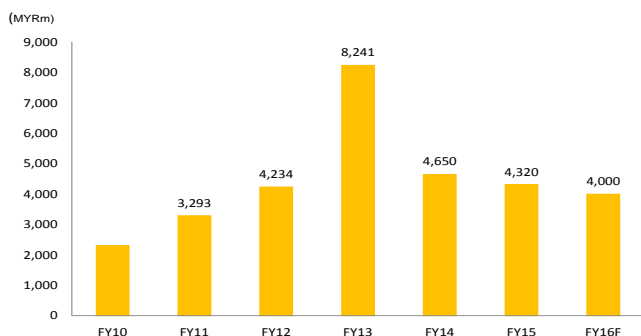


Source: Company

## Financial Metrics

- SPSB aims to achieve MYR4b in sales in 2016 (2015: MYR4.3b), supported by MYR4.8b worth of new launches.
- SPSB is on the lookout for landbank. At end-Dec 2015, its net gearing stood at 0.29x.
- 2016 net profit growth to decline by 30% YoY after the lumpy earnings recognition of its Fulton Lane project in 2015. Earnings should pick up strongly in 2017 with the completion of BPS phase 1 and Parque Melbourne projects.
- Unbilled sales stood at MYR9.2b in end-Dec 2015 (1.9x of our FY16F revenue forecast).
- Has paid >60% of its net profit as dividends since 2012.

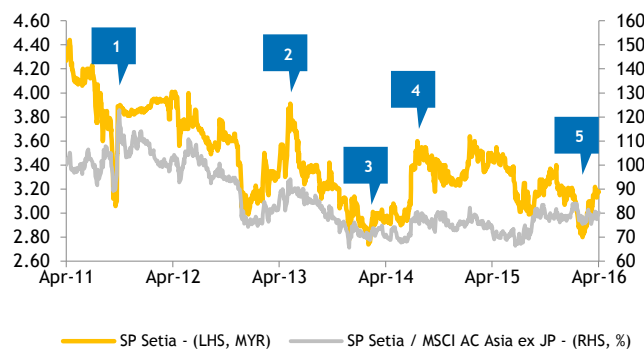
### SPSB's sales trend and sales target for 2016 (MYRm)



Source: Company

## Price Drivers

### Historical Share Price Trend



Source: Company, Maybank Kim Eng

1. Permodalan Nasional Bhd (PNB) made an offer to take over SPSB.
2. Strong sales recorded in Battersea Power Station project.
3. Earlier-than-expected departure of its founder, Tan Sri Liew Kee Sin and two executive directors.
4. Talks of potential M&A involving unlisted property companies held by its major shareholder resurfaced.
5. Record profit achieved in 2015 boosted by lumpy earnings recognition of its Fulton Lane project in Melbourne.

## Swing Factors

### Upside

- Potential RNAV-accretive land acquisitions.
- Stronger-than-expected take-up rates for its ongoing and new projects.
- More clarity from PNB on management succession and asset injection plans.

### Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins on higher marketing expenses.
- Currency risks.





FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	19.8	8.9	12.8	9.0	15.4
Core P/E (x)	21.4	8.9	12.8	9.0	15.4
P/BV (x)	1.0	0.8	0.8	0.8	0.8
P/NTA (x)	1.4	1.1	1.1	1.0	1.0
Net dividend yield (%)	3.1	7.2	4.7	6.7	3.9
FCF yield (%)	5.6	20.6	9.9	13.4	8.8
EV/EBITDA (x)	10.1	4.9	8.9	7.4	10.2
EV/EBIT (x)	13.0	4.9	10.6	7.6	12.3

**INCOME STATEMENT (MYR m)**

Revenue	3,810.1	6,746.3	5,319.9	6,456.7	4,682.2
Gross profit	1,107.6	2,063.3	1,170.4	1,420.5	1,030.1
EBITDA	1,107.6	2,063.3	1,170.4	1,420.5	1,030.1
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	860.4	2,063.3	986.8	1,367.9	849.2
Net interest income / (exp)	(60.0)	(110.3)	(37.5)	(37.5)	(37.5)
Associates & JV	(78.0)	(105.0)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	722.4	1,426.4	949.2	1,330.4	811.7
Income tax	(250.7)	(415.4)	(237.3)	(332.6)	(202.9)
Minorities	(111.0)	92.8	52.2	57.2	60.5
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	405.7	918.3	659.7	940.6	548.2
Core net profit	376.0	918.3	659.7	940.6	548.2

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	2,412.0	3,752.1	4,215.7	4,215.7	4,215.7
Accounts receivable	744.0	1,450.5	1,472.1	1,786.7	1,295.6
Inventory	46.0	878.9	49.6	60.2	43.6
Property, Plant & Equip (net)	135.1	260.1	260.1	260.1	260.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	866.3	1,214.3	1,214.3	1,214.3	1,214.3
Other assets	8,904.2	8,866.8	10,756.6	11,625.7	12,723.0
<b>Total assets</b>	<b>13,107.6</b>	<b>16,422.7</b>	<b>17,968.2</b>	<b>19,162.5</b>	<b>19,752.3</b>
ST interest bearing debt	931.1	1,782.9	1,782.9	1,782.9	1,782.9
Accounts payable	1,924.0	2,134.0	2,738.5	3,553.8	3,928.5
LT interest bearing debt	3,387.9	3,414.0	4,078.6	4,078.6	4,078.6
Other liabilities	73.0	699.0	712.0	715.0	710.0
<b>Total Liabilities</b>	<b>6,315.9</b>	<b>8,030.3</b>	<b>9,311.9</b>	<b>10,130.0</b>	<b>10,500.4</b>
Shareholders Equity	5,858.6	7,394.6	7,658.5	8,034.7	8,254.0
Minority Interest	933.1	387.0	387.0	387.0	387.0
<b>Total shareholder equity</b>	<b>6,791.7</b>	<b>7,781.7</b>	<b>8,045.5</b>	<b>8,421.7</b>	<b>8,641.0</b>
Perpetual securities	0.0	610.8	610.8	610.8	610.8
<b>Total liabilities and equity</b>	<b>13,107.6</b>	<b>16,422.7</b>	<b>17,968.2</b>	<b>19,162.5</b>	<b>19,752.3</b>

**CASH FLOW (MYR m)**

Pretax profit	722.4	1,426.4	949.2	1,330.4	811.7
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	0.0	(238.1)	(37.5)	(37.5)	(37.5)
Change in working capital	100.2	652.1	0.0	0.0	0.0
Cash taxes paid	(263.0)	(301.6)	(237.3)	(332.6)	(202.9)
Other operating cash flow	(111.4)	146.0	146.0	146.0	146.0
Cash flow from operations	448.2	1,685.0	837.1	1,127.5	742.8
Capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	448.2	1,685.0	837.1	1,127.5	742.8
Dividends paid	(115.3)	(30.1)	(551.0)	(395.8)	(564.3)
Equity raised / (purchased)	637.6	22.6	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	353.9	796.4	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(1,082.8)	(1,224.5)	(768.2)	(768.2)	(768.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>241.6</b>	<b>1,249.4</b>	<b>(482.1)</b>	<b>(36.5)</b>	<b>(589.8)</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	24.5	77.1	(21.1)	21.4	(27.5)
EBITDA growth	64.5	86.3	(43.3)	21.4	(27.5)
EBIT growth	37.1	139.8	(52.2)	38.6	(37.9)
Pretax growth	26.7	97.4	(33.5)	40.2	(39.0)
Reported net profit growth	(2.9)	126.4	(28.2)	42.6	(41.7)
Core net profit growth	(10.0)	144.2	(28.2)	42.6	(41.7)
<b>Profitability ratios (%)</b>					
EBITDA margin	29.1	30.6	22.0	22.0	22.0
EBIT margin	22.6	30.6	18.5	21.2	18.1
Pretax profit margin	19.0	21.1	17.8	20.6	17.3
Payout ratio	60.5	64.5	60.0	60.0	60.0
<b>DuPont analysis</b>					
Net profit margin (%)	10.6	13.6	12.4	14.6	11.7
Revenue/Assets (x)	0.3	0.4	0.3	0.3	0.2
Assets/Equity (x)	2.2	2.2	2.3	2.4	2.4
ROAE (%)	6.6	13.9	8.8	12.0	6.7
ROAA (%)	2.9	6.2	3.8	5.1	2.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(193.1)	(61.9)	(72.2)	(130.1)	(245.2)
Days receivable outstanding	85.2	58.6	98.9	90.8	118.5
Days inventory outstanding	5.9	35.6	40.3	3.9	5.1
Days payables outstanding	284.2	156.0	211.4	224.9	368.8
Dividend cover (x)	1.7	1.6	1.7	1.7	1.7
Current ratio (x)	2.3	1.9	2.1	2.0	2.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.1	2.0	1.9	1.9	1.9
Net debt/equity (%)	32.5	19.5	21.5	20.5	19.9
Net interest cover (x)	14.3	18.7	26.3	36.4	22.6
Debt/EBITDA (x)	3.9	2.5	5.0	4.1	5.7
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	1,907.0	1,444.8	1,645.8	1,645.8	1,645.8

Source: Company; Maybank

# SapuraKencana Petroleum (SAKP MK)

## Monetising gas assets

# BUY

Share Price MYR 1.77  
 12m Price Target MYR 2.00 (+13%)  
 Previous Price Target MYR 2.00

### A high-beta O&G play

Earnings will be ex-growth this year but long-term prospects remain intact. SAKP will continue to be prudent in its E&P assets investment. Monetising and unlocking the value of its gas reserves is a key agenda for FY17. SAKP is a high beta O&G play - a strong rebound in crude oil prices would be a dominant near term share price driver. BUY maintained with a MYR2.00 TP.

### Outlook for FY17

FY17 will be challenging but this is not unexpected. Its energy division is expected to remain in the red, on low oil price levels (EBITDA breakeven: USD35/bbl) and production slowdown. The drilling operations will see weaker YoY earnings, on lower DCRs (-15%-25%) and utilization (-24-29-ppts). These will be partially offset by higher profits from its Petrobras PLSV JV operations and backed by an order backlog at its engineering & construction (E&C) services. For this, FY17 earnings are expected to be weaker YoY as it weathers the severe cyclical headwinds.

### Mid-term targets

SAKP's mid-term strategy is to conserve cash, be capital disciplined and cost prudent. Its recent move to abort plans to buy PETRONAS' Vietnam E&P assets is commendable. Unlocking value from existing gas reserves is high on its agenda. SAKP has committed to drill 5 more wells for the SK 408 field (2 wells in 4QFY1/16 and 3 wells in FY1/17). We see much prospect in its drilling programs, which will aid SAKP in raising its field reserves beyond 6tcf of gas reserves. Monetising these reserves is earnings and NAV positive, and will be a major catalyst, in our view.

### SOP-based valuation

We value SAKP based on a SOP methodology, with its energy operations on a NPV basis and services operations on a PER basis.

FYE Jan (MYR m)	FY15A	FY16A	FY17E	FY18E	FY19E
Revenue	9,943	10,184	9,757	10,368	10,531
EBITDA	3,121	3,089	3,017	3,071	3,111
Core net profit	1,217	1,009	841	943	1,025
Core EPS (sen)	20.3	16.9	14.1	15.8	17.2
Core EPS growth (%)	13.6	(16.8)	(16.7)	12.1	8.8
Net DPS (sen)	4.4	1.4	0.0	0.0	0.0
Core P/E (x)	8.7	10.5	12.6	11.2	10.3
P/BV (x)	0.9	0.9	0.8	0.8	0.7
Net dividend yield (%)	2.5	0.8	0.0	0.0	0.0
ROAE (%)	11.0	8.3	6.7	7.0	7.1
ROAA (%)	4.0	2.8	2.3	2.6	2.9
EV/EBITDA (x)	10.2	8.9	8.6	8.0	7.4
Net debt/equity (%)	131.0	134.2	117.5	99.6	83.1
Consensus net profit	-	-	846	925	1,044
MKE vs. Consensus (%)	-	-	(0.7)	1.9	(1.8)

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### Company Description

SapuraKencana Petroleum operates as an investment holding company, which provides integrated oil and gas services and solutions.

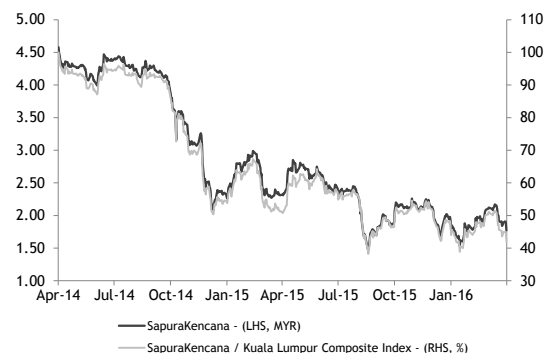
### Statistics

Shariah status	Yes
52w high/low (MYR)	2.85/1.47
3m avg turnover (USDm)	7.3
Free float (%)	63.5
Issued shares (m)	5,992
Market capitalisation	MYR10.6B USD2.7B

### Major shareholders:

Sapura Holdings Sdn. Bhd.	16.7%
Employees Provident Fund	14.2%
Permodalan Nasional Bhd.	11.1%

### Price Performance



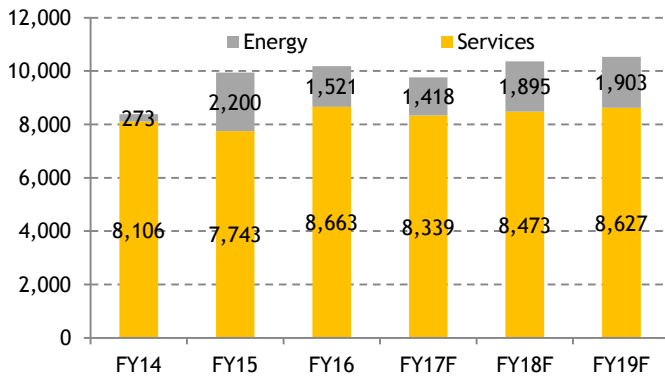
	-1M	-3M	-12M
Absolute (%)	(15)	(8)	(24)
Relative to index (%)	(17)	(10)	(18)

Source: FactSet

## Value Proposition

- An integrated O&G service provider - tender rigs drilling (largest in the world), construction & installation, EPC, fabrication. Also an independent E&P company.
- Undergoing challenging macro environment but managing cost and capex prudently. Optimising utilisation over DCRs disruption is current focus in the oil services segment.
- Continues to invest in the E&P business. Unlocking the value of such assets could provide upside. Should be a stronger player in a cycle upturn.

### Revenue breakdown (MYR'm)

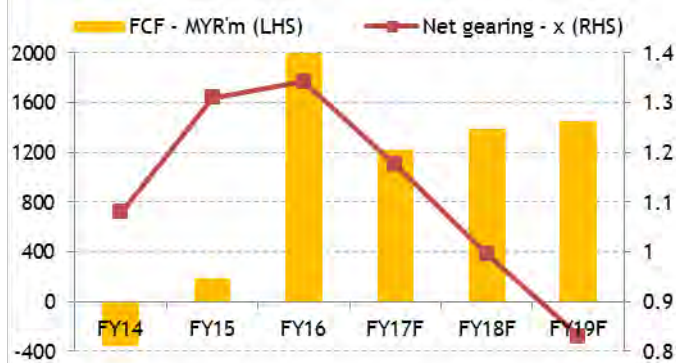


Source: Company

## Financial Metrics

- Crude oil / gas price, volume and opex are key earnings drivers for its E&P operations.
- DCR, utilisation and order backlog are main parameters for its services segments.
- Cost management, capital discipline and cashflow preservation are mid-term priorities. Impairment of E&P assets is expected due to the low oil price level.
- Returns have been compressed by the severe cyclical headwinds. RoIC has retreated to level on par with WACC. Nevertheless, we expect a positive FCF on low capex commitment.
- Gearing level is manageable, on a declining trend, allaying debt covenant and default risks.

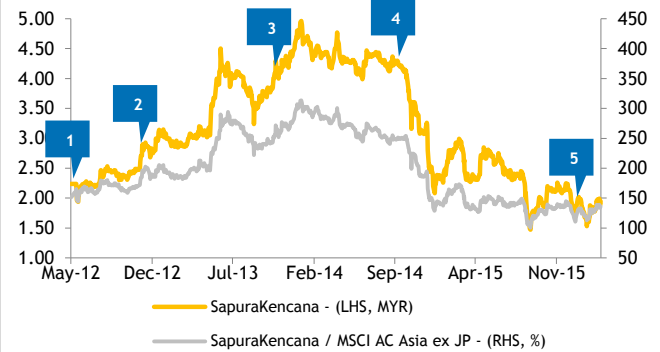
### FCF and net gearing trend



Source: Company

## Price Drivers

### Historical Share Price Trend



Source: Company, Maybank Kim Eng

1. Listed on the KLCI May 2012, post the merger exercise of SapuraCrest and Kencana Petroleum.
2. Proposed acquisition of Seadrill's tender rigs crude oil business in Nov 2012.
3. Proposed M&A of Newfield Malaysia.
4. The beginning of the fall in crude oil price to sub-USD100/bbl.
5. Crude oil price below USD30/bbl.

## Swing Factors

### Upside

- Rebound in crude oil prices will be the most dominant near term stock driver - a high beta play O&G stock.
- Discoveries of new gas fields will be a catalyst to sentiment and NAV.
- Recovery in contracts flows/values will serve as a potential positive.

### Downside

- Further weakness in oil/gas price will hurt absolute share price performance.
- Ventures into new E&P assets will not be well received particularly at this point of the industry cycle.
- Failure to meet debt repayment/covenant is a sign of financial distress.

FYE 31 Jan	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Key Metrics</b>					
P/E (reported) (x)	7.4	(13.4)	12.6	11.2	10.3
Core P/E (x)	8.7	10.5	12.6	11.2	10.3
P/BV (x)	0.9	0.9	0.8	0.8	0.7
P/NTA (x)	2.4	2.6	2.2	nm	nm
Net dividend yield (%)	2.5	0.8	0.0	0.0	0.0
FCF yield (%)	1.8	18.9	11.5	13.2	13.7
EV/EBITDA (x)	10.2	8.9	8.6	8.0	7.4
EV/EBIT (x)	17.5	16.7	18.1	16.4	15.0

**INCOME STATEMENT (MYR m)**

Revenue	9,943.0	10,184.0	9,756.8	10,367.9	10,530.8
Gross profit	2,832.0	3,132.5	2,946.6	3,141.5	3,201.4
EBITDA	3,120.5	3,088.6	3,017.0	3,071.5	3,111.4
Depreciation	(1,306.2)	(1,430.4)	(1,590.4)	(1,580.0)	(1,580.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,814.3	1,658.1	1,426.6	1,491.5	1,531.4
Net interest income / (exp)	(666.6)	(760.2)	(733.2)	(693.2)	(653.2)
Associates & JV	252.1	190.3	249.2	250.2	251.2
Exceptionals	216.1	(1,800.9)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,616.0	(712.6)	942.6	1,048.5	1,129.4
Income tax	(182.5)	(78.8)	(101.9)	(105.8)	(104.1)
Minorities	(0.7)	(0.1)	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,432.8	(791.6)	840.7	942.7	1,025.3
Core net profit	1,216.7	1,009.4	840.7	942.7	1,025.3

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,256.6	1,947.5	2,087.7	2,478.3	2,923.9
Accounts receivable	3,620.8	4,114.1	3,765.6	4,001.4	4,064.3
Inventory	636.6	572.2	548.2	582.6	591.7
Property, Plant & Equip (net)	13,770.9	14,905.7	14,115.2	13,385.2	12,705.2
Intangible assets	7,631.5	8,176.8	8,176.8	8,176.8	8,176.8
Investment in Associates & JVs	1,376.7	1,568.5	1,817.7	2,067.9	2,319.1
Other assets	6,269.7	5,207.2	5,207.2	5,207.2	5,207.2
<b>Total assets</b>	<b>34,562.8</b>	<b>36,492.0</b>	<b>35,718.4</b>	<b>35,899.4</b>	<b>35,988.3</b>
ST interest bearing debt	1,098.6	2,091.1	2,091.1	2,091.1	2,091.1
Accounts payable	3,192.0	4,338.6	3,805.0	4,043.3	4,106.8
LT interest bearing debt	15,854.7	16,238.0	15,238.0	14,238.0	13,238.0
Other liabilities	2,425.0	1,611.0	1,611.0	1,611.0	1,611.0
<b>Total Liabilities</b>	<b>22,569.8</b>	<b>24,279.0</b>	<b>22,745.4</b>	<b>21,983.7</b>	<b>21,047.2</b>
Shareholders Equity	11,986.0	12,207.0	12,967.0	13,909.7	14,935.0
Minority Interest	7.0	6.1	6.1	6.1	6.1
<b>Total shareholder equity</b>	<b>11,993.0</b>	<b>12,213.0</b>	<b>12,973.1</b>	<b>13,915.7</b>	<b>14,941.1</b>
<b>Total liabilities and equity</b>	<b>34,562.8</b>	<b>36,492.0</b>	<b>35,718.4</b>	<b>35,899.4</b>	<b>35,988.3</b>

**CASH FLOW (MYR m)**

Pretax profit	1,616.0	(712.6)	942.6	1,048.5	1,129.4
Depreciation & amortisation	1,306.2	1,430.4	1,590.4	1,580.0	1,580.0
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	1.0
Change in working capital	(1,159.8)	687.1	(161.2)	(31.9)	(8.5)
Cash taxes paid	(182.5)	(78.8)	(101.9)	(105.8)	(104.1)
Other operating cash flow	(252.1)	(190.3)	(249.2)	(250.2)	(249.2)
Cash flow from operations	1,844.6	2,710.1	2,020.8	2,240.6	2,348.6
Capex	(1,655.7)	(708.1)	(800.0)	(850.0)	(900.0)
Free cash flow	188.9	2,002.1	1,220.8	1,390.6	1,448.6
Dividends paid	0.0	(260.4)	(80.6)	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	4,592.6	1,375.9	(1,000.0)	(1,000.0)	(1,000.0)
Other invest/financing cash flow	(4,911.7)	(2,426.6)	0.0	0.0	0.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(130.1)	691.0	140.2	390.6	448.6

FYE 31 Jan	FY15A	FY16A	FY17E	FY18E	FY19E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	18.7	2.4	(4.2)	6.3	1.6
EBITDA growth	56.4	(1.0)	(2.3)	1.8	1.3
EBIT growth	33.7	(8.6)	(14.0)	4.6	2.7
Pretax growth	33.8	nm	nm	11.2	7.7
Reported net profit growth	31.8	nm	nm	12.1	8.8
Core net profit growth	18.4	(17.0)	(16.7)	12.1	8.8
<b>Profitability ratios (%)</b>					
EBITDA margin	31.4	30.3	30.9	29.6	29.5
EBIT margin	18.2	16.3	14.6	14.4	14.5
Pretax profit margin	16.3	nm	9.7	10.1	10.7
Payout ratio	18.2	nm	0.0	0.0	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	14.4	nm	8.6	9.1	9.7
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	2.9	3.0	2.8	2.6	2.4
ROAE (%)	11.0	8.3	6.7	7.0	7.1
ROAA (%)	4.0	2.8	2.3	2.6	2.9
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(20.0)	(24.7)	(40.3)	(32.5)	(33.4)
Days receivable outstanding	115.0	136.7	145.4	134.8	137.9
Days inventory outstanding	28.1	30.9	29.6	28.2	28.8
Days payables outstanding	163.1	192.2	215.2	195.5	200.2
Dividend cover (x)	5.5	(9.8)	nm	nm	nm
Current ratio (x)	1.3	1.0	1.1	1.2	1.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.5	1.6	1.6	1.7
Net debt/equity (%)	131.0	134.2	117.5	99.6	83.1
Net interest cover (x)	2.7	2.2	1.9	2.2	2.3
Debt/EBITDA (x)	5.4	5.9	5.7	5.3	4.9
Capex/revenue (%)	16.7	7.0	8.2	8.2	8.5
Net debt/ (net cash)	15,696.7	16,381.6	15,241.5	13,850.9	12,405.2

Source: Company; Maybank

# Sime Darby (SIME MK)

## Proxy to Asia-Pac consumer

# HOLD

Share Price MYR 7.85  
 12m Price Target MYR 7.98 (+2%)  
 Previous Price Target MYR 7.98

### Look forward to better years ahead

Sime offers diversified exposure to growing Asian consumer markets via its five core businesses. Having said that, the recent slowdown in global economies (in particular China) had affected earnings at its motor, equipment and plantation divisions. Sime has plans to monetise assets in Singapore and Australia to strengthen its balance sheet. Maintain HOLD with an unchanged TP of MYR7.98 on 18x FY17 PER.

### Growing Asia-Pac consumer play

Sime has five core businesses (ranked by EBIT contributions in FY6/15) - plantations (35%), industrials (15%), motors (14%), property (27%), energy & utilities (4%) and others (5%). It operates in over 20 countries with a strong presence in the Asia-Pacific region from which 94% of its group revenue emanates. It is the largest listed palm oil plantation group in the world by planted area and Malaysia's largest property land owner. Sime is also the world's third largest BMW (motor) and #1 Caterpillar (industrial) dealer (in terms of units sold) in the Asia-Pacific region.

### Focused on strengthening balance sheet

Having spent close to MYR6b acquiring another planter, NBPOL in FY15 which lifted its net gearing to 51% on 31 Dec 2015, Sime is planning to strengthen its balance sheet in 2016 to avoid possible credit rating cuts. Sime recently raised MYR2.2b Perpetual Sukuk to lower its net gearing and it is considering monetising assets in Singapore and Australia to raise another MYR1.5b cash before end June 2016.

### Pinning hope on plantation and property

We expect Sime to deliver a stronger 2HFY16 (after a slow start in 1HFY16) mainly from its plantation and property divisions, especially in the final quarter where results typically peak. Plantation should play significant catch up in earnings on lower fertiliser cost and prevailing high CPO price. Sime maintains its MYR2b net profit KPI target for FY16. It is a defensive large cap, trading at 18x FY17 PER.

### Company Description

Sime Darby is a conglomerate engaged in five core businesses - plantation, industrial equipment, motors, property, and energy and utilities.

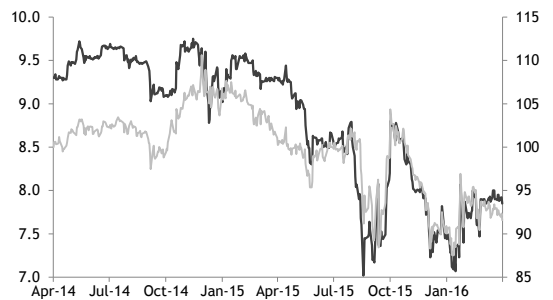
### Statistics

Shariah status	Yes
52w high/low (MYR)	9.44/7.02
3m avg turnover (USDm)	7.5
Free float (%)	91.7
Issued shares (m)	6,327
Market capitalisation	MYR49.7B USD12.7B

### Major shareholders:

Employees Provident Fund	12.3%
Bumiputra Investment Foundation	7.5%
Kumpulan Wang Persaraan	3.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	4	(16)
Relative to index (%)	(2)	1	(9)

Source: FactSet

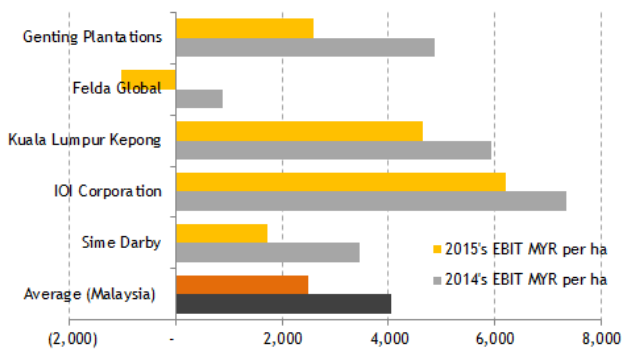
FYE Jun (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	43,908	43,729	46,252	49,320	52,360
EBITDA	5,271	4,568	4,226	4,974	5,551
Core net profit	3,089	2,314	1,937	2,755	3,143
Core EPS (sen)	50.9	37.3	31.2	44.4	50.6
Core EPS growth (%)	(5.2)	(26.9)	(16.3)	42.2	14.1
Net DPS (sen)	36.0	25.0	20.3	28.8	32.9
Core P/E (x)	15.4	21.1	25.2	17.7	15.5
P/BV (x)	1.7	1.6	1.6	1.5	1.5
Net dividend yield (%)	4.6	3.2	2.6	3.7	4.2
ROAE (%)	11.1	7.9	6.3	8.7	9.7
ROAA (%)	6.2	4.1	3.1	4.2	4.7
EV/EBITDA (x)	12.5	14.9	15.2	13.2	12.1
Net debt/equity (%)	22.0	46.1	46.6	49.1	50.9
Consensus net profit	-	-	1,853	2,369	2,745
MKE vs. Consensus (%)	-	-	4.5	16.3	14.5

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## Value Proposition

- A diversified conglomerate with five core businesses (ranked by EBIT contributions in FY6/15) - plantations (35%), industrials (15%), motors (14%), property (27%), energy & utilities (4%) and others (5%).
- Sime is the largest upstream oil palm producer in the world with 605,046 ha of oil palm planted area spread across Malaysia (50%), Indonesia (34%), PNG & Solomon Islands (14%), and Liberia (2%).
- Largest property landowner in Malaysia with ~19,000 acres for property development in Peninsular Malaysia.
- Sime is heavily leveraged to Asian consumers' rising affluence as it operates in over 20 countries with a strong presence in the Asia-Pacific region. Sime is the #1 Caterpillar dealer in the Asia Pacific region (in terms of units sold), and the #3 BMW dealer in the world.

### Upstream EBIT per mature hectare (in MYR)

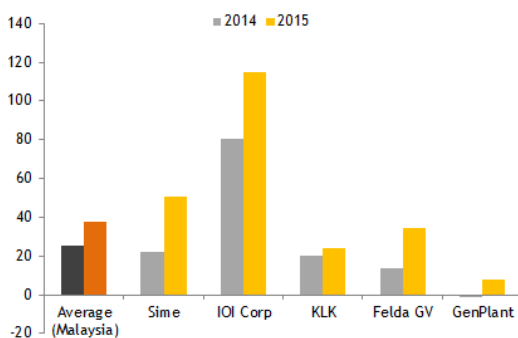


Source: Company, Maybank KE

## Financial Metrics

- CPO price and production volume are two key drivers.
- Slowing GDP growth (especially China's) has hurt demand for commodities. This has led to margin compression at its plantation, industrial, and motors segments since 2014.
- Recent acquisition of NBPOL has raised its net gearing level to 51% (as at 31 Dec 2015). Sime plans to recapitalise its balance sheet to maintain its good credit rating via asset monetisation (raising MYR1.5b), and recently issued MYR2.2b in Perpetual Sukuk.

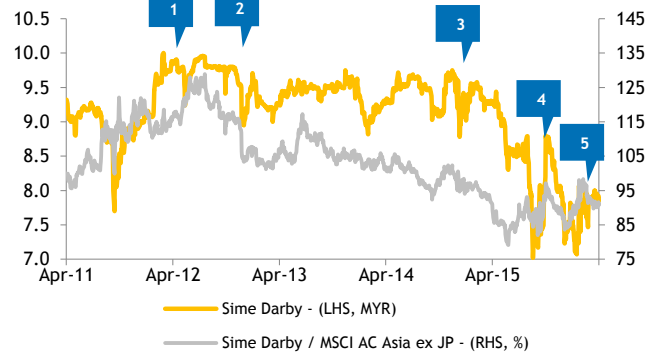
### Net gearing (in %)



Source: Company, Maybank KE

## Price Drivers

### Historical share price



Source: Company, Maybank Kim Eng

1. CPO price peaked at MYR3,613/t in Apr 2012 just as Brent crude oil price peaked at USD127/bbl.
2. CPO price corrected to below MYR3,000/t in Sept 2012 following concerns over ample supply of vegetable oils.
3. Proposed to acquire New Britain Palm Oil (NBPOL) that would cost up to GBP1.07b or MYR5.63b.
4. Confirmation of El Nino by Australia Bureau of Meteorology.
5. Weakest FY6/15 results in 5 years and bleak FY6/16 outlook amid low CPO price, competition for its motor division, and low mining activities hurting industrial equipment demand.

## Swing Factors

### Upside

- Stronger-than-expected El Nino induced CPO price boosting revenue and profits.
- Better-than-expected FFB yields.
- Stronger recovery in global economy especially China boosting demand for commodities, motors and industrial equipment.

### Downside

- Worse-than-expected FFB yields in 2016 hurt by low rainfall in 2015.
- Actual CPO production in 2016 not as severely affected by El Nino.
- Higher interest rates will result in higher funding cost for the group. Also affects consumer affordability which in turn affects demand for motors and properties.





FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	14.2	21.1	25.2	17.7	15.5
Core P/E (x)	15.4	21.1	25.2	17.7	15.5
P/BV (x)	1.7	1.6	1.6	1.5	1.5
P/NTA (x)	1.7	1.8	1.8	1.7	1.7
Net dividend yield (%)	4.6	3.2	2.6	3.7	4.2
FCF yield (%)	2.4	nm	2.4	1.9	2.8
EV/EBITDA (x)	12.5	14.9	15.2	13.2	12.1
EV/EBIT (x)	16.0	20.0	21.6	17.6	15.6

**INCOME STATEMENT (MYR m)**

Revenue	43,908.0	43,729.0	46,251.7	49,320.1	52,360.3
Gross profit	2,744.9	2,026.3	1,606.0	2,353.1	2,929.9
EBITDA	5,270.9	4,567.6	4,226.0	4,973.7	5,551.1
Depreciation	(1,152.3)	(1,167.6)	(1,246.3)	(1,246.9)	(1,247.5)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	4,118.6	3,400.0	2,979.7	3,726.8	4,303.6
Net interest income / (exp)	(254.2)	(274.3)	(414.6)	(428.4)	(474.5)
Associates & JV	100.2	(122.0)	113.0	376.2	363.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	3,964.6	3,003.7	2,678.1	3,674.7	4,192.8
Income tax	(707.5)	(567.0)	(615.6)	(791.6)	(919.0)
Minorities	(167.8)	(122.9)	(125.4)	(127.9)	(130.4)
Discontinued operations	263.4	0.0	0.0	0.0	0.0
Reported net profit	3,352.7	2,313.8	1,937.1	2,755.2	3,143.4
Core net profit	3,089.3	2,313.8	1,937.1	2,755.2	3,143.4

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	4,896.0	4,201.0	4,258.2	3,504.5	2,874.9
Accounts receivable	8,135.3	7,486.7	8,045.3	8,714.2	9,394.8
Inventory	9,469.6	9,663.1	10,467.3	11,140.2	11,860.0
Property, Plant & Equip (net)	19,340.2	24,676.5	25,851.0	27,024.9	28,198.2
Intangible assets	1,184.4	3,992.7	3,992.7	3,992.7	3,992.7
Investment in Associates & JVs	3,122.8	3,845.6	3,921.4	4,260.4	4,586.9
Other assets	4,712.4	7,728.0	7,728.0	7,728.0	7,728.0
<b>Total assets</b>	<b>50,860.7</b>	<b>61,593.6</b>	<b>64,264.0</b>	<b>66,365.0</b>	<b>68,635.5</b>
ST interest bearing debt	3,044.5	6,324.4	6,574.4	6,824.4	7,074.4
Accounts payable	8,286.3	8,418.3	9,785.4	10,294.1	10,834.1
LT interest bearing debt	8,130.4	11,884.6	12,134.6	12,384.6	12,634.6
Other liabilities	1,962.0	3,600.0	3,600.0	3,600.0	3,600.0
<b>Total Liabilities</b>	<b>21,423.6</b>	<b>30,226.9</b>	<b>32,094.0</b>	<b>33,102.7</b>	<b>34,142.7</b>
Shareholders Equity	28,588.6	30,354.7	31,032.7	31,997.0	33,097.2
Minority Interest	848.5	1,012.0	1,137.4	1,265.2	1,395.6
<b>Total shareholder equity</b>	<b>29,437.1</b>	<b>31,366.7</b>	<b>32,170.0</b>	<b>33,262.2</b>	<b>34,492.8</b>
<b>Total liabilities and equity</b>	<b>50,860.7</b>	<b>61,593.6</b>	<b>64,264.0</b>	<b>66,365.0</b>	<b>68,635.5</b>

**CASH FLOW (MYR m)**

Pretax profit	3,964.6	3,003.7	2,678.1	3,674.7	4,192.8
Depreciation & amortisation	1,152.3	1,167.6	1,246.3	1,246.9	1,247.5
Adj net interest (income)/exp	254.2	274.3	414.6	428.4	474.5
Change in working capital	(1,421.8)	(477.7)	531.8	(28.4)	(22.2)
Cash taxes paid	(722.3)	(957.6)	(615.6)	(791.6)	(919.0)
Other operating cash flow	(454.6)	(30.3)	(640.6)	(1,180.8)	(1,201.9)
Cash flow from operations	2,772.4	2,980.0	3,614.6	3,349.1	3,771.7
Capex	(1,615.7)	(7,343.1)	(2,420.8)	(2,420.8)	(2,420.8)
Free cash flow	1,156.7	(4,363.1)	1,193.8	928.3	1,350.9
Dividends paid	(1,565.0)	(973.9)	(1,259.1)	(1,790.9)	(2,043.2)
Equity raised / (purchased)	(78.0)	0.0	0.0	0.0	0.0
Change in Debt	841.8	4,912.0	500.0	500.0	500.0
Other invest/financing cash flow	(39.1)	(477.7)	(377.4)	(391.2)	(437.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>316.4</b>	<b>(902.7)</b>	<b>57.2</b>	<b>(753.7)</b>	<b>(629.6)</b>

FYE 30 Jun	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(4.8)	(0.4)	5.8	6.6	6.2
EBITDA growth	(8.9)	(13.3)	(7.5)	17.7	11.6
EBIT growth	(8.3)	(17.4)	(12.4)	25.1	15.5
Pretax growth	(8.1)	(24.2)	(10.8)	37.2	14.1
Reported net profit growth	(9.4)	(31.0)	(16.3)	42.2	14.1
Core net profit growth	(4.4)	(25.1)	(16.3)	42.2	14.1
<b>Profitability ratios (%)</b>					
EBITDA margin	12.0	10.4	9.1	10.1	10.6
EBIT margin	9.4	7.8	6.4	7.6	8.2
Pretax profit margin	9.0	6.9	5.8	7.5	8.0
Payout ratio	65.1	67.1	65.0	65.0	65.0
<b>DuPont analysis</b>					
Net profit margin (%)	7.6	5.3	4.2	5.6	6.0
Revenue/Assets (x)	0.9	0.7	0.7	0.7	0.8
Assets/Equity (x)	1.8	2.0	2.1	2.1	2.1
ROAE (%)	11.1	7.9	6.3	8.7	9.7
ROAA (%)	6.2	4.1	3.1	4.2	4.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	70.8	74.8	68.2	67.0	69.1
Days receivable outstanding	63.4	64.3	60.4	61.2	62.3
Days inventory outstanding	79.5	82.6	81.2	82.8	83.8
Days payables outstanding	72.2	72.1	73.4	77.0	76.9
Dividend cover (x)	1.5	1.5	1.5	1.5	1.5
Current ratio (x)	2.1	1.7	1.6	1.5	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	2.0	2.0	2.0	2.0
Net debt/equity (%)	22.0	46.1	46.6	49.1	50.9
Net interest cover (x)	16.2	12.4	7.2	8.7	9.1
Debt/EBITDA (x)	2.1	4.0	4.4	3.9	3.6
Capex/revenue (%)	3.7	16.8	5.2	4.9	4.6
Net debt/ (net cash)	6,278.9	14,008.0	14,450.8	15,704.5	16,834.1

Source: Company; Maybank

# Star Media Group Bhd (STAR MK)

# HOLD

Share Price MYR 2.37  
 12m Price Target MYR 2.38 (+0%)  
 Previous Price Target MYR 2.38

## Hold on to >7% yield

### Cloudy outlook with yields as a bright star

Ad revenue outlook for Star is expected to be challenging in FY16. Nevertheless, we believe the increased number of exhibitions planned this year coupled with potential savings from radio, if Star decides to dispose or shut Red FM and Capital FM, will mitigate any earnings downside risk. Dividend yields are also likely to remain at >7% p.a.. Maintain HOLD with a SOP-based TP of MYR2.38.

### New exhibitions & potential savings from radio

Non-core revenue streams may be stepping in to cushion potential earnings downside in FY16. New exhibitions featuring Marvel's Avengers and Hasbro's Transformers are set to begin in Las Vegas and Paris on April 2016. Elsewhere, Red FM & Capital FM have been running on auto play mode since Dec 2015. Star has yet to determine the fate of the aforementioned radio stations but if they were to be disposed or shut, we gather that savings could amount to MYR5m-MYR6m p.a..

### Stable dividends of >7% yield p.a.

Historically, Star has declared stable dividends of 15-18sen p.a.. We expect FY16 DPS to be 18sen on expectation that EPS sustains at around FY15 levels (-4% YoY). This translates to >7% yield, one of the highest among its media industry peers. Recall, Star also has a strong net cash position representing MYR0.48/shr as at end-FY15.

### Maintain HOLD

Overall, we believe that Star has weathered through recent sector challenges rather well. We expect its focus away from the core print segment plus ongoing cost rationalisation would help limit earnings risk. Our earnings estimates are unchanged. Dividend yields are attractive at >7% premised on ~100% DPR.

### Company Description

Star Media Group Bhd. engages in the publication, printing and distribution of newspapers and magazines.

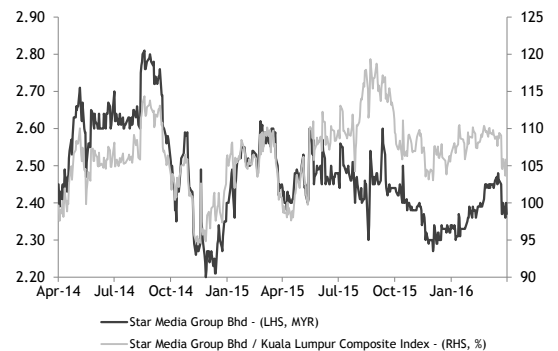
### Statistics

Shariah status	Yes
52w high/low (MYR)	2.60/2.27
3m avg turnover (USDm)	0.1
Free float (%)	57.6
Issued shares (m)	739
Market capitalisation	MYR1.8B USD438M

### Major shareholders:

Malaysian Chinese Association	42.4%
Permodalan Nasional Bhd.	15.2%
Lembaga Tabung Haji	5.4%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	1	(3)
Relative to index (%)	(5)	(2)	4

Source: FactSet

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,014	1,019	995	1,037	1,069
EBITDA	242	206	206	212	215
Core net profit	151	132	126	134	139
Core EPS (sen)	20.5	17.9	17.1	18.2	18.8
Core EPS growth (%)	4.8	(12.9)	(4.3)	6.1	3.6
Net DPS (sen)	18.0	18.0	18.0	18.0	18.0
Core P/E (x)	11.5	13.3	13.8	13.1	12.6
P/BV (x)	1.5	1.5	1.5	1.5	1.5
Net dividend yield (%)	7.6	7.6	7.6	7.6	7.6
ROAE (%)	13.1	11.5	11.0	11.7	12.1
ROAA (%)	9.0	7.8	7.6	8.5	9.3
EV/EBITDA (x)	5.7	6.9	7.2	6.9	6.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	125	133	146
MKE vs. Consensus (%)	-	-	1.1	0.5	(4.9)

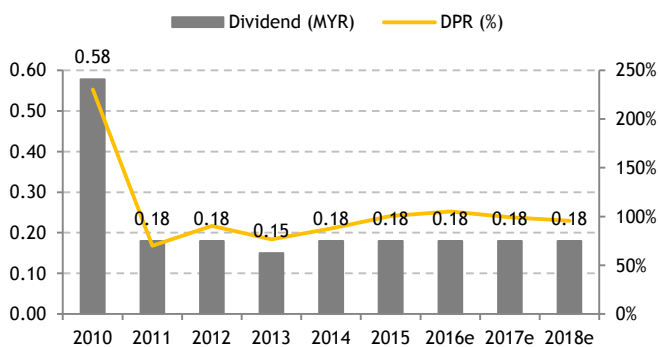
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## Value Proposition

- Dominant presence in the English newspaper segment for both adex and circulation. Star Media holds >70% market share in English newspaper circulation.
- Despite attempts to capture digital revenue from shifts in news consumption habits, it has minimal impact to Star's earnings. Digital revenue represents <5% of total revenue.
- Good track record of high dividend yield, DPR of 70-230% over the last five years.
- Strongest net cash position amongst the three newspaper players (Star Media, Media Prima and Media Chinese).
- Diversifying into non-print revenue streams i.e. digital and events, exhibition, interior and thematic segments but earnings contribution is still minimal.

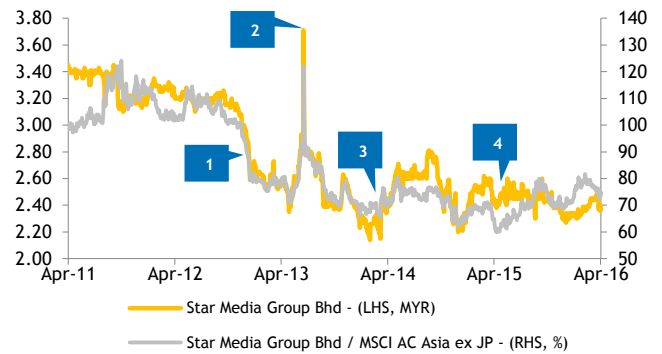
### Historical dividend (MYR)



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



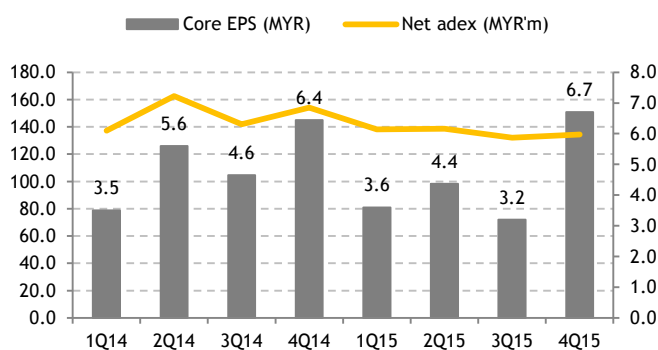
Source: Company, Maybank Kim Eng

1. Earnings declined due to loss of classifieds adex to online portals like JobStreet.com and iProperty.com.
2. A trading misconduct caused a share price spike, unrelated to company specific events.
3. Star cut costs via a voluntary separation scheme, shutting unprofitable plants and abolishing certain positions.
4. FY14 dividend of 18sen delivered a yield of >7%, allaying fears of a drop in yields.

## Financial Metrics

- Star's earnings are heavily dependent on ad spend and newsprint cost/tonne in MYR terms.
- Adex is expected to improve in CY16 with 5% YoY growth. Major sporting events (Summer Olympics & UEFA Euro Cup) anticipated to be held in mid-2016 will boost adex.
- Newsprint prices in USD terms are expected to remain low but with the MYR weakness, such cost savings are eroded in MYR terms.
- Attractive dividend yields likely to be maintained given strong net cash position and minimal capex commitments
- Strong balance sheet capable of generating ~MYR100m FCF per year going forward.

### Historical Net Adex vs Core EPS



Source: Nielsen Media Research, Maybank Kim Eng

## Swing Factors

### Upside

- Higher than expected adex growth recovery of >5% YoY.
- A stronger MYR leading to lower operating expenditure through cheaper newsprint.
- Better monetisation of digital revenue.
- Larger revenue contributions from events, exhibitions, interiors and thematic by increasing the number of exhibitions held locally and overseas.

### Downside

- Poor consumer sentiment will further suppress earnings.
- Lower-than-expected full year dividends declaration.
- A spike in newsprint price, which will significantly increase overall operating cost.
- Further MYR weakness will offset potential cost savings from currently low newsprint prices.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	15.7	13.2	13.8	13.1	12.6
Core P/E (x)	11.5	13.3	13.8	13.1	12.6
P/BV (x)	1.5	1.5	1.5	1.5	1.5
P/NTA (x)	1.7	1.7	1.7	1.7	1.7
Net dividend yield (%)	7.6	7.6	7.6	7.6	7.6
FCF yield (%)	11.9	9.3	5.8	7.4	7.6
EV/EBITDA (x)	5.7	6.9	7.2	6.9	6.8
EV/EBIT (x)	7.4	8.9	9.4	8.9	8.6

**INCOME STATEMENT (MYR m)**

Revenue	1,013.7	1,019.0	995.3	1,037.0	1,068.7
EBITDA	242.3	206.2	205.7	212.0	215.4
Depreciation	(43.8)	(46.3)	(40.4)	(38.9)	(37.6)
Amortisation	(12.2)	0.0	(8.1)	(8.1)	(8.1)
EBIT	186.3	159.9	157.2	164.9	169.7
Net interest income / (exp)	7.8	9.1	12.8	15.4	17.0
Associates & JV	(0.6)	0.0	0.0	0.0	0.0
Exceptionals	(40.1)	1.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	153.4	170.1	170.1	180.3	186.7
Income tax	(41.4)	(39.5)	(43.2)	(45.8)	(47.4)
Minorities	(0.6)	2.3	(0.6)	(0.6)	(0.6)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	111.4	133.0	126.3	134.0	138.8
Core net profit	151.5	131.9	126.3	134.0	138.8

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	621.4	631.7	507.2	441.2	353.0
Accounts receivable	175.7	242.5	245.4	255.7	263.5
Inventory	97.4	49.9	64.9	67.8	70.1
Property, Plant & Equip (net)	476.6	500.4	489.9	481.0	473.4
Intangible assets	107.5	136.8	133.8	130.8	127.7
Investment in Associates & JVs	0.1	1.2	1.1	1.1	1.1
Other assets	191.6	157.9	157.9	157.9	157.9
<b>Total assets</b>	<b>1,670.3</b>	<b>1,720.3</b>	<b>1,600.3</b>	<b>1,535.5</b>	<b>1,446.9</b>
ST interest bearing debt	65.2	169.9	0.0	100.0	0.0
Accounts payable	154.4	178.3	162.2	169.5	175.3
LT interest bearing debt	204.2	103.0	175.9	3.0	3.0
Other liabilities	70.0	63.0	63.0	63.0	63.0
<b>Total Liabilities</b>	<b>494.0</b>	<b>513.8</b>	<b>400.7</b>	<b>335.1</b>	<b>240.9</b>
Shareholders Equity	1,142.5	1,146.9	1,140.4	1,141.5	1,147.5
Minority Interest	33.8	59.6	59.2	58.8	58.5
<b>Total shareholder equity</b>	<b>1,176.3</b>	<b>1,206.5</b>	<b>1,199.6</b>	<b>1,200.4</b>	<b>1,205.9</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,670.3</b>	<b>1,720.3</b>	<b>1,600.3</b>	<b>1,535.5</b>	<b>1,446.9</b>

**CASH FLOW (MYR m)**

Pretax profit	153.4	170.1	170.1	180.3	186.7
Depreciation & amortisation	56.0	46.3	48.5	47.1	45.7
Adj net interest (income)/exp	(7.8)	(9.1)	(12.8)	(15.4)	(17.0)
Change in working capital	42.3	34.5	(34.0)	(5.9)	(4.3)
Cash taxes paid	(48.9)	(48.5)	(43.2)	(45.8)	(47.4)
Other operating cash flow	(14.8)	3.6	3.0	0.0	0.0
Cash flow from operations	220.9	195.7	131.6	160.3	163.7
Capex	(12.6)	(33.8)	(30.0)	(30.0)	(30.0)
Free cash flow	208.2	162.0	101.6	130.3	133.7
Dividends paid	(132.8)	(132.8)	(132.8)	(132.8)	(132.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	2.1	(10.8)	(100.0)	(72.9)	(100.0)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(13.1)	(39.4)	6.8	9.4	11.0
Effect of exch rate changes	18.8	31.4	0.0	0.0	0.0
Net cash flow	83.2	10.3	(124.4)	(66.0)	(88.2)

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(1.1)	0.5	(2.3)	4.2	3.1
EBITDA growth	0.0	(14.9)	(0.2)	3.0	1.6
EBIT growth	(1.2)	(14.2)	(1.7)	4.9	2.9
Pretax growth	(20.3)	10.9	(0.0)	6.0	3.6
Reported net profit growth	(22.0)	19.3	(5.0)	6.1	3.6
Core net profit growth	4.8	(12.9)	(4.3)	6.1	3.6
<b>Profitability ratios (%)</b>					
EBITDA margin	23.9	20.2	20.7	20.4	20.2
EBIT margin	18.4	15.7	15.8	15.9	15.9
Pretax profit margin	15.1	16.7	17.1	17.4	17.5
Payout ratio	nm	99.9	nm	99.2	95.7
<b>DuPont analysis</b>					
Net profit margin (%)	11.0	13.0	12.7	12.9	13.0
Revenue/Assets (x)	0.6	0.6	0.6	0.7	0.7
Assets/Equity (x)	1.5	1.5	1.4	1.3	1.3
ROAE (%)	13.1	11.5	11.0	11.7	12.1
ROAA (%)	9.0	7.8	7.6	8.5	9.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	44.8	32.8	36.8	43.6	43.8
Days receivable outstanding	67.0	73.9	88.2	87.0	87.5
Days inventory outstanding	50.1	32.6	26.2	29.0	29.1
Days payables outstanding	72.3	73.7	77.6	72.4	72.7
Dividend cover (x)	0.8	1.0	1.0	1.0	1.0
Current ratio (x)	4.0	2.6	4.8	2.8	3.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.4	3.3	4.0	4.6	6.0
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	1.1	1.3	0.9	0.5	0.0
Capex/revenue (%)	1.2	3.3	3.0	2.9	2.8
Net debt/ (net cash)	(352.0)	(358.8)	(331.4)	(338.2)	(350.1)

Source: Company; Maybank

# Sunway (SWB MK)

## Strength in diversity

### Backed by rentals and construction businesses

Unlike the other big-cap developers, Sunway has a more diversified earnings base with a 54.4% stake in Sunway Construction Group (SCG) and 37.3% in SunREIT. The slowdown in its property development business would be partially cushioned by steady dividend income from the REIT vehicle and rising earnings contribution from the construction business as job wins rise. We value Sunway at MYR3.31 RNAV-TP based on an unchanged 40% discount to RNAV.

### Strong upside potential from construction

Being one of the largest construction companies in the country with experience in KVMRT1, KVLRT 2 and Sunway BRT, Sunway (under SCG) has clinched a major elevated viaduct work package from KVMRT 2 worth MYR1.21b recently and stands a good chance in clinching contracts from the KVLRT3, KL-Klang BRT and other key highways. Its potential wins are worth up to MYR4.6b, versus our 2016 job win forecast of MYR3.0b, providing upside to our forecasts.

### Turning more positive on property

Despite a weak property market outlook, Sunway has set a higher sales target of MYR1.1b for FY16 (+21% YoY) supported by MYR1.6b worth of new launches. To diversify its landbank (57% of GDV is derived from Iskandar Malaysia), Sunway is on the lookout for land in the Klang Valley. Since May 2015, it has acquired 28.2 acres worth MYR2.01b in GDV in Kelana Jaya and Subang areas. At Dec 2015, net gearing stood at 0.5x.

### A construction-led year

We have applied a 40% discount to our RNAV estimates for big cap property-based stocks under our coverage (except for SP Setia). Pegging a 40% discount to RNAV estimate for Sunway, our TP is MYR3.31. Short-term earnings visibility will be backed by: i) MYR1.5b unbilled sales (2.2x of FY16F revenue), ii) MYR3.8b outstanding construction orderbook and iii) steady dividend income and management fees from its REIT.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	4,842	4,451	5,370	5,390	6,713
EBITDA	504	428	766	825	1,117
Core net profit	592	591	526	590	760
Core FDEPS (sen)	32.5	31.6	26.1	29.3	37.7
Core FDEPS growth(%)	20.7	(2.8)	(17.3)	12.1	28.8
Net DPS (sen)	11.0	37.0	8.6	8.8	11.3
Core FD P/E (x)	9.7	10.0	12.1	10.8	8.3
P/BV (x)	0.9	0.9	0.7	0.8	0.7
Net dividend yield (%)	3.5	11.7	2.7	2.8	3.6
ROAE (%)	10.5	9.5	7.4	7.5	9.1
ROAA (%)	4.9	4.1	3.2	3.4	4.2
EV/EBITDA (x)	15.6	21.8	13.1	14.0	11.0
Net debt/equity (%)	30.4	49.8	46.9	56.7	62.2
Consensus net profit	-	-	540	527	647
MKE vs. Consensus (%)	-	-	(2.5)	12.0	17.4

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# HOLD

Share Price MYR 3.15  
 12m Price Target MYR 3.31 (+5%)  
 Previous Price Target MYR 3.24

### Company Description

Sunway Bhd is involved in property development, investment properties and construction businesses.

### Statistics

Shariah status	Yes
52w high/low (MYR)	3.88/2.92
3m avg turnover (USDm)	0.7
Free float (%)	34.0
Issued shares (m)	1,983
Market capitalisation	MYR6.2B USD1.6B

### Major shareholders:

Sungei Way Corp. Sdn. Bhd.	54.4%
Employees Provident Fund	5.6%
CHEAH FOOK LING	4.5%

### Price Performance



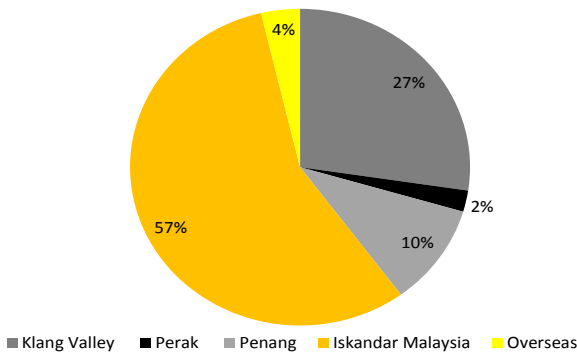
	-1M	-3M	-12M
Absolute (%)	5	3	(16)
Relative to index (%)	3	0	(10)

Source: FactSet

## Value Proposition

- A developer with a diversified earnings base. Sunway owns a 54.4% stake in Sunway Construction Group (SCG) and 37.3% in SunREIT.
- 57% of the remaining GDV is derived from its Iskandar Malaysia projects, followed by Klang Valley (27%), Penang (10%), Perak (2%) and overseas (4%).
- Share price drivers include potential job wins from KVMRT2 and RNAV-accretive land deals.

### Effective GDV breakdown by location

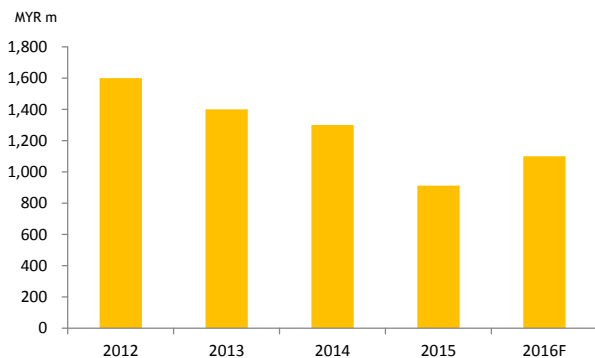


Source: Company

## Financial Metrics

- Property sales have been declining since 2011. Fortunately, the decline was cushioned by strong job wins in construction and steady rental income from its REIT.
- Our 9% 3-yr net profit CAGR forecast (2015-18) is based on MYR1.04b (2016F) and MYR1.54b (2017F) sales assumptions. Earnings growth is also supported by MYR1.5b unbilled sales (property; 2.2x our 2016F revenue) and MYR3.7b outstanding orderbook (construction). ROE expected to improve with higher contributions from better margin property projects. Also, better margin from Viaduct 4 package under KVMRT1 as the project is close to completion.
- Expanding its landbank in the Klang Valley. Equity fundraising may be needed given its relatively stretched balance sheet (0.5x net gearing at Dec 2015).

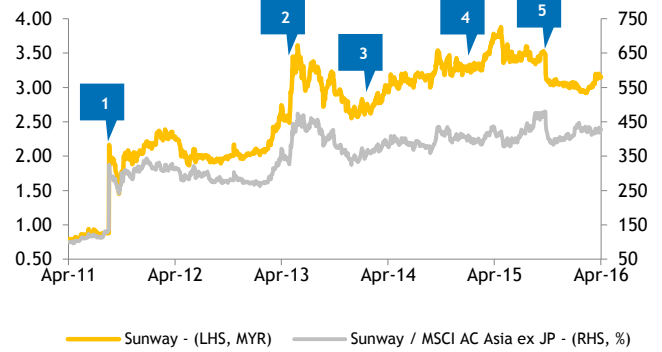
### Property Sales Trend



Source: Company

## Price Drivers

### Historical Share Price Trend



Source: Company, Maybank Kim Eng

1. Merger between Sunway City (property) and Sunway Holdings (construction).
2. Strong interest in developers with exposure to Iskandar Malaysia including Sunway.
3. Concerns on huge supply of high-rise condominiums in Iskandar Malaysia.
4. De-merger plan for its property and construction businesses announced in Sep 2014.
5. Listing of its construction unit (SCG) in Jul 2015.

## Swing Factors

### Upside

- Potential RNAV-accretive land acquisitions.
- Stronger-than-expected take-up rates for its ongoing and new projects.
- Potential job wins from KVMRT2, KVLRT3 and KL-Klang BRT. Potential total job wins is worth up to MYR5.6b versus our job wins assumption of MYR2.5b.

### Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins on higher marketing expenses.
- Currency risks.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	7.3	7.5	11.0	10.8	8.3
Core P/E (x)	9.2	9.4	11.0	10.8	8.3
Core FD P/E (x)	9.7	10.0	12.1	10.8	8.3
P/BV (x)	0.9	0.9	0.7	0.8	0.7
P/NTA (x)	0.9	0.8	0.7	0.8	0.7
Net dividend yield (%)	3.5	11.7	2.7	2.8	3.6
FCF yield (%)	14.1	15.6	nm	nm	nm
EV/EBITDA (x)	15.6	21.8	13.1	14.0	11.0
EV/EBIT (x)	10.2	13.6	13.7	14.7	11.5

**INCOME STATEMENT (MYR m)**

Revenue	4,841.9	4,451.3	5,370.4	5,389.9	6,713.0
Gross profit	504.2	427.8	765.5	825.2	1,116.6
EBITDA	504.2	427.8	765.5	825.2	1,116.6
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	768.8	686.9	730.8	786.5	1,073.8
Net interest income / (exp)	(30.4)	(26.6)	(115.9)	(135.5)	(151.0)
Associates & JV	233.2	269.9	199.2	248.2	292.2
Exceptionals	0.0	147.4	0.0	0.0	0.0
Other pretax income	(2.7)	0.0	0.0	0.0	0.0
Pretax profit	968.8	929.2	814.2	899.2	1,215.0
Income tax	(148.0)	(129.8)	(203.5)	(224.8)	(303.7)
Minorities	(77.6)	(67.0)	(84.5)	(84.6)	(151.4)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	743.2	732.4	526.2	589.8	759.8
Core net profit	591.7	590.7	526.2	589.8	759.8

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	1,978.2	2,627.3	2,305.1	1,324.4	550.1
Accounts receivable	1,719.9	2,639.6	2,639.6	2,639.6	2,639.6
Inventory	597.8	693.1	663.0	665.4	828.8
Property, Plant & Equip (net)	1,046.8	1,364.3	1,273.6	1,411.9	1,554.2
Intangible assets	319.4	320.1	320.1	320.1	320.1
Investment in Associates & JVs	2,481.0	2,890.3	2,890.3	2,890.3	2,890.3
Other assets	4,773.3	5,459.7	6,950.0	8,211.7	9,805.7
<b>Total assets</b>	<b>12,916.4</b>	<b>15,994.4</b>	<b>17,041.8</b>	<b>17,463.4</b>	<b>18,588.8</b>
ST interest bearing debt	2,282.9	3,303.8	3,303.8	3,303.8	3,303.8
Accounts payable	2,171.9	2,446.3	2,409.0	2,417.7	3,011.2
LT interest bearing debt	1,501.5	2,585.5	2,585.5	2,585.5	2,585.5
Other liabilities	626.0	459.0	451.0	451.0	451.0
<b>Total Liabilities</b>	<b>6,582.6</b>	<b>8,794.1</b>	<b>8,749.1</b>	<b>8,757.8</b>	<b>9,351.3</b>
Shareholders Equity	5,945.2	6,549.8	7,642.2	8,055.0	8,586.9
Minority Interest	388.7	650.6	650.6	650.6	650.6
<b>Total shareholder equity</b>	<b>6,333.9</b>	<b>7,200.4</b>	<b>8,292.7</b>	<b>8,705.6</b>	<b>9,237.5</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>12,916.4</b>	<b>15,994.4</b>	<b>17,041.8</b>	<b>17,463.4</b>	<b>18,588.8</b>

**CASH FLOW (MYR m)**

Pretax profit	968.8	929.2	814.2	899.2	1,215.0
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	273.7	236.0	(115.9)	(135.5)	(151.0)
Change in working capital	(91.4)	87.6	(900.0)	(900.0)	(900.0)
Cash taxes paid	(150.5)	(140.6)	(203.5)	(224.8)	(303.7)
Other operating cash flow	(231.3)	(250.3)	0.0	0.0	0.0
Cash flow from operations	769.4	861.9	(371.0)	(322.9)	(97.4)
Free cash flow	769.4	861.9	(371.0)	(322.9)	(97.4)
Dividends paid	(212.9)	(673.2)	(175.2)	(157.9)	(176.9)
Equity raised / (purchased)	41.6	145.7	724.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	872.9	1,752.0	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(71.9)	(2,392.0)	(500.0)	(500.0)	(500.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	1,399.1	(305.6)	(322.2)	(980.7)	(774.3)

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	2.3	(8.1)	20.6	0.4	24.5
EBITDA growth	(10.5)	(15.2)	78.9	7.8	35.3
EBIT growth	(57.8)	(10.6)	6.4	7.6	36.5
Pretax growth	(48.9)	(4.1)	(12.4)	10.4	35.1
Reported net profit growth	(50.5)	(1.5)	(28.2)	12.1	28.8
Core net profit growth	22.6	(0.2)	(10.9)	12.1	28.8
<b>Profitability ratios (%)</b>					
EBITDA margin	10.4	9.6	14.3	15.3	16.6
EBIT margin	15.9	15.4	13.6	14.6	16.0
Pretax profit margin	20.0	20.9	15.2	16.7	18.1
Payout ratio	25.6	88.6	30.0	30.0	30.0
<b>DuPont analysis</b>					
Net profit margin (%)	15.4	16.5	9.8	10.9	11.3
Revenue/Assets (x)	0.4	0.3	0.3	0.3	0.4
Assets/Equity (x)	2.2	2.4	2.2	2.2	2.2
ROAE (%)	10.5	9.5	7.4	7.5	9.1
ROAA (%)	4.9	4.1	3.2	3.4	4.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(12.8)	27.4	nm	nm	nm
Days receivable outstanding	116.1	176.3	176.9	176.3	141.6
Days inventory outstanding	50.7	57.8	nm	nm	nm
Days payables outstanding	179.5	206.6	nm	nm	nm
Dividend cover (x)	3.9	1.1	3.3	3.3	3.3
Current ratio (x)	1.4	1.2	1.4	1.5	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.0	1.8	1.9	2.0	2.0
Net debt/equity (%)	30.4	49.8	46.9	56.7	62.2
Net interest cover (x)	25.3	25.8	6.3	5.8	7.1
Debt/EBITDA (x)	7.5	13.8	7.7	7.1	5.3
Capex/revenue (%)	na	na	na	na	na
Net debt/ (net cash)	1,806.2	3,262.0	3,584.2	4,564.9	5,339.2

Source: Company; Maybank

# Supermax Corp (SUCB MK)

# Not Rated

Share Price

MYR 2.75

## Superb growth ahead

### Undemanding valuation

Supermax is the world's third largest medical glove manufacturer by capacity and it is expanding aggressively into the nitrile segment. Consensus projects a 3-year net profit CAGR of 19%, underpinned by its massive capacity expansion. Based on consensus estimates, the stock trades at 11x 2017 PER, which is undemanding compared to the industry average of 18x. Supermax is NOT RATED.

### Higher USD, lower rubber prices are catalysts

Similar to other glove manufacturers, Supermax's earnings upside can be derived from a higher USD/MYR and lower rubber prices. While ASPs are regularly adjusted to reflect the changes in the key variables (i.e. USD, rubber prices), there is a time-lag of 2-3 months for a full pass-through, hence, leading to temporary margin expansion for the glove-makers.

### Volume-led growth

Supermax's capacity expansion in 2016-17 will be faster than its peers, after 2-3 years of limited capacity growth. It targets to grow its annual capacity by 17% to 23.2b pieces in 2016 and another 17% to 27.2b pieces in 2017, supporting its earnings growth in FY16-17. However, the volume step-up could be partially offset by a weaker margin given the competitive ASPs, a result of the industry-wide expansion into the nitrile glove segment.

### Trading at a discount to peers

Among the big-cap glove players, consensus' estimates of Supermax's earnings growth imply that it could outperform its peers. Yet, Supermax's valuation is the most undemanding, at 11x 2017 PER (vs. 18x for its peers). Key risks include a sharp drop in USD/MYR, a spike in rubber prices and worsening nitrile glove competition.

### Company Description

Supermax manufactures and distributes medical gloves.

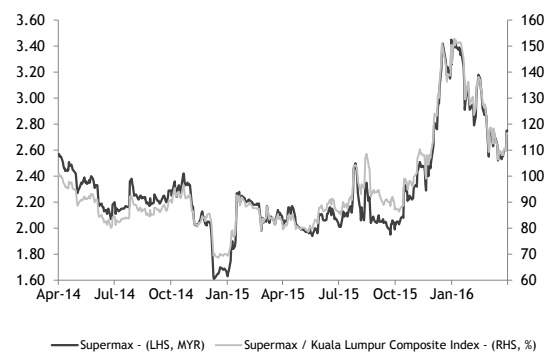
### Statistics

Shariah status	Yes
52w high/low (MYR)	3.45/1.94
3m avg turnover (USDm)	4.9
Free float (%)	58.9
Issued shares (m)	680
Market capitalisation	MYR1.9B USD478M

### Major shareholders:

THAI KIM SIM	20.4%
TAN BEE GEOK	15.1%
Skagen AS	4.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	(20)	32
Relative to index (%)	(2)	(23)	41

Source: FactSet

FYE Dec (MYR m)	FY11A	FY12A	FY13A	FY14A	FY15A
Revenue	1,021	997	1,048	1,004	1,053
EBITDA	108	145	155	148	175
Core net profit	104	122	120	96	127
Core EPS (sen)	15.3	17.9	17.6	14.1	18.9
Core EPS growth (%)	(36.1)	17.0	(1.6)	(20.1)	34.2
Net DPS (sen)	3.3	5.0	5.0	5.0	0.0
Core P/E (x)	18.0	15.3	15.6	19.5	14.5
P/BV (x)	2.4	2.2	2.1	2.0	1.8
Net dividend yield (%)	1.2	1.8	1.8	1.8	0.0
ROAE (%)	14.3	15.2	13.8	10.4	12.8
ROAA (%)	9.2	9.9	9.1	6.7	8.2
EV/EBITDA (x)	14.4	10.2	13.2	9.2	14.1
Net debt/equity (%)	29.4	18.6	17.3	23.3	28.8

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FYE 31 Dec	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Metrics</b>					
P/E (reported) (x)	18.0	15.3	15.6	19.5	14.5
Core P/E (x)	18.0	15.3	15.6	19.5	14.5
P/BV (x)	2.4	2.2	2.1	2.0	1.8
P/NTA (x)	2.5	2.3	2.1	2.0	1.8
Net dividend yield (%)	1.2	1.8	1.8	1.8	0.0
FCF yield (%)	nm	4.0	nm	nm	nm
EV/EBITDA (x)	14.4	10.2	13.2	9.2	14.1
EV/EBIT (x)	18.6	12.3	15.9	11.3	16.8

**INCOME STATEMENT (MYR m)**

Revenue	1,021.4	997.4	1,048.2	1,004.4	1,053.2
Gross profit	142.3	199.6	220.4	210.5	146.7
EBITDA	107.8	145.1	155.4	147.8	174.9
Depreciation	(24.1)	(24.4)	(26.6)	(27.9)	(28.2)
Amortisation	(0.1)	0.0	0.0	0.0	0.0
EBIT	83.7	120.7	128.8	119.9	146.7
Net interest income / (exp)	(12.5)	(8.7)	(7.6)	(8.2)	(7.3)
Associates & JV	0.0	0.0	16.8	9.8	13.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	77.3	113.9	148.2	128.3	152.4
Income tax	(8.1)	(15.9)	(29.2)	(33.1)	(26.0)
Minorities	0.1	0.3	0.7	0.4	0.6
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	104.2	121.7	119.7	95.6	127.0
Core net profit	104.2	121.7	119.7	95.6	127.0

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	104.5	122.9	167.1	131.9	135.1
Accounts receivable	213.2	206.9	236.4	238.8	326.2
Inventory	223.1	233.8	192.7	151.4	162.5
Property, Plant & Equip (net)	402.2	446.8	522.3	663.1	760.8
Intangible assets	28.7	28.7	28.7	28.7	28.7
Investment in Associates & JVs	228.4	209.9	214.9	210.5	223.5
Other assets	5.3	5.1	7.6	48.5	1.6
<b>Total assets</b>	<b>1,205.4</b>	<b>1,254.1</b>	<b>1,369.7</b>	<b>1,473.1</b>	<b>1,638.4</b>
ST interest bearing debt	190.5	162.9	195.8	206.5	333.9
Accounts payable	60.0	76.9	59.4	74.9	67.4
LT interest bearing debt	140.5	115.2	127.0	146.1	99.5
Other liabilities	45.0	65.0	90.0	102.0	102.0
<b>Total Liabilities</b>	<b>436.4</b>	<b>420.3</b>	<b>472.1</b>	<b>529.0</b>	<b>602.7</b>
Shareholders Equity	769.1	834.0	898.6	945.2	1,037.4
Minority Interest	(0.1)	(0.3)	(1.0)	(1.1)	(1.7)
<b>Total shareholder equity</b>	<b>769.0</b>	<b>833.8</b>	<b>897.6</b>	<b>944.1</b>	<b>1,035.7</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>1,205.4</b>	<b>1,254.1</b>	<b>1,369.7</b>	<b>1,473.1</b>	<b>1,638.4</b>

**CASH FLOW (MYR m)**

Pretax profit	77.3	113.9	148.2	128.3	152.4
Depreciation & amortisation	24.2	24.4	26.6	27.9	28.2
Adj net interest (income)/exp	(12.5)	(8.7)	(7.6)	(8.2)	(7.3)
Change in working capital	(48.0)	11.9	0.7	40.8	(36.5)
Cash taxes paid	13.4	3.1	22.2	35.1	39.5
Other operating cash flow	(44.3)	(18.7)	(39.9)	(47.4)	(24.3)
Cash flow from operations	43.9	154.8	135.6	149.5	91.6
Capex	(38.1)	(69.2)	(101.6)	(177.6)	(121.0)
Free cash flow	(21.4)	73.8	(0.0)	(62.0)	(76.7)
Dividends paid	(27.2)	(11.9)	(34.0)	(34.0)	(47.3)
Equity raised / (purchased)	0.0	(2.0)	(0.0)	(4.6)	(11.8)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	27.5	(53.2)	40.9	29.3	80.8
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	12.5	8.7	7.6	7.7	19.8
Effect of exch rate changes	1.1	(0.2)	3.4	2.0	(1.7)
<b>Net cash flow</b>	<b>7.1</b>	<b>18.4</b>	<b>44.3</b>	<b>(35.7)</b>	<b>3.2</b>

FYE 31 Dec	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	4.5	(2.3)	5.1	(4.2)	4.9
EBITDA growth	(47.1)	34.6	7.1	(4.9)	18.4
EBIT growth	(53.0)	44.3	6.7	(6.9)	22.4
Pretax growth	(45.5)	47.4	30.0	(13.4)	18.8
Reported net profit growth	(34.5)	16.9	(1.6)	(20.1)	32.8
Core net profit growth	(34.5)	16.9	(1.6)	(20.1)	32.8
<b>Profitability ratios (%)</b>					
EBITDA margin	10.6	14.5	14.8	14.7	16.6
EBIT margin	8.2	12.1	12.3	11.9	13.9
Pretax profit margin	7.6	11.4	14.1	12.8	14.5
Payout ratio	21.2	27.9	28.4	35.5	0.0
<b>DuPont analysis</b>					
Net profit margin (%)	10.2	12.2	11.4	9.5	12.1
Revenue/Assets (x)	0.8	0.8	0.8	0.7	0.6
Assets/Equity (x)	1.6	1.5	1.5	1.6	1.6
ROAE (%)	14.3	15.2	13.8	10.4	12.8
ROAA (%)	9.2	9.9	9.1	6.7	8.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	128.0	148.0	139.2	132.8	130.7
Days receivable outstanding	75.3	75.8	76.1	85.2	96.6
Days inventory outstanding	72.9	103.1	92.7	78.0	62.3
Days payables outstanding	20.2	30.9	29.6	30.4	28.2
Dividend cover (x)	4.7	3.6	3.5	2.8	nm
Current ratio (x)	1.9	2.0	1.9	1.6	1.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.8	3.0	2.9	2.8	2.7
Net debt/equity (%)	29.4	18.6	17.3	23.3	28.8
Net interest cover (x)	6.7	13.8	16.9	14.7	20.0
Debt/EBITDA (x)	3.1	1.9	2.1	2.4	2.5
Capex/revenue (%)	3.7	6.9	9.7	17.7	11.5
Net debt/ (net cash)	226.4	155.2	155.7	220.6	298.3

Source: Company; Maybank

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# Telekom Malaysia (TMK)

## Earnings drag kicks in

# HOLD

Share Price MYR 6.62  
 12m Price Target MYR 6.20 (-6%)  
 Previous Price Target MYR 6.20

### More concept than earnings for now

While investors have generally warmed up to TM's convergence (fixed-mobile) concept, we are concerned about the near-term earnings drag from the wireless business, with losses likely to continue as depreciation of the LTE network kicks in. Nevertheless, there is no threat to the sustainability of TM's minimum MYR700m dividend payout. We have a HOLD rating with a MYR6.20 TP.

### Focusing on rollouts

Apart from guiding for a 2016 launch, management has generally been tight-lipped on its wireless strategy. Nevertheless, TM has concluded a domestic roaming strategy with Celcom for 2G and 3G services, and thus would be able to offer nationwide coverage. Meanwhile, the rollouts of both HSBB2 and SUBB have recently begun, and would require a gestation period of a few quarters. Overall, capex intensity will likely trend up (to 25-30% of revenue) in 2016 as the rollout of HSBB2, SUBB and the LTE network intensifies.

### Earnings to decline

TM is guiding for flat EBIT at its core fixed-line business in 2016, as mild revenue growth (+3-3.5%) is offset by higher staff, marketing and depreciation costs. Meanwhile, the wireless business will likely remain loss-making in 2016. In addition, TM's stake in P1 has increased from 55% to 73% in Feb 2016 following a conversion of the convertible notes, meaning TM will now have to bear a larger portion of P1's losses. Overall, we forecast TM's net profit to decline in 2016.

### Valuations still near peak

Share price has been mostly stable YTD, meaning valuations remain near peak levels. We value TM on a DCF, assuming 7.6% WACC and 2% long-term growth. Our target price implies 29.0x PER, 7.1x EV/EBITDA and 3.1% dividend yield in 2016.

### Company Description

Telekom Malaysia is the dominant fixed-line telecommunication company in Malaysia

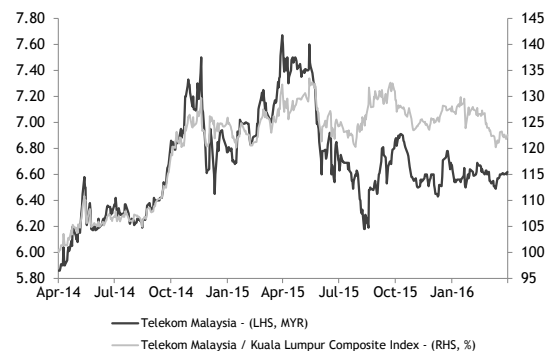
### Statistics

Shariah status	Yes
52w high/low (MYR)	7.60/6.18
3m avg turnover (USDm)	9.1
Free float (%)	97.7
Issued shares (m)	3,577
Market capitalisation	MYR23.7B USD6.0B

### Major shareholders:

Khazanah Nasional Bhd. (Investment Manag	28.7%
Permodalan Nasional Bhd.	18.6%
Employees Provident Fund	11.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	0	(1)	(14)
Relative to index (%)	(1)	(4)	(7)

Source: FactSet

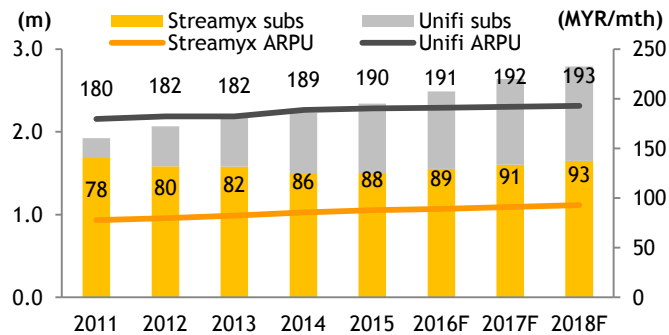
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	11,235	11,722	12,636	13,472	14,245
EBITDA	3,728	3,677	3,884	4,100	4,336
Core net profit	941	895	803	808	914
Core EPS (sen)	25.9	23.8	21.4	21.5	24.3
Core EPS growth (%)	(10.8)	(8.1)	(10.2)	0.6	13.1
Net DPS (sen)	22.9	21.4	19.2	19.4	21.9
Core P/E (x)	25.6	27.8	31.0	30.8	27.2
P/BV (x)	3.2	3.2	3.2	3.1	3.1
Net dividend yield (%)	3.5	3.2	2.9	2.9	3.3
ROAE (%)	12.8	11.7	10.3	10.2	11.4
ROAA (%)	4.3	3.8	3.3	3.2	3.6
EV/EBITDA (x)	7.5	7.9	7.5	7.2	6.7
Net debt/equity (%)	39.5	45.7	52.9	57.0	53.9
Consensus net profit	-	-	893	950	1,016
MKE vs. Consensus (%)	-	-	(10.1)	(14.9)	(10.0)

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## Value Proposition

- Dominant national fixed-line telco with recent convergence aspirations (offering hybrid fixed-mobile products) to boost long-term growth.
- The mobile segment is already well-entrenched and facing growth headwinds, thus there is no certainty TM would achieve commercial success with its wireless foray.
- From 2009-14, TM consistently generated positive EVA (ROICs over 10%), due in large part to the strong adoption of domestic broadband (HSBB and Streamyx).
- ROICs have since declined and are likely to stay low in the next five years due to its wireless start-up losses.

### Fixed broadband subscribers and ARPU

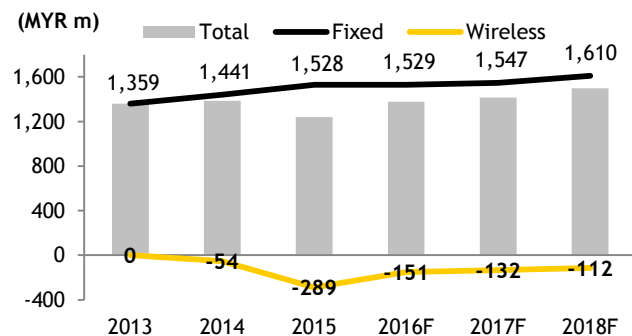


Source: Company, Maybank Kim Eng

## Financial Metrics

- Investors have generally warmed up to the convergence concept, but current concerns revolve around the potential earnings drag from the wireless division.
- TM's wireless product is slated for launch some time in 2016, and by our estimates, would likely make EBIT losses for the next five years.
- FCF in 2016-17 would be further suppressed by elevated capex as TM invests more in its LTE network, and rolls out fixed broadband services to new areas.
- Nevertheless, TM's balance sheet is unlikely to become overly-stretched (c.50% gearing), thus sustaining a minimum MYR700m worth of dividends is not a concern.

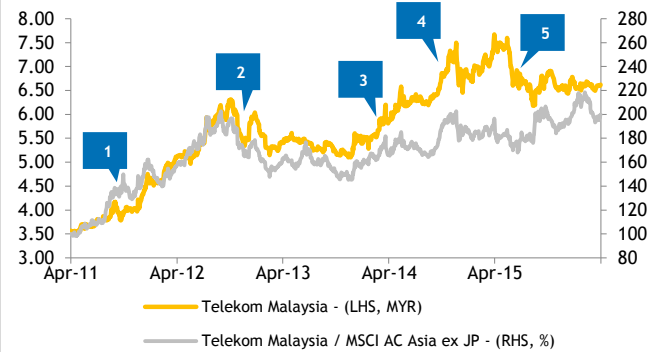
### Segmental EBIT



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price



Source: Company, Maybank Kim Eng

1. Re-rating of Malaysian telcos on yield-compression, coupled with TM twice declaring capital repayments.
2. Concerns over increasing competition in the fibre broadband segment.
3. TM acquired a 57% stake in Wimax operator P1, and announced plans for a nationwide LTE rollout.
4. Further re-rating as the market warmed up to TM's convergence (fixed-mobile) concept.
5. Concerns over the earnings drag from P1, after P1 posted a sizable EBIT loss in 1Q15.

## Swing Factors

### Upside

- Continued strong subscriber additions and ARPU accretion in the fixed-broadband segment.
- TM's wireless product receiving strong subscriber traction after a successful launch.
- Subsequent narrowing of wireless losses.

### Downside

- An unexpected delay in the launch of its wireless product (currently slated for 2016).
- Wireless losses continue to widen, materially affecting group profitability.
- The core fixed-line business fails to deliver growth.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	28.9	35.5	31.0	30.8	27.2
Core P/E (x)	25.6	27.8	31.0	30.8	27.2
P/BV (x)	3.2	3.2	3.2	3.1	3.1
P/NTA (x)	3.5	3.5	3.4	3.4	3.4
Net dividend yield (%)	3.5	3.2	2.9	2.9	3.3
FCF yield (%)	5.4	3.1	1.4	2.5	5.2
EV/EBITDA (x)	7.5	7.9	7.5	7.2	6.7
EV/EBIT (x)	20.2	23.4	21.1	20.8	19.5
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	11,235.1	11,721.6	12,635.6	13,471.9	14,244.7
Gross profit	11,235.1	11,721.6	12,635.6	13,471.9	14,244.7
EBITDA	3,728.2	3,677.0	3,883.6	4,100.1	4,336.3
Depreciation	(2,341.3)	(2,437.3)	(2,505.8)	(2,685.5)	(2,838.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,386.9	1,239.7	1,377.8	1,414.6	1,497.8
Net interest income / (exp)	(202.9)	(343.4)	(218.1)	(242.3)	(257.0)
Associates & JV	9.3	24.7	0.0	0.0	0.0
Exceptionals	(87.8)	(9.2)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,105.5	911.8	1,159.7	1,172.3	1,240.9
Income tax	(263.0)	(320.0)	(347.9)	(351.7)	(310.2)
Minorities	(10.7)	108.5	(8.6)	(12.3)	(16.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	831.8	700.3	803.2	808.3	914.2
Core net profit	941.2	894.9	803.2	808.3	914.2
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	3,455.1	4,027.2	3,423.1	3,054.9	3,251.6
Accounts receivable	2,888.0	3,006.2	3,254.1	3,469.5	3,668.5
Inventory	115.9	236.8	249.4	267.1	282.3
Property, Plant & Equip (net)	14,785.1	15,186.9	16,081.1	16,795.5	16,757.1
Intangible assets	581.7	607.8	607.8	607.8	607.8
Investment in Associates & JVs	6.5	26.3	26.3	26.3	26.3
Other assets	790.9	1,321.9	1,321.9	1,321.9	1,321.9
<b>Total assets</b>	<b>22,623.2</b>	<b>24,413.1</b>	<b>24,963.7</b>	<b>25,543.0</b>	<b>25,915.5</b>
ST interest bearing debt	197.0	408.3	408.3	408.3	408.3
Accounts payable	4,503.7	5,379.6	5,799.3	6,243.4	6,635.1
LT interest bearing debt	6,251.4	7,175.4	7,175.4	7,175.4	7,175.4
Other liabilities	4,100.0	3,669.0	3,720.0	3,774.0	3,664.0
<b>Total Liabilities</b>	<b>15,052.1</b>	<b>16,632.5</b>	<b>17,102.8</b>	<b>17,601.3</b>	<b>17,882.4</b>
Shareholders Equity	7,571.1	7,780.6	7,860.9	7,941.7	8,033.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>7,571.1</b>	<b>7,780.6</b>	<b>7,860.9</b>	<b>7,941.7</b>	<b>8,033.2</b>
<b>Total liabilities and equity</b>	<b>22,623.2</b>	<b>24,413.1</b>	<b>24,963.7</b>	<b>25,543.0</b>	<b>25,915.5</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	1,105.5	911.8	1,159.7	1,172.3	1,240.9
Depreciation & amortisation	2,341.3	2,437.3	2,505.8	2,685.5	2,838.4
Adj net interest (income)/exp	202.9	343.4	218.1	242.3	257.0
Change in working capital	(39.5)	636.8	159.2	211.1	177.4
Cash taxes paid	(113.9)	(332.7)	(289.9)	(293.1)	(310.2)
Other operating cash flow	(172.7)	(725.5)	(216.0)	(216.5)	(217.0)
Cash flow from operations	3,314.3	3,246.4	3,536.8	3,801.5	3,986.5
Capex	(2,010.1)	(2,484.3)	(3,180.0)	(3,180.0)	(2,690.0)
Free cash flow	1,304.2	762.1	356.8	621.5	1,296.5
Dividends paid	(931.5)	(847.9)	(722.9)	(727.5)	(822.8)
Equity raised / (purchased)	778.9	269.2	0.0	0.0	0.0
Change in Debt	(213.3)	743.4	0.0	0.0	0.0
Other invest/financing cash flow	(477.5)	(392.2)	(238.1)	(262.3)	(277.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	460.8	534.6	(604.1)	(368.2)	196.7

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	5.7	4.3	7.8	6.6	5.7
EBITDA growth	5.9	(1.4)	5.6	5.6	5.8
EBIT growth	2.0	(10.6)	11.1	2.7	5.9
Pretax growth	5.7	(17.5)	27.2	1.1	5.8
Reported net profit growth	(17.8)	(15.8)	14.7	0.6	13.1
Core net profit growth	(9.4)	(4.9)	(10.2)	0.6	13.1
<b>Profitability ratios (%)</b>					
EBITDA margin	33.2	31.4	30.7	30.4	30.4
EBIT margin	12.3	10.6	10.9	10.5	10.5
Pretax profit margin	9.8	7.8	9.2	8.7	8.7
Payout ratio	nm	nm	90.0	90.0	90.0
<b>DuPont analysis</b>					
Net profit margin (%)	7.4	6.0	6.4	6.0	6.4
Revenue/Assets (x)	0.5	0.5	0.5	0.5	0.5
Assets/Equity (x)	3.0	3.1	3.2	3.2	3.2
ROAE (%)	12.8	11.7	10.3	10.2	11.4
ROAA (%)	4.3	3.8	3.3	3.2	3.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	84.1	90.5	89.2	89.8	90.2
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.0	0.9	1.1	1.1	1.1
Current ratio (x)	1.3	1.3	1.1	1.0	1.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.5	1.5	1.5	1.5	1.4
Net debt/equity (%)	39.5	45.7	52.9	57.0	53.9
Net interest cover (x)	6.8	3.6	6.3	5.8	5.8
Debt/EBITDA (x)	1.7	2.1	2.0	1.8	1.7
Capex/revenue (%)	17.9	21.2	25.2	23.6	18.9
Net debt/ (net cash)	2,993.3	3,556.5	4,160.6	4,528.8	4,332.1

Source: Company; Maybank

# TIME dotCom (TDC MK)

## Capital management potential

### Will a special payout recur?

Share price has been climbing over the past year from both 1) earnings strength (TDC benefits partly from USD strength) and 2) expectations of further capital management initiatives. Nevertheless, with valuations at new highs, we think most of the positives have been priced in. We have a HOLD rating with a MYR7.30 TP.

### Margins could decline

Apart from the now customary double-digit revenue growth, TDC's 2015 margins also came in at the higher end of guidance (39% vs. 35-40% guidance). This was partly due to translational forex gains (TDC has USD-denominated balance sheet items as international bandwidth is transacted in USD). For 2016, we expect margins to decline in the absence of forex gains, thus possibly offsetting the earnings impact from revenue growth.

### Balance sheet still lazy

While maintaining a war chest for regional expansion, management has also been proactively addressing TDC's lazy balance sheet through special distributions, with the most recent being a 73.5sen cash payout to shareholders in Jul 2015. TDC is presently in a net cash position (representing 18sen/TDC share), and still owns 68.8m Digi shares (worth about 60sen/TDC share).

### Peak valuations

The stock has re-rated sharply in recent years, and valuations are at an all-time high. Our TP is based on a sum-of-parts, with 1) the core entity valued at MYR6.70 (implying 24.8x PER and 13.8x EV/EBITDA in 2016) and 2) its 68.8m Digi shares valued at MYR0.60 per TDC share (based on our MYR5.00 Digi TP).

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	596	682	757	860	955
EBITDA	218	264	273	310	344
Core net profit	127	171	155	180	218
Core EPS (sen)	22.2	29.8	27.0	31.2	37.8
Core EPS growth (%)	(51.1)	34.1	(9.4)	15.6	21.3
Net DPS (sen)	5.6	80.2	7.4	8.5	10.1
Core P/E (x)	32.5	24.2	26.7	23.1	19.1
P/BV (x)	1.8	2.0	2.0	1.8	1.7
Net dividend yield (%)	0.8	11.1	1.0	1.2	1.4
ROAE (%)	5.8	7.7	7.4	8.2	9.3
ROAA (%)	5.0	6.4	5.9	6.5	7.3
EV/EBITDA (x)	12.0	16.2	14.9	12.6	10.7
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	186	212	245
MKE vs. Consensus (%)	-	-	(8.6)	(8.0)	(4.5)

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# HOLD

Share Price MYR 7.22  
12m Price Target MYR 7.30 (+1%)  
Previous Price Target MYR 7.30

### Company Description

TIME dotCom is a fixed-line telecommunication company in Malaysia

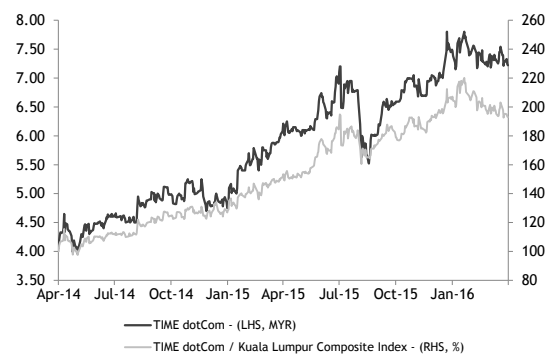
### Statistics

Shariah status	Yes
52w high/low (MYR)	7.80/5.52
3m avg turnover (USDm)	1.5
Free float (%)	62.2
Issued shares (m)	576
Market capitalisation	MYR4.2B USD1.1B

### Major shareholders:

Pulau Kapas Ventures Sdn. Bhd.	31.5%
Khazanah Nasional Bhd. (Investment Manag	11.4%
Public Mutual Bhd.	7.3%

### Price Performance



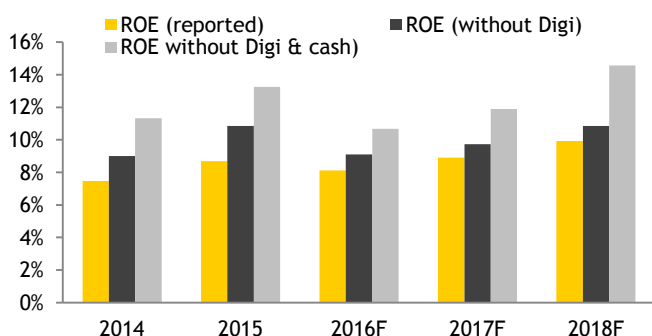
	-1M	-3M	-12M
Absolute (%)	0	(4)	19
Relative to index (%)	(1)	(6)	27

Source: FactSet

## Value Proposition

- A niche fixed-line operator anchored by its c.9,000km fibre-optic network traversing Peninsular Malaysia.
- Loss making prior to 2010, management has since restructured internally and broadened product offerings to better leverage on the secular growth of data.
- TDC is on the lookout for synergistic acquisitions in the Indochina region to bolster longer-term growth.
- ROICs have hovered around the low-teens since 2010, but are unlikely to improve going forward given the ongoing capex / expansion plans.
- ROEs are suppressed by the lazy balance sheet (net cash position and a holding of Digi shares), although the company has been active with capital management.

### ROE scenarios

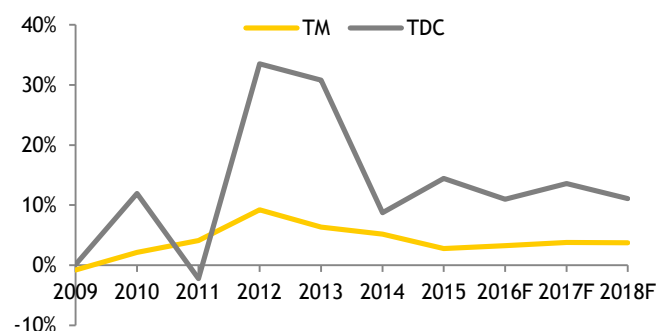


Source: Company

## Financial Metrics

- Unlike domestic peers, TDC's investment thesis is skewed towards growth (instead of yield) given its small base.
- We expect TDC's revenue to grow in excess of 10% CAGR, and EBITDA margins to remain within management's 35-40% guidance going forward.
- Recurring dividend yields are unlikely to be attractive, given the company's present policy of a maximum 25% payout ratio.
- Nevertheless, there is scope for a potential special distribution given its healthy cashpile and its remaining 68.8m Digi shares.

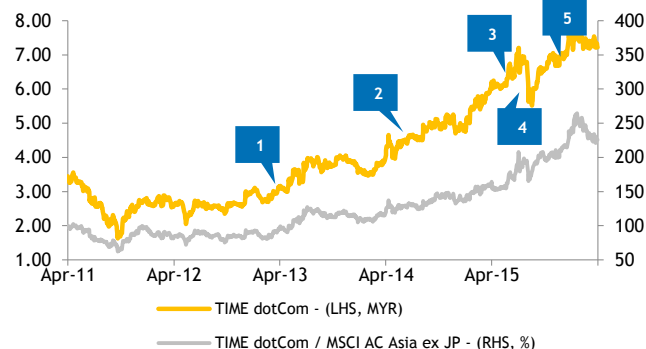
### Revenue growth relative to Telekom Malaysia



Source: Company

## Price Drivers

### Historical share price



Source: Company, Maybank Kim Eng

1. TDC distributed 137.5m Digi shares to shareholders.
2. Announced its participation in two submarine cable systems (AAE-1 and FASTER).
3. Placed out 69m Digi shares in two tranches, and subsequently announced a bumper 73.5sen special DPS.
4. The 73.5sen special DPS goes ex.
5. Share price re-rates on expectations of an earnings beat from USD strength.

## Swing Factors

### Upside

- Announces more capital management initiatives.
- Continues to sustain double-digit net profit growth.
- Additional synergistic investments / acquisitions in the region.

### Downside

- Revenue growth slows on unexpectedly severe price erosion.
- Earnings pressure from USD weakness as international bandwidth is USD-denominated.
- Prolonged absence of capital management initiatives.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	23.8	8.9	24.4	21.3	17.8
Core P/E (x)	32.5	24.2	26.7	23.1	19.1
P/BV (x)	1.8	2.0	2.0	1.8	1.7
P/NTA (x)	1.9	2.2	2.2	2.0	1.9
Net dividend yield (%)	0.8	11.1	1.0	1.2	1.4
FCF yield (%)	1.7	0.2	0.6	4.6	5.5
EV/EBITDA (x)	12.0	16.2	14.9	12.6	10.7
EV/EBIT (x)	19.7	25.0	25.3	20.9	16.8

**INCOME STATEMENT (MYR m)**

Revenue	596.3	682.4	757.1	859.8	954.9
Gross profit	311.1	337.5	374.4	425.2	472.2
EBITDA	217.8	263.9	272.6	309.5	343.8
Depreciation	(85.0)	(93.2)	(112.6)	(124.0)	(123.7)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	132.8	170.6	160.0	185.5	220.1
Net interest income / (exp)	(0.1)	4.4	1.5	1.5	7.1
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	46.5	295.7	14.9	15.3	15.6
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	179.3	470.8	176.4	202.3	242.8
Income tax	(6.9)	(5.4)	(8.1)	(9.3)	(11.4)
Minorities	1.5	1.5	2.0	2.0	2.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	173.9	466.9	170.3	194.9	233.5
Core net profit	127.3	171.2	155.4	179.6	217.9

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	317.6	253.3	253.8	414.9	606.6
Accounts receivable	188.3	239.2	265.5	301.5	334.9
Inventory	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	965.7	1,250.7	1,378.2	1,374.1	1,360.5
Intangible assets	214.0	214.0	214.0	214.0	214.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1,059.8	652.8	558.1	558.1	558.1
<b>Total assets</b>	<b>2,745.3</b>	<b>2,609.9</b>	<b>2,669.6</b>	<b>2,862.6</b>	<b>3,074.0</b>
ST interest bearing debt	51.7	45.8	45.8	45.8	45.8
Accounts payable	218.4	349.4	377.9	426.8	465.0
LT interest bearing debt	88.5	102.0	102.0	102.0	102.0
Other liabilities	28.0	30.0	30.0	30.0	30.0
<b>Total Liabilities</b>	<b>386.9</b>	<b>527.4</b>	<b>555.9</b>	<b>604.8</b>	<b>643.1</b>
Shareholders Equity	2,356.9	2,082.5	2,115.6	2,261.8	2,436.9
Minority Interest	1.5	0.0	(2.0)	(4.0)	(6.0)
<b>Total shareholder equity</b>	<b>2,358.4</b>	<b>2,082.5</b>	<b>2,113.6</b>	<b>2,257.8</b>	<b>2,430.9</b>
<b>Total liabilities and equity</b>	<b>2,745.3</b>	<b>2,609.9</b>	<b>2,669.6</b>	<b>2,862.6</b>	<b>3,074.0</b>

**CASH FLOW (MYR m)**

Pretax profit	179.3	470.8	176.4	202.3	242.8
Depreciation & amortisation	85.0	93.2	112.6	124.0	123.7
Adj net interest (income)/exp	0.1	(4.4)	(1.5)	(1.5)	(7.1)
Change in working capital	21.8	80.0	2.2	12.8	4.9
Cash taxes paid	(5.0)	(7.4)	(8.1)	(9.3)	(11.4)
Other operating cash flow	45.3	(272.5)	0.0	0.0	0.0
Cash flow from operations	290.9	338.0	266.7	313.0	337.3
Capex	(221.6)	(329.0)	(240.0)	(120.0)	(110.0)
Free cash flow	69.3	9.0	26.7	193.0	227.3
Dividends paid	0.0	(455.2)	(42.6)	(48.7)	(58.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(26.2)	(13.9)	0.0	0.0	0.0
Other invest/financing cash flow	33.7	383.7	16.4	16.8	22.7
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	76.9	(76.5)	0.6	161.1	191.7

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	8.8	14.4	11.0	13.6	11.1
EBITDA growth	12.7	21.2	3.3	13.6	11.1
EBIT growth	12.5	28.5	(6.2)	15.9	18.7
Pretax growth	(64.0)	162.6	(62.5)	14.7	20.1
Reported net profit growth	(72.9)	168.5	(63.5)	14.4	19.8
Core net profit growth	(51.1)	34.5	(9.2)	15.6	21.3
<b>Profitability ratios (%)</b>					
EBITDA margin	36.5	38.7	36.0	36.0	36.0
EBIT margin	22.3	25.0	21.1	21.6	23.0
Pretax profit margin	30.1	69.0	23.3	23.5	25.4
Payout ratio	18.5	98.7	25.0	25.0	25.0
<b>DuPont analysis</b>					
Net profit margin (%)	29.2	68.4	22.5	22.7	24.4
Revenue/Assets (x)	0.2	0.3	0.3	0.3	0.3
Assets/Equity (x)	1.2	1.3	1.3	1.3	1.3
ROAE (%)	5.8	7.7	7.4	8.2	9.3
ROAA (%)	5.0	6.4	5.9	6.5	7.3
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	107.6	112.8	120.0	118.7	120.0
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	249.2	296.3	342.1	333.3	332.6
Dividend cover (x)	5.4	1.0	4.0	4.0	4.0
Current ratio (x)	1.9	1.2	1.2	1.5	1.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	7.1	4.9	4.8	4.7	4.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	nm	na	na	na	na
Debt/EBITDA (x)	0.6	0.6	0.5	0.5	0.4
Capex/revenue (%)	37.2	48.2	31.7	14.0	11.5
Net debt/ (net cash)	(177.3)	(105.5)	(106.0)	(267.1)	(458.8)

Source: Company; Maybank

# Top Glove (TOPG MK)

## The big brother

### Bellwether status yet to be recognised

Top Glove is the world's largest glove maker, in terms of capacity and profitability. It has a relatively more balanced product mix, compared to its peers. We project a 3-year net profit CAGR (FY8/15-18) of 14%, riding on the global glove demand growth. Trading at 16x 2017 PER, we think market has yet to fully recognise its leadership status in profitability and much improved financials. BUY with a MYR6.50 TP (19x 2017 PER).

### Catalysts: Higher USD, lower rubber prices

Our FY8/16-18 net profit CAGR of 14% is based on: (i) USD/MYR of 4.10; (ii) NBR price of USD1.00/kg; and (iii) latex price of MYR4.10/kg. Hence, a stronger-than-expected USD/MYR or lower-than-expected rubber prices will provide upside to our earnings forecasts. While ASPs are regularly adjusted to reflect the changes in the key variables (i.e. USD and rubber prices), there is a time-lag of 2-3 months for a full pass-through, hence, leading to temporary margin expansion for the glove-makers.

### Potentially softer 2HFY8/16

While the USD/MYR has weakened from 1HFY8/16 and latex price is on a temporary uptrend (due to the wintering season), we think the drag could be partially compensated by seasonally stronger sales volume in 2HFY8/16. Additionally, its new plant F29 will be fully commercialised in 2HFY8/16 (+4% to 46.6b pieces p.a.), providing additional boost to sales volume. Our FY8/16 EPS forecast has imputed for a softer 2HFY8/16.

### Higher valuations justified

Top Glove presently trades at 16x 2017 PER, a discount to the second most profitable player Hartalega's 21x. We think the stock deserves a higher valuation given its dominant market share, high ROE of 20% and strong balance sheet, hence, we peg the stock at its +1SD mean PER. Key risks include a spike in rubber prices and worsening nitrile competition.

FYE Aug (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,275	2,511	2,972	3,116	3,272
EBITDA	298	454	624	637	647
Core net profit	181	280	401	411	418
Core EPS (sen)	14.6	22.6	32.3	33.1	33.7
Core EPS growth (%)	(8.2)	55.0	43.3	2.4	1.7
Net DPS (sen)	8.0	11.5	16.2	16.6	16.8
Core P/E (x)	36.5	23.5	16.4	16.0	15.8
P/BV (x)	4.7	4.1	3.6	3.3	3.0
Net dividend yield (%)	1.5	2.2	3.0	3.1	3.2
ROAE (%)	13.3	18.6	23.5	21.5	19.7
ROAA (%)	9.8	12.1	14.2	13.4	12.7
EV/EBITDA (x)	9.4	10.1	10.2	9.7	9.3
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	412	419	438
MKE vs. Consensus (%)	-	-	(2.7)	(2.1)	(4.7)

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# BUY

Share Price MYR 5.31  
12m Price Target MYR 6.50 (+22%)  
Previous Price Target MYR 6.50

### Company Description

Top Glove is world's biggest glove manufacturer with a balanced product mix in latex/nitrile examination gloves and non-examination gloves.

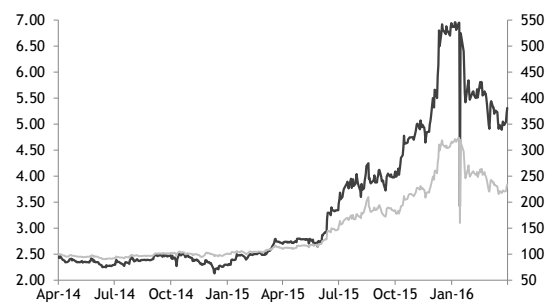
### Statistics

Shariah status	Yes
52w high/low (MYR)	6.96/2.65
3m avg turnover (USDm)	9.6
Free float (%)	54.4
Issued shares (m)	1,255
Market capitalisation	MYR6.7B
	USD1.7B

### Major shareholders:

LIM WEE CHAI	29.4%
Firstway United Corp.	5.1%
Northcape Capital Pty Ltd.	4.9%

### Price Performance



— Top Glove - (LHS, MYR) — Top Glove / Kuala Lumpur Composite Index - (RHS, %)

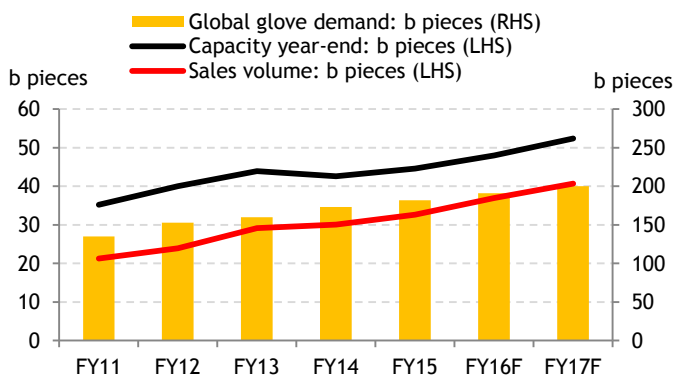
	-1M	-3M	-12M
Absolute (%)	(1)	(23)	96
Relative to index (%)	(3)	(26)	110

Source: FactSet

## Value Proposition

- World's largest glove manufacturer (global demand market share: c.18%) and still riding the global secular growth cycle (5-6% p.a.).
- High barriers to entry for medical gloves which necessitate stringent compliance to regulatory requirement. Scale of business model makes ASPs highly competitive.
- High cash generating capability; annual operating cashflow of MYR450m-500m against MYR200m capex. Large headroom for dividends, growing cash reserves for M&A opportunities.
- Sales volume growth in FY8/15-FY8/19 (4-year CAGR: 8%) could accelerate upon the exit of smaller glove players.
- Implements cost pass-through mechanism to reflect changes in USD/MYR and rubber prices.

### Expands capacity to capture new demand growth

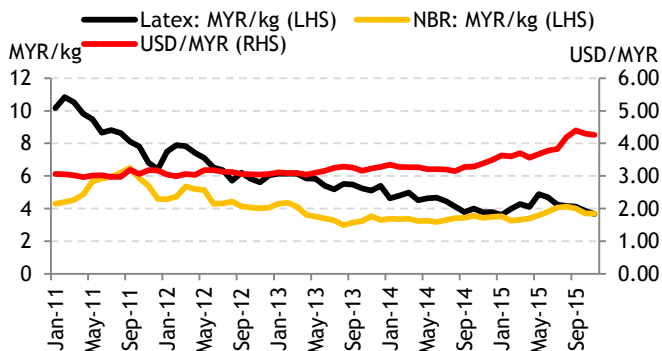


Source: Company, Maybank KE

## Financial Metrics

- Largest profit base and Top Glove's EBITDA margins of 18-20% are among the highest in the industry.
- Anticipates high earnings on persistently high USD/MYR and low rubber prices. Our forwards assumptions are 4.10 for USD/MYR and MYR4.10/kg for latex price.
- Assuming no corresponding adjustments to ASPs, every 1% increase in USD/MYR and latex price will have 3% positive impact and 0.4% adverse impact to our FY8/17 bottomline respectively.

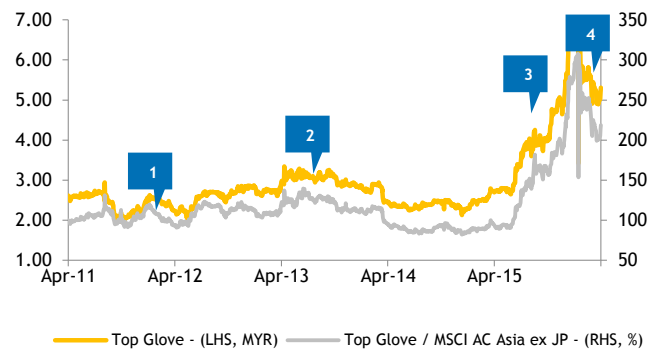
### Rubber prices and USD/MYR trends



Source: Bloomberg, Maybank KE

## Price Drivers

### Share price trend



Source: Company, Maybank Kim Eng

1. Earnings halved in FY11 following the collapse of H1N1-fuelled demand for latex gloves and high rubber prices.
2. Earnings recovered partially in FY12 on the normalisation of demand and lower rubber prices.
3. Staged strong earnings growth in FY15 on high USD/MYR, low rubber prices and limited competition in latex gloves segment.
4. MYR strengthened against USD and latex price on rising trend.

## Swing Factors

### Upside

- A structural change in the lax regulatory requirements in developing markets which could accelerate the global glove demand growth.
- Lower-than-expected rubber prices and stronger-than-expected USD/MYR rates.
- Greater-than-expected direct government tender orders under TPPA.

### Downside

- Sharp fall in USD/MYR.
- Substantial rise in rubber prices.
- Intensive competition in nitrile glove segment.



FYE 31 Aug	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	36.5	23.5	16.4	16.0	15.8
Core P/E (x)	36.5	23.5	16.4	16.0	15.8
P/BV (x)	4.7	4.1	3.6	3.3	3.0
P/NTA (x)	4.8	4.2	3.7	3.3	3.0
Net dividend yield (%)	1.5	2.2	3.0	3.1	3.2
FCF yield (%)	2.3	0.9	3.7	4.9	5.0
EV/EBITDA (x)	9.4	10.1	10.2	9.7	9.3
EV/EBIT (x)	9.2	10.0	10.0	9.4	8.8

**INCOME STATEMENT (MYR m)**

Revenue	2,275.4	2,510.5	2,972.0	3,115.9	3,271.6
Gross profit	455.1	502.1	594.4	623.2	654.3
EBITDA	298.5	454.3	624.4	636.9	646.8
Depreciation	(91.6)	(98.8)	(114.5)	(131.6)	(148.1)
Amortisation	0.0	0.0	0.0	0.0	1.0
EBIT	307.9	462.3	636.9	659.9	685.2
Net interest income / (exp)	6.1	19.8	24.2	34.7	50.0
Associates & JV	3.3	(11.7)	(11.7)	(11.7)	(11.7)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	1.0
Pretax profit	216.3	363.5	522.4	528.3	537.1
Income tax	(32.7)	(82.3)	(120.2)	(116.2)	(118.2)
Minorities	(3.2)	(1.4)	(1.4)	(1.4)	(1.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	180.5	279.8	400.9	410.6	417.5
Core net profit	180.5	279.8	400.9	410.6	417.5

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	338.4	816.1	885.8	1,037.6	1,207.9
Accounts receivable	283.9	395.5	468.2	490.8	515.4
Inventory	206.2	256.0	303.0	317.7	333.6
Property, Plant & Equip (net)	993.8	1,137.7	1,223.2	1,271.5	1,303.5
Intangible assets	22.8	22.8	22.8	22.8	22.8
Investment in Associates & JVs	20.1	5.3	(6.4)	(18.1)	(29.8)
Other assets	61.7	58.9	58.9	58.9	58.9
<b>Total assets</b>	<b>1,926.9</b>	<b>2,692.3</b>	<b>2,955.4</b>	<b>3,181.3</b>	<b>3,412.2</b>
ST interest bearing debt	178.2	497.7	497.7	497.7	497.7
Accounts payable	265.5	333.7	395.1	414.2	434.9
LT interest bearing debt	2.5	131.9	131.9	131.9	131.9
Other liabilities	83.0	114.0	114.0	114.0	114.0
<b>Total Liabilities</b>	<b>529.6</b>	<b>1,077.5</b>	<b>1,138.8</b>	<b>1,158.0</b>	<b>1,178.7</b>
Shareholders Equity	1,393.1	1,608.3	1,808.8	2,014.1	2,222.8
Minority Interest	4.2	6.4	7.8	9.3	10.7
<b>Total shareholder equity</b>	<b>1,397.2</b>	<b>1,614.8</b>	<b>1,816.6</b>	<b>2,023.3</b>	<b>2,233.5</b>
<b>Total liabilities and equity</b>	<b>1,926.9</b>	<b>2,692.3</b>	<b>2,955.4</b>	<b>3,181.3</b>	<b>3,412.2</b>

**CASH FLOW (MYR m)**

Pretax profit	216.3	363.5	522.4	528.3	537.1
Depreciation & amortisation	91.6	98.8	114.5	131.6	148.1
Adj net interest (income)/exp	(6.1)	(19.8)	(24.2)	(34.7)	(50.0)
Change in working capital	40.4	(101.1)	(58.4)	(18.2)	(19.7)
Cash taxes paid	(38.6)	(55.7)	(120.2)	(116.2)	(118.2)
Other operating cash flow	0.0	0.0	0.0	0.0	2.0
Cash flow from operations	303.8	300.8	445.9	502.4	509.0
Capex	(153.3)	(243.1)	(200.0)	(180.0)	(180.0)
Free cash flow	150.5	57.7	245.9	322.4	329.0
Dividends paid	(99.9)	(101.0)	(200.4)	(205.3)	(208.8)
Equity raised / (purchased)	2.8	19.2	0.0	0.0	0.0
Change in Debt	111.9	448.9	0.0	0.0	0.0
Other invest/financing cash flow	26.2	(363.1)	24.2	34.7	51.0
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>73.6</b>	<b>51.2</b>	<b>69.6</b>	<b>151.9</b>	<b>170.3</b>

FYE 31 Aug	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(1.6)	10.3	18.4	4.8	5.0
EBITDA growth	(4.7)	52.2	37.5	2.0	1.6
EBIT growth	(4.5)	50.2	37.8	3.6	3.8
Pretax growth	(10.7)	68.1	43.7	1.1	1.7
Reported net profit growth	(8.1)	55.0	43.3	2.4	1.7
Core net profit growth	(8.1)	55.0	43.3	2.4	1.7
<b>Profitability ratios (%)</b>					
EBITDA margin	13.1	18.1	21.0	20.4	19.8
EBIT margin	13.5	18.4	21.4	21.2	20.9
Pretax profit margin	9.5	14.5	17.6	17.0	16.4
Payout ratio	55.0	51.0	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	7.9	11.1	13.5	13.2	12.8
Revenue/Assets (x)	1.2	0.9	1.0	1.0	1.0
Assets/Equity (x)	1.4	1.7	1.6	1.6	1.5
ROAE (%)	13.3	18.6	23.5	21.5	19.7
ROAA (%)	9.8	12.1	14.2	13.4	12.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	38.6	36.4	39.5	41.8	41.8
Days receivable outstanding	45.8	48.7	52.3	55.4	55.4
Days inventory outstanding	42.0	41.4	42.3	44.8	44.8
Days payables outstanding	49.2	53.7	55.2	58.4	58.4
Dividend cover (x)	1.8	2.0	2.0	2.0	2.0
Current ratio (x)	1.7	1.6	1.7	1.9	2.1
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.6	2.5	2.6	2.7	2.9
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	na	na	na
Debt/EBITDA (x)	0.6	1.4	1.0	1.0	1.0
Capex/revenue (%)	6.7	9.7	6.7	5.8	5.5
Net debt/ (net cash)	(157.6)	(186.5)	(256.2)	(408.0)	(578.3)

Source: Company; Maybank

# UEM Sunrise (UEMS MK)

## Shift in focus

### Re-aligning strategy

UEMS is re-aligning its strategy to diversify its earnings base and avoid direct competition with the Chinese developers in the high-rise property segment in Iskandar Malaysia (IM). Upcoming launches will be more towards affordable landed residential properties. It is also actively looking to expand its landbank outside of IM. HOLD maintained - our MYR1.08 TP is based on a 60% discount to our estd. MYR2.78 RNAV/shr.

### Short-term focus on affordable landed properties

Given the weak property market outlook, UEMS has lowered its sales expectation for FY16 to MYR1.5b (-36% YoY) supported by MYR1.2b worth of new launches and MYR500m unsold inventory. Most of the new launches focus on the mid-market residential segment. These include terraces at Serene Heights (Bangi), Gerbang Nusajaya (IM), Melia Residences (IM) and Denai Nusantara (IM). It is also looking to launch its apartment project (MYR672m in GDV) in Melbourne in 2016.

### On the lookout for non-IM land

UEMS has been actively looking to expand its landbank outside of IM. It has entered into a JV agreement with WCT to jointly develop a 608.6-acre freehold land in Bandar Serendah, Ulu Selangor. The purchase is expected to be completed by mid-2016 and first phase of the project is slated to be launched by 2017. Apart from that, UEMS has also partnered with Mulpha International Bhd to jointly develop 231.4 acres of land in Gerbang Nusajaya into mixed development worth MYR5b in GDV.

### Potential surprises from land sales

UEMS is in talks for the disposal of a few parcels of land in Puteri Harbour, we understand. No further details are available at this juncture. In our forecasts, we have assumed MYR200m worth of strategic land sales in FY16. While we remain cautious on the IM property market, UEMS' landbank was secured at low valuations, which allows it to be more flexible in pricing and product launches amid stiffer competition.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	2,662	1,750	2,057	1,904	1,825
EBITDA	527	300	496	451	399
Core net profit	480	257	310	267	261
Core FDEPS (sen)	10.6	5.2	6.2	5.4	5.2
Core FDEPS growth(%)	(18.8)	(51.1)	20.5	(13.7)	(2.5)
Net DPS (sen)	3.0	1.6	1.9	1.6	1.6
Core FD P/E (x)	10.5	21.4	17.8	20.6	21.2
P/BV (x)	0.8	0.7	0.7	0.7	0.7
Net dividend yield (%)	2.7	1.4	1.7	1.5	1.4
ROAE (%)	7.8	3.9	4.5	3.7	3.6
ROAA (%)	4.6	2.2	2.6	2.2	2.1
EV/EBITDA (x)	16.1	24.0	14.4	17.4	19.4
Net debt/equity (%)	25.6	25.6	24.8	34.0	31.8
Consensus net profit	-	-	312	326	336
MKE vs. Consensus (%)	-	-	(0.7)	(18.0)	(22.5)

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# HOLD

Share Price MYR 1.11  
 12m Price Target MYR 1.08 (-2%)  
 Previous Price Target MYR 1.08

### Company Description

UEM Sunrise Bhd engages in the township and property development businesses.

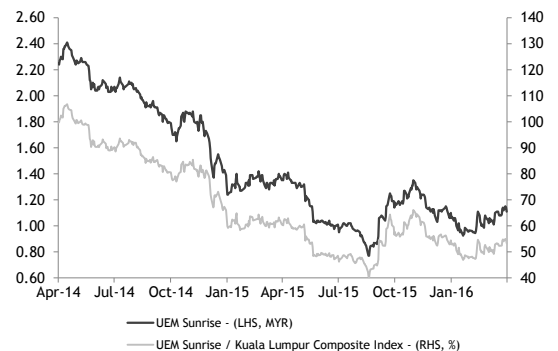
### Statistics

Shariah status	Yes
52w high/low (MYR)	1.41/0.77
3m avg turnover (USDm)	1.6
Free float (%)	33.9
Issued shares (m)	4,537
Market capitalisation	MYR5.0B
	USD1.3B

### Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	66.1%
Lembaga Tabung Haji	6.8%
Employees Provident Fund	4.9%

### Price Performance



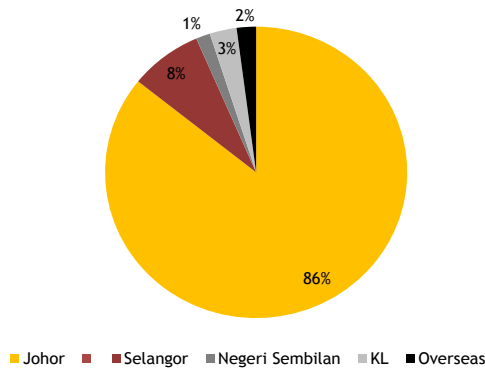
	-1M	-3M	-12M
Absolute (%)	5	1	(18)
Relative to index (%)	3	(2)	(12)

Source: FactSet

## Value Proposition

- One of the largest land owners in Iskandar Malaysia (IM), Johor. 86% of remaining GDV is derived from Johor state, followed by Selangor (8%), KL (3%), overseas (2%).
- In view of the increasingly crowded development space in IM and to diversify its earnings base, UEMS is on the lookout for land outside of Nusajaya.
- For Nusajaya projects, near-term launches will be more towards affordable landed properties to avoid direct competition with the Chinese developers.

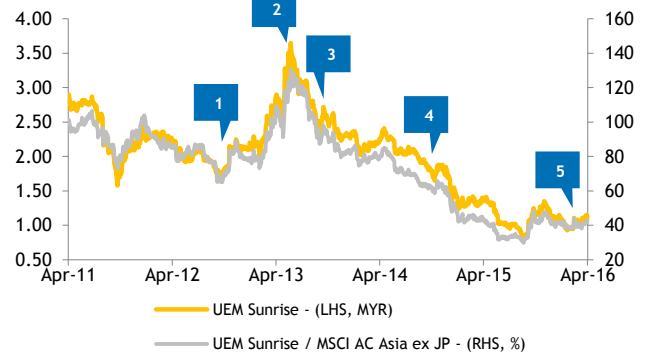
### GDV breakdown by location



Source: Company

## Price Drivers

### Historical Share Price Trend



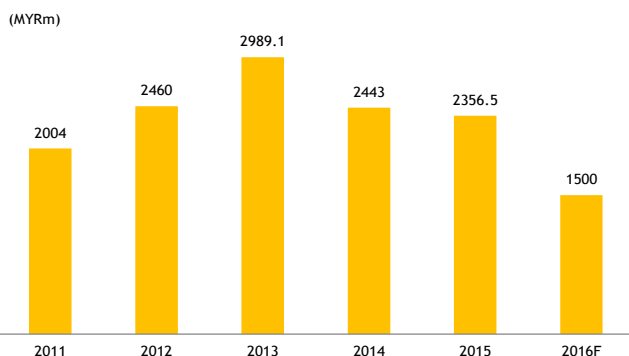
Source: Company, Maybank Kim Eng

1. JV with Singaporean partner (Ascendas) to jointly develop 519-acre industrial land in Gerbang Nusajaya JV with Singaporean partner (Ascendas) to jointly develop 519-acre industrial land in Gerbang Nusajaya.
2. Iskandar Malaysia was in the spotlight and garnered strong interest with increasing involvement of local and foreign companies in the property space.
3. Aggressive property launches by the Chinese developers led to concerns over a supply glut.
4. Slowdown is more evident in Iskandar Malaysia following property cooling measures implemented in Jan 2014.
5. Unsold inventory and incoming supply on the rise, based on latest NAPIC statistics.

## Financial Metrics

- Lower sales target of MYR1.5b set for FY16 (-36% YoY) amid weaker market outlook with MYR1.2b worth of new property launches and MYR500m unsold inventory.
- We expect FY16 net profit to grow 21% YoY mainly driven by land sales in Puteri Harbour but for growth to moderate in FY17 and FY18 on slower land sales and lower margins (higher marketing costs).
- Unbilled revenue stood at MYR4.7b in end-Dec 2015 (2.7x of our FY16F revenue), providing medium-term earnings visibility. Net gearing was healthy at 0.26x end-4Q15.

### Historical sales trend and sales target for 2016



Source: Company

## Swing Factors

### Upside

- Potential RNAV-accretive land acquisitions.
- Stronger-than-expected take-up rates for its ongoing and new projects in Iskandar Malaysia.

### Downside

- A prolonged slowdown in the property sector.
- Stiffer competition in Iskandar Malaysia.
- Weaker-than-expected operating margins on higher marketing expenses.
- Currency risks.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	10.5	19.6	16.3	18.8	19.3
Core P/E (x)	10.5	19.6	16.3	18.8	19.3
Core FD P/E (x)	10.5	21.4	17.8	20.6	21.2
P/BV (x)	0.8	0.7	0.7	0.7	0.7
P/NTA (x)	0.9	0.8	0.8	0.8	0.7
Net dividend yield (%)	2.7	1.4	1.7	1.5	1.4
FCF yield (%)	nm	17.6	9.0	8.2	8.3
EV/EBITDA (x)	16.1	24.0	14.4	17.4	19.4
EV/EBIT (x)	16.3	24.5	14.6	17.6	19.8

**INCOME STATEMENT (MYR m)**

Revenue	2,661.7	1,749.9	2,056.6	1,903.8	1,824.8
Gross profit	825.3	525.2	822.7	761.5	729.9
EBITDA	527.1	299.6	495.7	451.5	399.0
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	520.5	293.1	489.2	445.0	392.5
Net interest income / (exp)	(45.9)	(73.9)	(117.4)	(150.4)	(147.9)
Associates & JV	134.5	123.8	41.4	63.1	109.2
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	609.2	343.0	413.1	357.7	353.8
Income tax	(129.4)	(86.0)	(103.3)	(89.4)	(88.5)
Minorities	0.2	0.2	0.0	(0.9)	(4.7)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	479.9	257.2	309.8	267.3	260.7
Core net profit	479.9	257.2	309.8	267.3	260.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	739.3	1,005.6	1,005.6	921.9	1,002.8
Accounts receivable	2,761.5	1,248.2	2,133.8	1,975.2	1,893.2
Inventory	176.6	403.1	136.5	126.3	121.1
Property, Plant & Equip (net)	218.2	234.1	1,329.5	1,423.0	1,516.5
Intangible assets	621.4	621.4	621.4	621.4	621.4
Investment in Associates & JVs	1,077.6	1,631.6	1,631.6	1,631.6	1,631.6
Other assets	5,515.3	6,657.5	5,533.2	5,730.0	5,639.3
<b>Total assets</b>	<b>11,109.9</b>	<b>11,801.6</b>	<b>12,391.5</b>	<b>12,429.5</b>	<b>12,425.8</b>
ST interest bearing debt	238.4	523.0	523.0	523.0	523.0
Accounts payable	584.7	656.8	451.8	351.9	176.9
LT interest bearing debt	2,119.7	2,227.6	2,227.6	2,853.3	2,835.3
Other liabilities	1,348.0	1,225.0	1,795.0	1,113.0	1,113.0
<b>Total Liabilities</b>	<b>4,291.3</b>	<b>4,632.7</b>	<b>4,997.7</b>	<b>4,841.5</b>	<b>4,648.5</b>
Shareholders Equity	6,332.8	6,808.6	7,033.5	7,227.7	7,416.9
Minority Interest	485.8	360.3	360.3	360.3	360.3
<b>Total shareholder equity</b>	<b>6,818.6</b>	<b>7,168.9</b>	<b>7,393.9</b>	<b>7,588.0</b>	<b>7,777.3</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>11,109.9</b>	<b>11,801.6</b>	<b>12,391.5</b>	<b>12,429.5</b>	<b>12,425.8</b>

**CASH FLOW (MYR m)**

Pretax profit	609.2	343.0	413.1	357.7	353.8
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	27.6	19.4	117.4	150.4	147.9
Change in working capital	0.0	0.0	0.0	0.0	0.0
Cash taxes paid	(209.4)	(288.5)	(86.0)	(103.3)	(89.4)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(103.1)	886.8	451.0	411.3	418.8
Capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	(103.1)	886.8	451.0	411.3	418.8
Dividends paid	(181.5)	(136.1)	(72.6)	(84.9)	(73.2)
Equity raised / (purchased)	35.3	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	415.6	373.5	0.0	0.0	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(787.8)	(866.0)	(217.1)	(217.1)	(217.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(621.4)	258.1	161.3	109.4	128.4

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	9.7	(34.3)	17.5	(7.4)	(4.2)
EBITDA growth	(11.4)	(43.2)	65.5	(8.9)	(11.6)
EBIT growth	(11.5)	(43.7)	66.9	(9.0)	(11.8)
Pretax growth	(11.2)	(43.7)	20.4	(13.4)	(1.1)
Reported net profit growth	(17.1)	(46.4)	20.5	(13.7)	(2.5)
Core net profit growth	(17.1)	(46.4)	20.5	(13.7)	(2.5)
<b>Profitability ratios (%)</b>					
EBITDA margin	19.8	17.1	24.1	23.7	21.9
EBIT margin	19.6	16.7	23.8	23.4	21.5
Pretax profit margin	22.9	19.6	20.1	18.8	19.4
Payout ratio	28.4	28.2	27.4	27.4	27.4
<b>DuPont analysis</b>					
Net profit margin (%)	18.0	14.7	15.1	14.0	14.3
Revenue/Assets (x)	0.2	0.1	0.2	0.2	0.1
Assets/Equity (x)	1.8	1.7	1.8	1.7	1.7
ROAE (%)	7.8	3.9	4.5	3.7	3.6
ROAA (%)	4.6	2.2	2.6	2.2	2.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	218.2	315.2	213.0	303.3	335.3
Days receivable outstanding	308.9	412.5	296.0	388.5	381.6
Days inventory outstanding	27.7	85.2	78.7	41.4	40.7
Days payables outstanding	118.4	182.5	161.7	126.6	86.9
Dividend cover (x)	3.5	3.5	3.7	3.7	3.7
Current ratio (x)	4.2	3.2	2.3	3.9	4.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.6	2.5	2.5	2.6	2.7
Net debt/equity (%)	25.6	25.6	24.8	34.0	31.8
Net interest cover (x)	11.4	4.0	4.2	3.0	2.7
Debt/EBITDA (x)	4.5	9.2	5.5	7.5	8.4
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	1,618.8	1,745.0	1,745.0	2,454.3	2,355.5

Source: Company; Maybank

# UMW Holdings (UMWH MK)

## Double whammy

# SELL

Share Price MYR 6.80  
 12m Price Target MYR 5.70 (-16%)  
 Previous Price Target MYR 5.70

### Externally induced volatility, weak consumer

Two of UMWH's key divisions, auto and O&G, have been affected by the externally induced volatility - weak MYR and oil prices. Besides a weak MYR which escalated auto import costs, subdued consumer sentiment is also affecting car sales (2M16 Toyota sales: -35% YoY). Underutilisation of its O&G jack-up rigs is another key risk to UMWH's forward earnings. Valuations are stretched at 24x FY16 PER (+1SD); reiterate SELL with an unchanged SOP-TP of MYR5.70.

### Weak MYR escalated auto import costs

Historically, UMWH derives ~70%/90% of its revenue/pretax profit from its auto division where all of the imported Toyota CKD kits (~20% of UMWH's COGS) are denominated in USD. The jump in the USD/MYR rate to 3.91 average for 2015 (+20% from 3.27 average in 2014) led to margin erosion for UMWH; FY15 auto pretax profit fell 42% YoY despite flattish revenue. FY16 remains challenging. Besides a still weak MYR, auto sales are declining with Jan-Feb 2016 TIV down 18% YoY, dragging Toyota sales (-35% YoY). Near term, Toyota lacks attractive launches to lift sales.

### O&G: Risk remains on the downside

The magnitude of the recent rebound in oil prices may not be sufficient to revive exploration activities - still negative for 55.7%-owned UMWOG's jack-up (JU) rigs utilization (50% of its fleet idle in 4Q15). We do not rule out further kitchen-sinking (impairment) in the future. With a relatively young JU rig fleet, underutilization, coupled with high depreciation and interest costs, will likely keep UMWH's O&G operations in the red.

### Potential fallout from FBMKLCI?

UMWH is at risk of being dropped out as a constituent stock of the FBMKLCI in the May 2016 review as it is currently ranked 41st in terms of market capitalisation. UMWH's high capex commitment for its entry into the aerospace engineering, amid challenges faced by its existing key divisions, may result in dividend cuts. With no fresh catalyst in sight to re-rate the stock, we remain SELLers of UMWH.

### Company Description

UMW Holdings operates 4 core division: Auto (Toyota franchise in Msia), O&G (55.7%-stake in UMW O&G), Equipment and M&E.

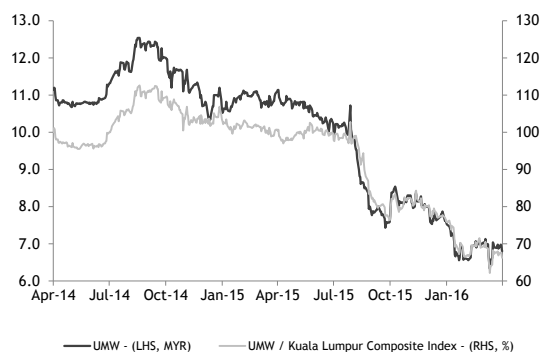
### Statistics

Shariah status	Yes
52w high/low (MYR)	11.14/6.33
3m avg turnover (USDm)	1.6
Free float (%)	94.0
Issued shares (m)	1,168
Market capitalisation	MYR7.9B USD2.0B

### Major shareholders:

Employees Provident Fund	17.7%
Bumiputra Investment Foundation	5.7%
Public Mutual Bhd.	2.3%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(3)	(10)	(39)
Relative to index (%)	(4)	(13)	(34)

Source: FactSet

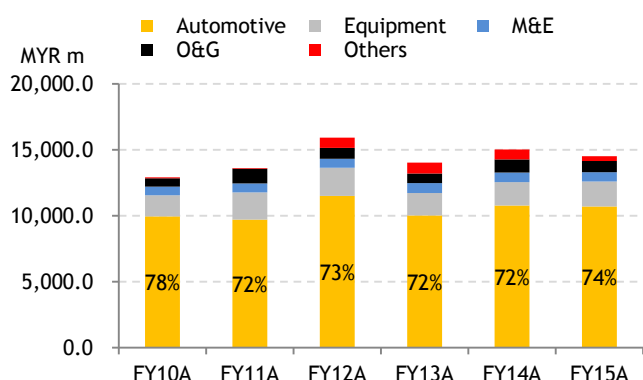
FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	14,932	14,420	11,775	12,361	12,753
EBITDA	1,812	499	989	1,038	1,043
Core net profit	850	216	329	375	412
Core EPS (sen)	72.8	18.5	28.2	32.1	35.2
Core EPS growth (%)	13.0	(74.6)	52.4	14.0	9.8
Net DPS (sen)	41.0	25.0	16.9	19.3	21.1
Core P/E (x)	9.3	36.8	24.1	21.2	19.3
P/BV (x)	1.2	1.2	1.2	1.2	1.2
Net dividend yield (%)	6.0	3.7	2.5	2.8	3.1
ROAE (%)	13.2	3.3	5.1	5.7	6.1
ROAA (%)	5.5	1.2	1.9	2.2	2.5
EV/EBITDA (x)	9.1	30.7	13.9	13.1	12.9
Net debt/equity (%)	12.4	51.5	44.5	38.5	32.8
Consensus net profit	-	-	387	499	462
MKE vs. Consensus (%)	-	-	(14.9)	(24.8)	(11.0)

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## Value Proposition

- Owns 51% of distributor for Toyota cars (No.2 biggest car brand), 38% in Perodua (largest passenger car marque) and 55.7% in the biggest listed jack-up rig operator (UMWOG).
- Auto:
  - Contributes ~70%/~90% of revenue/pretax profit.
  - Annual returns hinge on product offering to stimulate sales volume. USD/MYR fluctuations dictate margins.
  - Weak consumer sentiment (sales impact) and volatile USD/MYR (margin impact) are key challenges.
- O&G: Subdued oil prices discourage exploration activities; negative for UMWOG's JU rig utilisation and DCRs.
- Gearing rose to 0.5x end-2015 from 0.1x end-2014 on the delivery of new JU rigs and weaker cashflow generation at its auto division.

### UMWH revenue breakdown

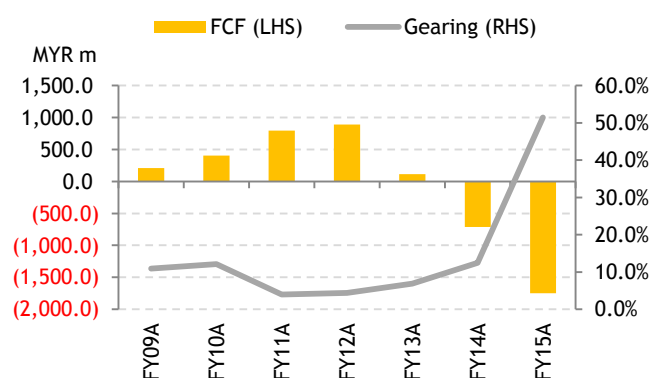


Source: Company

## Financial Metrics

- Car sales volume growth and stable USD/MYR forex are key to UMWH's auto earnings.
- Stabilising USD/MYR at ~4.10 would cap forward auto pretax margins at 7+, ceteris paribus. Recovery in volume production could restore economies of scale.
- UMWOG's new JU fleet is a drag to P&L (high depreciation and interest costs) in an environment of low exploration activity.
- Cashflow management and capital preservation amid challenging operating environment are keys to survival.

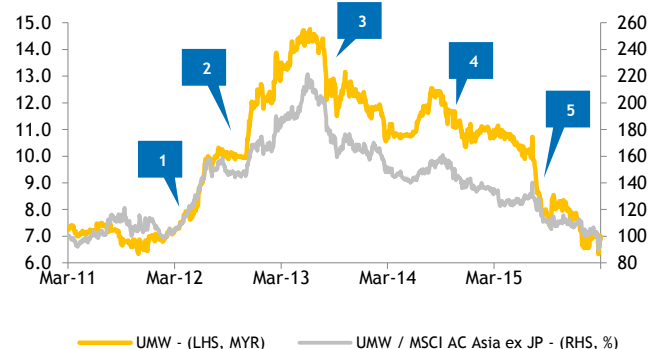
### FCF vs Gearing



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank Kim Eng

- Recovery in car sales (Toyota and Perodua) and market sentiment following a supply chain disruption caused by an earthquake in Japan and flood in Thailand.
- Record Toyota car sales followed by positive recovery in UMWH's O&G division.
- Profit taking after announcement of UMW O&G's listing.
- Negative surprise in UMWH's non-core O&G division which reported significant losses.
- MYR's drastic weakening against USD poses concern over UMWH's auto margins (all Toyota's imported components denominated in USD).

## Swing Factors

### Upside

- Forex: MYR's recovery against USD - positive cost impact.
- Increased localisation of popular CKD models will reduce forex exposure and fluctuation in auto profit margins.
- Recovery in oil prices should see exploration activities pick up again; improving utilisation/DCRs for JU rigs.
- Pick-up in construction and mining activities would strengthen demand for UMWH's equipment division.

### Downside

- Aggressive competition in the form of better auto models or pricing by other marques.
- Sustained weakness in oil prices would prolong UMWOG's JU rigs in idle state, extending losses.
- Potential drop off from the FBMKLCI if UMWH ranks below the top 36 companies by market cap at the May 2016 review.





FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	12.2	(204.1)	24.1	21.2	19.3
Core P/E (x)	9.3	36.8	24.1	21.2	19.3
P/BV (x)	1.2	1.2	1.2	1.2	1.2
P/NTA (x)	1.2	1.2	1.2	1.2	1.2
Net dividend yield (%)	6.0	3.7	2.5	2.8	3.1
FCF yield (%)	nm	nm	4.8	4.6	5.0
EV/EBITDA (x)	9.1	30.7	13.9	13.1	12.9
EV/EBIT (x)	11.5	nm	29.6	25.8	24.8

**INCOME STATEMENT (MYR m)**

Revenue	14,932.5	14,419.8	11,774.8	12,360.9	12,753.4
Gross profit	4,153.9	21.4	2,595.5	2,756.0	2,838.2
EBITDA	1,811.7	499.5	989.2	1,038.4	1,043.0
Depreciation	(378.6)	(364.4)	(522.7)	(511.6)	(501.2)
Amortisation	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	1,432.9	134.9	466.3	526.6	541.6
Net interest income / (exp)	48.9	0.6	(3.3)	(1.4)	(1.7)
Associates & JV	139.6	130.1	155.9	165.8	203.7
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	1,621.5	265.6	618.9	690.9	743.6
Income tax	(408.5)	(259.9)	(171.3)	(182.5)	(186.3)
Minorities	(561.0)	(44.6)	(118.6)	(133.3)	(145.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	652.0	(38.9)	329.0	375.1	411.7
Core net profit	850.3	215.9	329.0	375.1	411.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	3,370.7	2,728.3	2,390.5	1,996.6	1,597.8
Accounts receivable	2,090.4	1,738.9	1,755.9	1,820.2	1,863.2
Inventory	1,830.4	1,891.6	1,508.9	1,578.9	1,629.9
Property, Plant & Equip (net)	5,669.7	8,132.7	7,959.9	7,798.3	7,647.1
Intangible assets	25.6	38.3	38.1	38.0	37.8
Investment in Associates & JVs	1,857.4	1,950.5	2,006.1	2,071.7	2,175.3
Other assets	1,675.5	1,600.5	1,600.5	1,600.5	1,600.5
<b>Total assets</b>	<b>16,519.7</b>	<b>18,080.6</b>	<b>17,260.0</b>	<b>16,904.1</b>	<b>16,551.4</b>
ST interest bearing debt	2,386.7	3,237.9	2,837.9	2,437.9	2,037.9
Accounts payable	2,217.0	2,230.3	1,886.2	1,973.6	2,037.4
LT interest bearing debt	1,803.0	2,782.5	2,455.8	2,129.1	1,802.4
Other liabilities	680.0	606.0	606.0	606.0	606.0
<b>Total Liabilities</b>	<b>7,086.6</b>	<b>8,856.7</b>	<b>7,785.9</b>	<b>7,146.6</b>	<b>6,483.7</b>
Shareholders Equity	6,580.5	6,396.9	6,528.4	6,678.5	6,843.2
Minority Interest	2,852.6	2,827.1	2,945.7	3,079.0	3,224.6
<b>Total shareholder equity</b>	<b>9,433.1</b>	<b>9,223.9</b>	<b>9,474.1</b>	<b>9,757.5</b>	<b>10,067.8</b>
<b>Total liabilities and equity</b>	<b>16,519.7</b>	<b>18,080.6</b>	<b>17,260.0</b>	<b>16,904.1</b>	<b>16,551.4</b>

**CASH FLOW (MYR m)**

Pretax profit	1,621.5	265.6	618.9	690.9	743.6
Depreciation & amortisation	378.7	364.6	522.9	511.8	501.4
Adj net interest (income)/exp	(94.1)	(120.8)	(106.2)	(91.6)	(77.1)
Change in working capital	(149.1)	(134.2)	21.5	(46.7)	(30.3)
Cash taxes paid	(418.3)	(275.5)	(171.3)	(182.5)	(186.3)
Other operating cash flow	26.2	275.6	(152.6)	(164.3)	(202.0)
Cash flow from operations	1,364.9	375.3	733.2	717.5	749.4
Capex	(2,185.5)	(2,168.8)	(350.0)	(350.0)	(350.0)
Free cash flow	(820.6)	(1,793.5)	383.2	367.5	399.4
Dividends paid	(947.2)	(806.1)	(197.4)	(225.1)	(247.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,150.7	1,692.3	(726.7)	(726.7)	(726.7)
Other invest/financing cash flow	1,739.4	137.4	100.2	100.2	100.2
Effect of exch rate changes	6.4	0.2	(0.2)	0.0	0.0
<b>Net cash flow</b>	<b>1,128.8</b>	<b>(769.6)</b>	<b>(440.9)</b>	<b>(484.1)</b>	<b>(474.2)</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	7.0	(3.4)	(18.3)	5.0	3.2
EBITDA growth	11.7	(72.4)	98.0	5.0	0.4
EBIT growth	10.5	(90.6)	245.7	12.9	2.8
Pretax growth	12.9	(83.6)	133.0	11.6	7.6
Reported net profit growth	(0.1)	nm	nm	14.0	9.8
Core net profit growth	13.0	(74.6)	52.4	14.0	9.8
<b>Profitability ratios (%)</b>					
EBITDA margin	12.1	3.5	8.4	8.4	8.2
EBIT margin	9.6	0.9	4.0	4.3	4.2
Pretax profit margin	10.9	1.8	5.3	5.6	5.8
Payout ratio	73.5	nm	60.0	60.0	60.0
<b>DuPont analysis</b>					
Net profit margin (%)	4.4	nm	2.8	3.0	3.2
Revenue/Assets (x)	0.9	0.8	0.7	0.7	0.8
Assets/Equity (x)	2.5	2.8	2.6	2.5	2.4
ROAE (%)	13.2	3.3	5.1	5.7	6.1
ROAA (%)	5.5	1.2	1.9	2.2	2.5
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	35.8	38.7	39.4	37.6	37.4
Days receivable outstanding	47.6	47.8	53.4	52.1	52.0
Days inventory outstanding	59.9	46.5	66.7	57.9	58.3
Days payables outstanding	71.6	55.6	80.7	72.3	72.8
Dividend cover (x)	1.4	(0.1)	1.7	1.7	1.7
Current ratio (x)	1.7	1.3	1.4	1.4	1.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.3	2.0	2.2	2.4	2.6
Net debt/equity (%)	12.4	51.5	44.5	38.5	32.8
Net interest cover (x)	na	na	nm	nm	nm
Debt/EBITDA (x)	2.3	12.1	5.4	4.4	3.7
Capex/revenue (%)	14.6	15.0	3.0	2.8	2.7
Net debt/ (net cash)	819.1	3,292.2	2,903.3	2,570.4	2,242.6

Source: Company; Maybank

# ViTrox Corporation (VITRO MK)

## Best is yet to come

### “Cabin crew, prepare for take-off”

Having developed a strong product line-up in the inspection equipment space, ViTrox is now focused on expanding its global customer base. Recent qualification by two of the world’s Top 10 EMS players is a testament to ViTrox’ advanced technology (particularly x-ray inspection). Chunky orders/backlog in 1Q16 (typically the weakest quarter) is indicative of a potential blow-out year; offering upside to our forecasts. BUY with a MYR4.00 TP, pegged to 14x CY17 EPS (+1SD from mean).

### A record high 1Q16 in the making?

As at 19 Feb, purchase orders have hit MYR32m for the YTD while order backlog stands strong at MYR26m vs MYR17m a quarter ago; book-to-bill ratio improved to 1.4x in Jan 2016 from 1.1x in Oct 2015. We expect 1Q16 revenue to hit MYR55m-60m (+c.20% QoQ, +1.5x YoY) driven by the MVS-T division (27%/12% of FY14/15 revenue), delivering 12-15 units in 1Q16 vs just 18 units in FY15. Also, 1Q has typically been the weakest quarter for ViTrox; as such, sequential quarters could see further pick-up in demand (2Q and 3Q are historically ViTrox’s strongest quarters).

### Decent forward prospects

As a leading automated vision equipment maker strategically located in Penang, ViTrox may also benefit from multi-billion Ringgit FDIs into Penang (esp Batu Kawan) by technology MNCs such as Osram and SanDisk. ViTrox’s venture into data analytics should strengthen recurring revenue for the group (2015 service income: +66% YoY to MYR17.4m/11% of group revenue). Meanwhile, ViTrox remains at the forefront to capture upgrade/replacement demand for ~400 units of AXI (~MYR150m order p.a. for the next 3 years) which provides some earnings visibility.

### Inexpensive valuation

Strong order pipeline offers upside potential to our conservative forecast for FY16. Ex-cash (MYR60m net cash as at end-Dec 2015), ViTrox trades at 12x CY16 EPS which is undemanding. Reiterate BUY.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	170	160	221	245	245
EBITDA	54	59	72	79	79
Core net profit	50	51	66	67	64
Core EPS (sen)	21.5	21.8	28.2	28.6	27.3
Core EPS growth (%)	135.6	1.5	29.2	1.5	(4.3)
Net DPS (sen)	6.0	6.2	8.1	8.2	7.8
Core P/E (x)	16.6	16.3	12.6	12.5	13.0
P/BV (x)	4.8	4.0	3.3	2.8	2.4
Net dividend yield (%)	1.7	1.8	2.3	2.3	2.2
ROAE (%)	32.9	26.8	28.5	24.0	19.7
ROAA (%)	25.5	21.3	21.3	16.4	13.1
EV/EBITDA (x)	8.9	12.7	11.2	10.2	9.9
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Consensus net profit	-	-	66	67	64
MKE vs. Consensus (%)	-	-	0.6	(0.0)	(0.0)

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# BUY

Share Price	MYR 3.56
12m Price Target	MYR 4.00 (+12%)
Previous Price Target	MYR 4.00

### Company Description

Leading global automated inspection equipment manufacturer for >150 global EMS and semiconductor companies with key expertise in X-ray inspection.

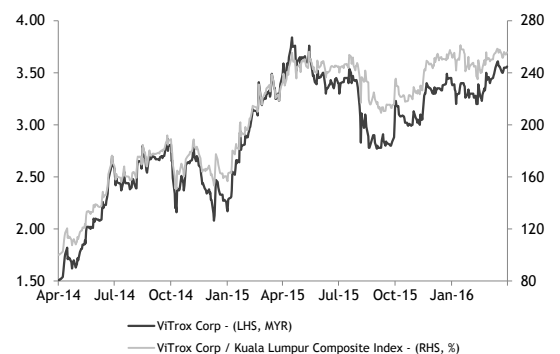
### Statistics

Shariah status	Yes
52w high/low (MYR)	3.84/2.77
3m avg turnover (USDm)	0.2
Free float (%)	23.4
Issued shares (m)	234
Market capitalisation	MYR832.0M USD212M

### Major shareholders:

CHU JENN WENG	27.8%
SIAW KOK TONG	19.8%
YEOH SHIH HOONG	10.6%

### Price Performance



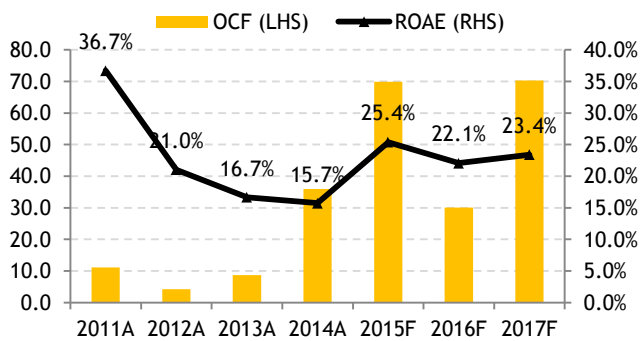
	-1M	-3M	-12M
Absolute (%)	4	3	3
Relative to index (%)	2	0	10

Source: FactSet

## Value Proposition

- Leading global automated inspection equipment manufacturer for >150 global EMS and semiconductor companies with key expertise in X-ray inspection.
- Equipment demand rides on the wave of inspection automation where chips and circuit boards are increasingly complex and players strive for precision and efficiency.
- ViTrox is also a beneficiary of the replacement of old Agilent AXI equipment which are reaching the tail-end of their replacement cycle.
- Expansion plans supported by its net cash war-chest (MYR60m at end Dec-15). Capex spending to average MYR50m for next three years. ROAE sustainable at ~20+%.

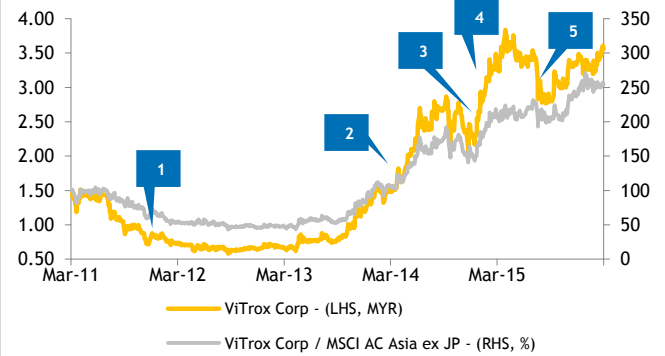
### OCF vs ROAE



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



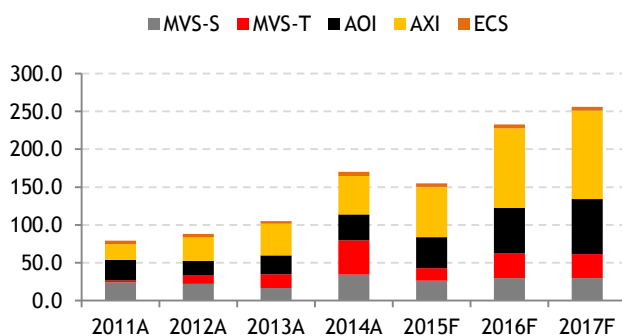
Source: Company, Maybank Kim Eng

1. ViTrox recorded weaker YoY earnings for 3 consecutive quarters in FY11 amid weaker equipment demand.
2. FY13 revenue breached the MYR100m mark, with ABI division (AOI and AXI equipment) contributing 64% to revenue.
3. Profit-taking by investors driven by a good run in share price (+136% from Jan 2014 to Oct 2014).
4. Net profit more than doubled to MYR50m in FY14 supported by (i) stronger demand for AXI and MVS products and (ii) strengthening USD.
5. Weak results due to poor MVS-T demand.

## Financial Metrics

- Annual returns hinge on capex cycle of EMS/semiconductor players.
- New products with upgraded specifications through cutting edge technology and penetration into new markets are key drivers of market share and minimise ASP erosion.
- Strengthening USD (~80%/~30%, revenue/COGS in USD) and economies of scale will aid in margin expansion.
- Recently renewed pioneer status will allow ViTrox to sustain its net margins.

### Revenue breakdown



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Strengthening of USD against MYR - positive revenue boost.
- Potential spike in orders from EMS/semiconductor players.
- Tail-end of replacement cycle for old Agilent AXI equipment - estimated value of up to USD80m worth of sales to old Agilent clients (~250 machines).

### Downside

- ViTrox's technology is susceptible to patent infringement and technology imitation.
- Weak equipment demand from semiconductor players due to cyclical nature of business.
- Failure to renew pioneer status in 2025 would see lower profitability on higher tax expenses.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	17.0	18.9	12.6	12.5	13.0
Core P/E (x)	16.6	16.3	12.6	12.5	13.0
P/BV (x)	4.8	4.0	3.3	2.8	2.4
P/NTA (x)	4.8	4.0	3.3	2.8	2.4
Net dividend yield (%)	1.7	1.8	2.3	2.3	2.2
FCF yield (%)	3.5	1.9	nm	2.2	4.6
EV/EBITDA (x)	8.9	12.7	11.2	10.2	9.9
EV/EBIT (x)	9.7	13.7	11.9	11.7	11.9
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	169.9	160.3	220.8	244.5	244.6
Gross profit	109.7	103.4	142.4	157.7	157.7
EBITDA	53.5	58.9	71.7	78.7	79.2
Depreciation	(3.0)	(2.9)	(3.2)	(8.8)	(12.0)
Amortisation	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
EBIT	49.3	54.8	67.3	68.7	65.9
Net interest income / (exp)	0.7	0.9	(0.3)	(0.7)	(0.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	50.0	55.7	67.0	68.0	65.0
Income tax	(0.9)	(11.4)	(0.7)	(0.7)	(0.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	49.1	44.3	66.3	67.3	64.4
Core net profit	50.3	51.3	66.3	67.3	64.4
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	60.6	64.0	93.0	127.2	178.3
Accounts receivable	69.9	75.7	89.9	99.3	99.3
Inventory	50.3	56.6	65.4	72.4	72.4
Property, Plant & Equip (net)	35.0	35.8	97.6	133.8	161.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	12.0	23.2	22.0	20.8	19.6
<b>Total assets</b>	<b>227.8</b>	<b>255.3</b>	<b>367.9</b>	<b>453.5</b>	<b>531.4</b>
ST interest bearing debt	1.4	1.7	1.7	1.7	1.7
Accounts payable	38.8	28.9	42.2	43.8	43.8
LT interest bearing debt	3.2	2.2	54.2	90.2	122.2
Other liabilities	10.0	14.0	14.0	14.0	14.0
<b>Total Liabilities</b>	<b>52.9</b>	<b>46.3</b>	<b>111.6</b>	<b>149.2</b>	<b>181.2</b>
Shareholders Equity	174.8	208.9	256.3	304.3	350.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>174.8</b>	<b>208.9</b>	<b>256.3</b>	<b>304.3</b>	<b>350.2</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>227.8</b>	<b>255.3</b>	<b>367.9</b>	<b>453.5</b>	<b>531.4</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	50.0	55.7	67.0	68.0	65.0
Depreciation & amortisation	4.2	4.1	4.4	10.0	13.3
Adj net interest (income)/exp	(0.7)	(0.9)	0.3	0.7	0.9
Change in working capital	(14.4)	(31.2)	(9.8)	(14.8)	(0.0)
Cash taxes paid	(1.6)	(6.0)	(0.7)	(0.7)	(0.7)
Other operating cash flow	(1.9)	(0.8)	0.0	0.0	0.0
Cash flow from operations	35.7	20.8	61.3	63.2	78.5
Capex	(6.3)	(4.5)	(65.0)	(45.0)	(40.0)
Free cash flow	29.4	16.3	(3.7)	18.2	38.5
Dividends paid	(7.0)	(14.0)	(19.0)	(19.3)	(18.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(4.6)	0.0	52.0	36.0	32.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	2.3	1.4	(0.3)	(0.7)	(0.9)
Effect of exch rate changes	1.4	6.6	0.0	0.0	0.0
<b>Net cash flow</b>	<b>21.5</b>	<b>10.4</b>	<b>29.0</b>	<b>34.2</b>	<b>51.2</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	60.2	(5.7)	37.7	10.8	0.0
EBITDA growth	96.5	10.1	21.8	9.7	0.7
EBIT growth	102.1	11.2	22.8	2.1	(4.0)
Pretax growth	101.6	11.4	20.2	1.5	(4.3)
Reported net profit growth	104.1	(9.7)	49.6	1.5	(4.3)
Core net profit growth	138.9	2.0	29.2	1.5	(4.3)
<b>Profitability ratios (%)</b>					
EBITDA margin	31.5	36.7	32.5	32.2	32.4
EBIT margin	29.0	34.2	30.5	28.1	27.0
Pretax profit margin	29.4	34.8	30.3	27.8	26.6
Payout ratio	28.6	33.2	28.6	28.6	28.6
<b>DuPont analysis</b>					
Net profit margin (%)	28.9	27.7	30.0	27.5	26.3
Revenue/Assets (x)	0.7	0.6	0.6	0.5	0.5
Assets/Equity (x)	1.3	1.2	1.4	1.5	1.5
ROAE (%)	32.9	26.8	28.5	24.0	19.7
ROAA (%)	25.5	21.3	21.3	16.4	13.1
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	221.9	287.2	251.8	246.8	264.9
Days receivable outstanding	128.9	163.5	135.1	139.3	146.2
Days inventory outstanding	260.5	337.9	280.0	285.6	300.2
Days payables outstanding	167.5	214.2	163.3	178.2	181.5
Dividend cover (x)	3.5	3.0	3.5	3.5	3.5
Current ratio (x)	4.1	5.5	5.1	5.9	6.8
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	4.3	5.5	3.3	3.0	2.9
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Net interest cover (x)	na	na	nm	97.6	71.9
Debt/EBITDA (x)	0.1	0.1	0.8	1.2	1.6
Capex/revenue (%)	3.7	2.8	29.4	18.4	16.4
Net debt/ (net cash)	(56.0)	(60.1)	(37.1)	(35.3)	(54.4)

Source: Company; Maybank

# Westports Holdings (WPRTS MK)

## A world-class port

### Limited catalysts for now

A world-class port serving the busy Straits of Malacca transshipment market and the gateway Klang Valley market. The port is nearing maturity and has industry-high financial (EBITDA and ROE) parameters. We project a 2-year net profit CAGR of 12%, premised on the full year impact of higher local container tariffs in 2015, a lower tax rate and modest throughput growth of 3% p.a.. Trading at above industry average 2016 PER of 23x, we think the market has already priced in its superior quality. We have a HOLD call and DCF-derived TP of MYR4.30.

### Rebound in global trade would be a catalyst

Amid the slowdown in global trade, we project Westports' throughput to grow at a slower rate of 3% p.a. (2015: +8% YoY). Hence, a rebound in global trade could provide upside to our earnings estimates. Additionally, a higher transshipment handling rate could also lift its earnings as our model assumes no increase in transshipment handling rates. As the MYR has weakened substantially against the USD, Malaysia's handling rates are at a bigger discount to its neighbouring port PSA.

### 18% EPS growth in 2016

We project Westports' net profit to grow 18% in 2016, underpinned by the full year impact of higher local container tariffs in 2015, and a lower effective tax rate of 15% (2015: 23%), with extension of the Investment Tax Allowance it received end-2015. Meanwhile, we expect newsflows in regards to its key customer CMA CGM to gain traction in 2H16 as CMA CGM may form a new alliance, which will have implications to Westports; the present O3 alliance uses Westports as its hub in South East Asia.

### Much is priced in

We value Westports on DCF with a WACC of 6.7% and a growth rate of 2% in 2025-2054. Key risks to our earnings/valuation include a sharp fall in global throughput and an unfavourable formation of alliances, which may see some of its hub customers leaving Westports.

FYE Dec (MYR m)	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	1,503	1,578	1,693	1,770	1,886
EBITDA	801	869	940	1,017	1,090
Core net profit	512	505	596	628	627
Core EPS (sen)	15.0	14.8	17.5	18.4	18.4
Core EPS growth (%)	17.7	(1.4)	18.1	5.3	(0.1)
Net DPS (sen)	11.3	11.1	13.1	13.8	13.8
Core P/E (x)	28.1	28.5	24.1	22.9	22.9
P/BV (x)	8.2	7.6	7.0	6.5	6.1
Net dividend yield (%)	2.7	2.6	3.1	3.3	3.3
ROAE (%)	30.4	27.6	30.2	29.6	27.5
ROAA (%)	13.8	12.8	14.3	14.4	14.0
EV/EBITDA (x)	15.2	17.0	16.6	15.3	14.0
Net debt/equity (%)	40.0	39.7	59.9	53.0	38.2
Consensus net profit	-	-	615	647	679
MKE vs. Consensus (%)	-	-	(3.0)	(2.8)	(7.6)

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# HOLD

Share Price MYR 4.22  
12m Price Target MYR 4.30 (+2%)  
Previous Price Target MYR 4.30

### Company Description

Westports Holdings Bhd is a key transshipment port at Straits of Malacca and is also a key port in Malaysia serving the Klang Valley area.

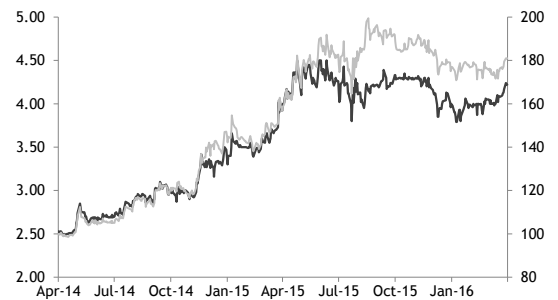
### Statistics

Shariah status	Yes
52w high/low (MYR)	4.50/3.79
3m avg turnover (USDm)	2.7
Free float (%)	30.2
Issued shares (m)	3,410
Market capitalisation	MYR14.4B USD3.7B

### Major shareholders:

Pembinaan Redzai Sdn. Bhd.	42.4%
South Port Investment Holdings Ltd.	23.5%
Employees Provident Fund	5.3%

### Price Performance



— Westports - (LHS, MYR) — Westports / Kuala Lumpur Composite Index - (RHS, %)

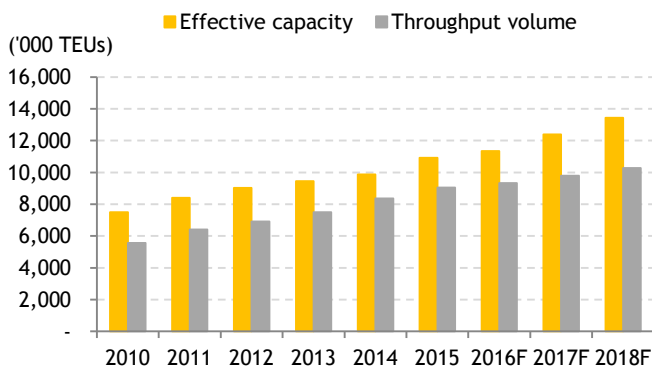
	-1M	-3M	-12M
Absolute (%)	4	6	8
Relative to index (%)	3	2	16

Source: FactSet

## Value Proposition

- Strategically located at the world's second busiest waterway, the Straits of Malacca; thriving on highly competitive transshipment tariffs and world-class efficiencies.
- Malaysia's largest port with a big captive hinterland i.e. the Klang Valley.
- High barriers to entry - requires proximity to trade lanes, large capital outlay and port connectivity.
- Limited capacity growth due to space constraints; only has room for another 2 new container terminals.
- Above-industry EBITDA margins and high ROEs owing to its high operating leverage and the maturity of its port business.

### Westports: Expands capacity for throughput growth

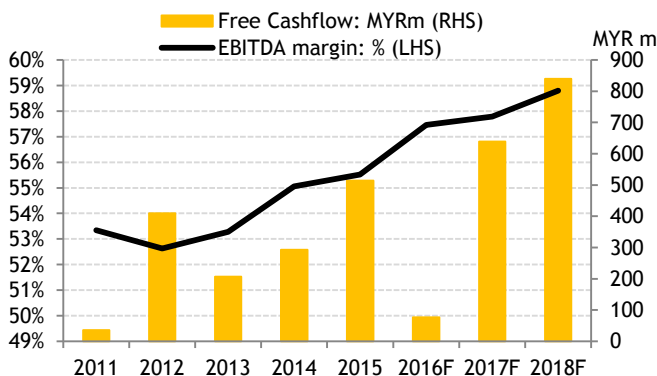


Source: Company, Maybank Kim Eng

## Financial Metrics

- Historical net profit CAGR of 10% (FY10-15); we expect net profit growth of 18%/5% in FY16/FY17, premised on the implementation of higher local container tariffs in 2015 and a lower effective tax rate in 2016 from ITA extension.
- Local container tariff hike of around 11% (phase 2) to be implemented in 2018; we have assumed zero tariff hike thereafter.
- High cash generating capability. Project capex to peak in 2016 and FCF to jump in 2017, room for high dividend from 2017.

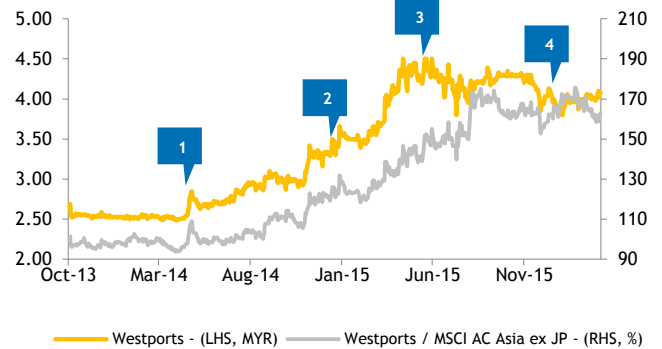
### Westports: Rising EBITDA margin, FCF to jump in 2017



Source: Company, Maybank Kim Eng

## Price Drivers

### Westports: Historical share price



Source: Company, Maybank Kim Eng

1. Overhang removed with the shelving of the proposed P3 alliance, which could have resulted in volume moving from Westports to PTP.
2. Strong double-digit earnings growth on robust trade along intra-Asia lane and recovery in Europe.
3. Gained market share as newly-formed O3 alliance uses Westports as its regional hub.
4. Selling pressure following the announcement of local container tariff hike and uncertainties surrounding O3 with the possibility of CSCL leaving O3 and CMA CGM's increasing commitment at PSA.

## Swing Factors

### Upside

- Higher-than-expected throughput growth, driven by market share gains by CMA CGM and UASC.
- Success in pushing its transshipment tariff rate higher.
- COSCO joining O3 and consolidating its transshipment boxes at Westports.

### Downside

- Sharp slowdown in global trade, leading to contraction in Westports' throughput.
- China Shipping (CSCL) leaving O3, potentially joining COSCO at PSA.
- Sharp increase in manpower, diesel and electricity costs.



FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Metrics</b>					
P/E (reported) (x)	28.1	28.5	24.1	22.9	22.9
Core P/E (x)	28.1	28.5	24.1	22.9	22.9
P/BV (x)	8.2	7.6	7.0	6.5	6.1
P/NTA (x)	8.2	7.6	7.0	6.5	6.1
Net dividend yield (%)	2.7	2.6	3.1	3.3	3.3
FCF yield (%)	2.0	3.6	0.5	4.4	5.8
EV/EBITDA (x)	15.2	17.0	16.6	15.3	14.0
EV/EBIT (x)	18.6	20.7	20.0	18.8	17.1

**INCOME STATEMENT (MYR m)**

Revenue	1,503.0	1,578.3	1,693.4	1,770.3	1,886.5
Gross profit	961.5	1,037.5	1,108.9	1,186.4	1,259.8
EBITDA	800.8	869.1	940.1	1,017.1	1,090.1
Depreciation	(81.8)	(91.4)	(93.0)	(117.2)	(123.5)
Amortisation	(64.7)	(63.8)	(64.5)	(72.6)	(71.7)
EBIT	654.3	713.9	782.6	827.3	894.9
Net interest income / (exp)	(63.9)	(63.7)	(72.6)	(79.4)	(72.1)
Associates & JV	0.0	0.0	0.0	0.0	1.0
Exceptionals	(11.6)	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	1.0
Pretax profit	578.8	650.1	710.0	747.9	824.8
Income tax	(66.6)	(145.3)	(113.6)	(119.7)	(197.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	512.2	504.9	596.4	628.2	627.4
Core net profit	512.2	504.9	596.4	628.2	627.4

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	444.6	396.2	73.4	131.2	397.9
Accounts receivable	202.7	240.2	258.3	270.9	289.2
Inventory	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,321.7	1,369.3	1,726.3	1,819.1	1,745.6
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	1,877.2	2,023.9	2,227.3	2,199.2	2,125.0
<b>Total assets</b>	<b>3,846.1</b>	<b>4,029.6</b>	<b>4,285.3</b>	<b>4,420.4</b>	<b>4,557.6</b>
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	218.2	245.3	231.1	239.8	252.8
LT interest bearing debt	1,150.0	1,150.0	1,300.0	1,300.0	1,300.0
Other liabilities	714.0	736.0	707.0	676.0	644.0
<b>Total Liabilities</b>	<b>2,081.9</b>	<b>2,131.4</b>	<b>2,238.1</b>	<b>2,216.1</b>	<b>2,197.0</b>
Shareholders Equity	1,764.2	1,898.1	2,047.2	2,204.3	2,360.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>1,764.2</b>	<b>1,898.1</b>	<b>2,047.2</b>	<b>2,204.3</b>	<b>2,360.6</b>
<b>Total liabilities and equity</b>	<b>3,846.1</b>	<b>4,029.6</b>	<b>4,285.3</b>	<b>4,420.4</b>	<b>4,557.6</b>

**CASH FLOW (MYR m)**

Pretax profit	578.8	650.1	710.0	747.9	824.8
Depreciation & amortisation	146.5	155.2	157.5	189.8	195.2
Adj net interest (income)/exp	63.2	63.7	72.6	79.4	72.1
Change in working capital	(141.3)	(7.7)	(3.6)	(2.4)	(3.6)
Cash taxes paid	(47.9)	(96.4)	(113.6)	(119.7)	(197.5)
Other operating cash flow	0.0	0.0	0.0	0.0	1.0
Cash flow from operations	613.3	770.6	830.9	893.7	895.7
Capex	(320.5)	(256.1)	(754.7)	(254.7)	(54.7)
Free cash flow	292.8	514.5	76.2	638.9	840.9
Dividends paid	(351.9)	(391.1)	(447.3)	(471.2)	(469.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	243.7	(1.1)	150.0	0.0	0.0
Other invest/financing cash flow	(88.0)	(172.5)	(101.6)	(110.0)	(104.3)
Effect of exch rate changes	0.0	0.0	0.0	0.0	1.0
<b>Net cash flow</b>	<b>96.6</b>	<b>(50.2)</b>	<b>(322.8)</b>	<b>57.8</b>	<b>268.7</b>

FYE 31 Dec	FY14A	FY15A	FY16E	FY17E	FY18E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	11.5	5.0	7.3	4.5	6.6
EBITDA growth	12.8	8.5	8.2	8.2	7.2
EBIT growth	11.8	9.1	9.6	5.7	8.2
Pretax growth	11.9	12.3	9.2	5.3	10.3
Reported net profit growth	17.7	(1.4)	18.1	5.3	(0.1)
Core net profit growth	17.7	(1.4)	18.1	5.3	(0.1)
<b>Profitability ratios (%)</b>					
EBITDA margin	53.3	55.1	55.5	57.5	57.8
EBIT margin	43.5	45.2	46.2	46.7	47.4
Pretax profit margin	38.5	41.2	41.9	42.2	43.7
Payout ratio	74.9	75.0	75.0	75.0	74.8
<b>DuPont analysis</b>					
Net profit margin (%)	34.1	32.0	35.2	35.5	33.3
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	2.2	2.1	2.1	2.0	1.9
ROAE (%)	30.4	27.6	30.2	29.6	27.5
ROAA (%)	13.8	12.8	14.3	14.4	14.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	48.3	50.5	53.0	53.8	53.4
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	188.8	154.3	146.7	145.2	141.5
Dividend cover (x)	1.3	1.3	1.3	1.3	1.3
Current ratio (x)	2.6	2.4	1.0	1.2	2.0
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.8	1.9	1.9	2.0	2.1
Net debt/equity (%)	40.0	39.7	59.9	53.0	38.2
Net interest cover (x)	10.2	11.2	10.8	10.4	12.4
Debt/EBITDA (x)	1.4	1.3	1.4	1.3	1.2
Capex/revenue (%)	21.3	16.2	44.6	14.4	2.9
Net debt/ (net cash)	705.4	753.8	1,226.6	1,168.8	902.1

Source: Company; Maybank

# YTL Corporation (YTL MK)

## An international footprint

# Not Rated

Share Price

MYR 1.67

### Yield with growth

A diversified conglomerate with 90% of revenue from outside Malaysia, YTL Corp's investment thesis centres mainly on its attractive dividend yield. In addition, there are growth opportunities in the form of new power projects and cement capacity additions. The stock is NOT RATED.

### Utilities and cement dominate

Cumulatively, both divisions account for 79% of YTL Corp's FY15 pretax profit. The utilities division (57%-owned YTL Power) has endured some challenging years recently, arising from margin pressure at its Singapore power plant due to an industry-wide supply glut. Despite buoyant construction activities in recent years, the cement division (97%-owned YTL Cement) has seen rather volatile earnings due to price competition.

### Growth opportunities beckon

YTL Power has recently secured an 80% stake in Tj Jati A, a greenfield 1,320MW coal-fired plant in Java, Indonesia. The plant is scheduled to commission in 2020, and construction of the plant will be undertaken by the construction arm of YTL Corp. YTL Cement meanwhile, could gain domestic market share as its 1.8mt of new capacity (+32% to existing) comes on-stream this year. In addition, YTL Corp remains interested in the Kuala Lumpur-Singapore High Speed Rail project.

### A repeat of a 9.5sen DPS?

Consensus is projecting a 16% net profit growth in FY16 to MYR1,177m. YTL Corp's 1HFY16 net profit of MYR438m however represents only 37% of full-year forecast. On dividends, consensus is projecting a repeat of a c.10sen DPS in FY16, which would imply a forward yield of c.6%. YTL Corp does not have an official dividend policy. The company typically pays out dividends once a year.

### Company Description

YTL Corp is involved in Construction, IT and e-Commerce, Hospitality, Cement Production, Property Development and Utilities.

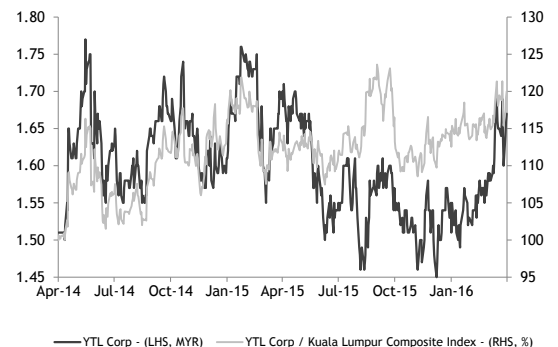
### Statistics

52w high/low (MYR)	1.71/1.45
3m avg turnover (USDm)	3.2
Free float (%)	40.5
Issued shares (m)	10,794
Market capitalisation	MYR18.0B USD4.6B

### Major shareholders:

Yeoh Tiong Lay & Sons Holdings Sdn. Bhd.	47.6%
Employees Provident Fund	6.8%
YTL Corp Bhd.	3.5%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	7	8	(1)
Relative to index (%)	6	5	6

Source: FactSet

FYE Jun (MYR m)	FY11A	FY12A	FY13A	FY14A	FY15A
Revenue	18,355	20,196	20,033	19,269	16,755
EBITDA	3,921	4,311	4,113	4,908	4,706
Core net profit	1,035	1,181	1,267	1,555	1,018
Core EPS (sen)	11.5	12.3	12.2	15.0	9.8
Core EPS growth (%)	22.1	6.2	(0.3)	22.8	(34.7)
Net DPS (sen)	2.0	2.0	2.5	12.0	9.5
Core P/E (x)	14.5	13.6	13.7	11.1	17.0
P/BV (x)	1.4	1.3	1.3	1.2	1.2
Net dividend yield (%)	1.2	1.2	1.5	7.2	5.7
ROAE (%)	10.3	10.6	10.1	11.3	7.0
ROAA (%)	2.2	2.4	2.4	2.7	1.6
EV/EBITDA (x)	7.8	8.5	8.7	8.5	9.6
Net debt/equity (%)	149.1	127.9	124.3	137.3	155.4

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FYE 30 Jun	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Metrics</b>					
P/E (reported) (x)	14.5	13.6	13.7	11.1	17.0
Core P/E (x)	14.5	13.6	13.7	11.1	17.0
P/BV (x)	1.4	1.3	1.3	1.2	1.2
P/NTA (x)	1.6	1.5	1.4	1.3	1.3
Net dividend yield (%)	1.2	1.2	1.5	7.2	5.7
FCF yield (%)	13.1	5.5	nm	9.2	0.1
EV/EBITDA (x)	7.8	8.5	8.7	8.5	9.6
EV/EBIT (x)	11.0	12.4	13.5	12.7	15.4
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	18,354.8	20,195.8	20,033.1	19,269.2	16,754.7
Gross profit	4,091.7	4,230.4	4,216.5	4,844.6	4,568.5
EBITDA	3,921.2	4,310.6	4,112.8	4,908.3	4,705.5
Depreciation	(1,154.6)	(1,348.4)	(1,447.6)	(1,561.3)	(1,709.2)
Amortisation	9.5	10.2	(9.9)	(34.6)	(58.3)
EBIT	2,776.0	2,962.1	2,643.9	3,299.3	2,923.9
Net interest income / (exp)	(856.5)	(797.0)	(823.6)	(912.5)	(906.4)
Associates & JV	404.0	379.9	396.5	249.7	297.3
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	2,351.9	2,450.2	2,299.4	2,811.6	2,323.3
Income tax	(516.0)	(476.1)	(468.5)	(206.7)	(602.3)
Minorities	(801.4)	(793.0)	(564.2)	(1,050.0)	(703.4)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,034.6	1,181.1	1,266.7	1,555.0	1,017.6
Core net profit	1,034.6	1,181.1	1,266.7	1,555.0	1,017.6
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	12,794.4	13,925.3	14,404.7	13,826.0	14,748.7
Accounts receivable	3,656.6	3,558.2	3,537.0	2,966.8	3,420.9
Inventory	835.8	888.2	849.0	773.9	770.2
Property, Plant & Equip (net)	19,774.5	20,637.2	22,207.5	25,314.1	27,569.7
Intangible assets	4,570.0	4,717.1	4,785.5	5,014.0	5,560.4
Investment in Associates & JVs	2,854.4	3,226.0	3,454.3	1,675.7	1,897.0
Other assets	3,780.5	4,648.0	4,365.4	11,471.9	12,732.5
<b>Total assets</b>	<b>48,266.2</b>	<b>51,599.9</b>	<b>53,603.4</b>	<b>61,042.4</b>	<b>66,699.4</b>
ST interest bearing debt	10,440.5	11,618.8	4,227.3	5,396.1	4,422.9
Accounts payable	3,290.5	3,509.2	3,460.4	3,253.3	3,165.6
LT interest bearing debt	17,810.6	17,584.6	26,514.8	28,189.0	33,059.6
Other liabilities	4,188.0	4,964.0	4,216.0	4,424.0	5,255.0
<b>Total Liabilities</b>	<b>35,729.3</b>	<b>37,676.4</b>	<b>38,418.5</b>	<b>41,262.7</b>	<b>45,902.8</b>
Shareholders Equity	10,365.9	11,943.6	13,142.1	14,386.8	14,632.7
Minority Interest	2,171.1	1,979.9	2,042.8	5,392.9	6,163.9
<b>Total shareholder equity</b>	<b>12,536.9</b>	<b>13,923.5</b>	<b>15,184.9</b>	<b>19,779.7</b>	<b>20,796.6</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>48,266.2</b>	<b>51,599.9</b>	<b>53,603.4</b>	<b>61,042.4</b>	<b>66,699.4</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	2,351.9	2,450.2	2,299.4	2,811.6	2,323.3
Depreciation & amortisation	1,145.1	1,338.1	1,457.5	1,595.9	1,767.4
Adj net interest (income)/exp	856.5	797.0	823.6	912.5	906.4
Change in working capital	508.9	(92.4)	(205.4)	644.8	(529.9)
Cash taxes paid	(400.5)	(580.0)	(656.4)	(570.1)	(747.9)
Other operating cash flow	(445.9)	(397.7)	(364.4)	(452.5)	(234.1)
Cash flow from operations	3,567.1	2,932.0	2,771.0	4,306.3	3,120.1
Capex	(1,599.3)	(2,047.9)	(3,383.0)	(2,714.4)	(3,110.2)
Free cash flow	1,967.8	884.1	(612.0)	1,591.9	9.9
Dividends paid	(134.5)	(375.9)	(258.9)	(259.1)	(984.5)
Equity raised / (purchased)	(9.6)	(355.6)	(274.4)	(3.2)	(0.0)
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	(290.6)	333.4	1,985.0	(880.2)	1,794.2
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(610.5)	459.8	(304.5)	(1,402.5)	(785.9)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>922.7</b>	<b>945.9</b>	<b>535.2</b>	<b>(953.2)</b>	<b>33.7</b>

FYE 30 Jun	FY11A	FY12A	FY13A	FY14A	FY15A
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	11.2	10.0	(0.8)	(3.8)	(13.0)
EBITDA growth	4.1	9.9	(4.6)	19.3	(4.1)
EBIT growth	(3.1)	6.7	(10.7)	24.8	(11.4)
Pretax growth	3.2	4.2	(6.2)	22.3	(17.4)
Reported net profit growth	22.6	14.2	7.2	22.8	(34.6)
Core net profit growth	22.6	14.2	7.2	22.8	(34.6)
<b>Profitability ratios (%)</b>					
EBITDA margin	21.4	21.3	20.5	25.5	28.1
EBIT margin	15.1	14.7	13.2	17.1	17.5
Pretax profit margin	12.8	12.1	11.5	14.6	13.9
Payout ratio	17.3	16.3	20.5	80.0	97.0
<b>DuPont analysis</b>					
Net profit margin (%)	5.6	5.8	6.3	8.1	6.1
Revenue/Assets (x)	0.4	0.4	0.4	0.3	0.3
Assets/Equity (x)	4.7	4.3	4.1	4.2	4.6
ROAE (%)	10.3	10.6	10.1	11.3	7.0
ROAA (%)	2.2	2.4	2.4	2.7	1.6
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	15.0	7.1	4.2	(2.8)	(3.4)
Days receivable outstanding	72.9	64.3	63.8	60.8	68.6
Days inventory outstanding	20.8	19.4	19.8	20.3	22.8
Days payables outstanding	78.7	76.7	79.3	83.8	94.8
Dividend cover (x)	5.8	6.1	4.9	1.3	1.0
Current ratio (x)	1.3	1.3	2.5	2.1	2.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.5
Net debt/equity (%)	149.1	127.9	124.3	137.3	155.4
Net interest cover (x)	3.2	3.7	3.2	3.6	3.2
Debt/EBITDA (x)	7.2	6.8	7.5	6.8	8.0
Capex/revenue (%)	8.7	10.1	16.9	14.1	18.6
Net debt/ (net cash)	15,456.7	15,278.1	16,337.3	19,759.1	22,733.8

Source: Company; Maybank

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