

Mudajaya Group (BUY ↔, EPS ↔)

INDUSTRY: OVERWEIGHT
NEWSBREAK

23 August 2011
Price Target: RM5.06 (↔)
Share price: RM2.73

Janamanjung becomes official

News

- Mudajaya has signed a subcontract agreement with CMC Machipex for the design and construction of all civil works associated with the Manjung Power Plant extension project for a total contract value of RM720m. The project has commenced works on 6 Jun'11 and is expected to be substantially completed by Nov'13.

Comments

- Recall that Mudajaya was awarded the Letter of Intent (LOI) for the Janamanjung power plant extension project back in 2 June 2011. The announcement indicates that the management has finally concluded the "nuts-and-bolts" of the project and is all set to commence "actual" works.
- Although order book remains unchanged, it gives investors the assurance that the project would not be revoked in the last minute as it took them quite some time for the LOI to be formalised. This project represents Mudajaya's largest local power plant project in terms of contract size. Our estimated active outstanding order book for the company is shown below:

Projects	Balance Works (RM m)
India IPP Project	1,800
KL-K. Selangor Expressway	100
Janamanjung power plant extension	720
Others (Crest Jln Sultan Ismail & Pahang Hospital)	100
Total	2,720

Company

- We understand that the project is also unique in the sense that the 1,000MW coal-powered configuration is on a single generating unit, making it the largest in SEA. Hence, it will provide the company with a track record to expand regionally as other countries embark on power plants of the similar 1,000MW configuration.
- On a separate note, Mudajaya is due to release its 2Q11 results today (Tuesday).

Risks

- 1) Delay in completing the IPP project which will have a huge impact on our earnings forecasts; 2) Political and regulatory risk (both local and abroad); 3) Rising raw material prices; 4) Unexpected downturn in the construction sector; and 5) Sharp depreciation of the Indian Rupee.

Forecasts

- Adjusted EPS and DPS to reflect changes arising from bonus issue (adjustment factor of 0.75x).

Rating

- Maintain BUY call on the stock in view of the lucrative Indian IPP project which the market has been too pessimistic on it. The company is also trading below our ascribed construction valuation which works to RM3.70/share.

Valuation

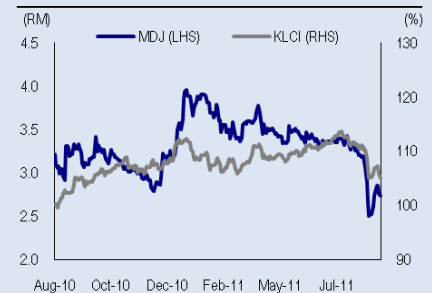
- Target Price of RM5.06 (adjusted for bonus issue) based on Sum-of-Parts valuation maintained (see Figure #1).

Low Yee Huap, CFA

yhlow@hlib.hongleong.com.my
(603) 2168 1078

KLCI	1,472.2
Expected share price return	85.3%
Expected dividend return	1.5%
Expected total return	86.9%

Share price



Information

Bloomberg Ticker	HSL MK
Bursa Code	6238
Issued Shares (m)	583
Market cap (RM m)	851
3-mth avg. volume ('000)	263

Price Performance	1M	3M	12M
Absolute	-11.0	-15.3	-9.4
Relative	-6.7	-11.9	-15.0

Major shareholders

HSL	59.1%
EPF	9.2%
Skim Amanah Saham	7.0%
Free Float	20.5%

Summary Earnings Table

FYE Dec (RM m)	2010A	2011E	2012E	2013E
Revenue	869	1,465	1,680	1,651
EBITDA	284	296	320	281
EBIT	282	290	313	273
Profit Before Tax	287	296	269	299
PATMI	208	233	201	237
EPS (sen)	38.0	42.4	36.7	43.2
Net DPS (sen)	4.1	4.1	4.1	4.1
Net DY (%)	1.5	1.5	1.5	1.5
P/E (x)	7.2	6.4	7.4	6.3
P/B (x)	2.1	1.6	1.4	1.1
Net Gearing (%)	Cash	Cash	Cash	Cash
ROE (%)	38.2	28.3	19.8	19.5
ROA (%)	24.9	20.2	14.7	13.8

HLIB

Valuation Methodology

	Methodology	Stake	Value (RM m)	%
Construction	13X PER @ RM156m based on sustainable normalised earnings	100%	2,031	73
Power	DCF @ 12.9%, 20% discount	26%	744	27
		SOP	2,775	100
		Nos. of Shares (m)	548	
		Target Price (RM)	5.06	

HLIB

Figure #1 HLIB vs Consensus

FYE Dec (RM m)	FY11E			FY12E			FY13E		
	HLIB	Consensus	(%)	HLIB	Consensus	(%)	HLIB	Consensus	(%)
Revenue	1,465.2	1,206.5	21%	1,679.6	1,514.5	11%	1,651.3	1,857.0	-11%
PATMI	232.7	264.5	-12%	201.1	298.0	-33%	236.8	349.0	-32%

Bloomberg, HLIB

Figure #2 Peer comparison

Company	Mkt Cap (RM m)	Price (RM)	Target (RM)	+/- (%)	Rating	EPS (sen)		P/E (X)		ROE (%)		DY (%)
						FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	
IJM*	7,955	5.80	6.61	14.0	HOLD	35.6	37.9	16.3	15.3	9.2	9.2	1.9
Gamuda	6,547	3.17	3.95	24.6	HOLD	20.8	23.1	15.2	13.8	12.3	12.5	3.5
MRCB	2,952	2.13	-	-	NR	6.6	9.1	32.3	23.4	7.5	10.2	0.7
WCT	2,074	2.58	3.85	49.2	BUY	23.8	27.5	10.8	9.4	13.6	14.9	2.9
Mudajaya	1,497	2.73	5.06	85.4	BUY	42.8	37.0	6.4	7.4	28.3	19.8	1.5
Eversendai	1,285	1.66	-	-	NR	14.8	16.6	11.2	10.0	18.3	17.3	0.5
Benalec	964	1.32	-	-	NR	13.0	15.0	10.2	8.8	37.9	30.0	5.2
Sunway	940	2.63	2.60	-1.1	HOLD	33.0	37.4	8.0	7.0	19.9	17.3	1.4
HSL	839	1.44	2.44	69.4	BUY	16.2	18.7	8.9	7.7	23.5	22.3	1.7
Naim	500	2.00	-	-	NR	33.4	39.2	6.0	5.1	10.7	11.6	5.3
Muhibbah	490	1.20	-	-	NR	16.3	18.8	7.4	6.4	12.6	13.2	4.3
Kimlun	334	1.46	1.95	33.6	NR	19.4	21.7	7.5	6.7	21.8	20.7	4.0
TRC Synergy	278	0.60	0.83	40.2	BUY	5.7	7.1	10.4	8.4	8.4	9.5	1.9
Ahmad Zaki	199	0.72	-	-	NR	8.6	10.0	8.4	7.2	12.2	13.5	3.6
Bina Puri	124	1.12	-	-	NR	15.0	14.0	7.5	8.0	16.2	14.5	3.6
						Average		11.1	9.6			

HLIB, Bloomberg

*FY12 and FY13 estimates

Financial Projections for Mudajaya Group (TP: RM5.06)

Income Statement

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Revenue	720.0	869.4	1,465.2	1,679.6	1,651.3
EBITDA	170.4	284.1	295.5	319.8	281.3
D&A	(4.4)	(2.6)	(5.2)	(7.0)	(8.5)
EBIT	165.9	281.5	290.3	312.8	272.8
Interest Income	2.2	4.6	5.4	3.6	7.4
Finance Costs	-	-	-	-	-
Associates	(0.2)	0.5	-	(47.8)	18.6
Exceptionals	-	-	-	-	-
Profit Before Tax	168.0	286.6	295.7	268.6	298.8
Tax	(30.4)	(48.5)	(19.2)	(20.9)	(29.5)
Net Profit	137.5	238.1	276.5	247.6	269.3
Minority Interests	(18.4)	(29.6)	(43.8)	(46.5)	(32.5)
PATMI	119.2	208.5	232.7	201.1	236.8
Basic Shares (m)	498.7	548.3	548.3	548.3	548.3
Basic EPS (sen)	23.9	38.0	42.4	36.7	43.2

Quarterly Financial Summary

FYE 31 Dec (RM m)	2010Q1	2010Q2	2010Q3	2010Q4	2011Q1
Revenue	239.4	208.6	191.2	230.3	223.1
COGS	(163.6)	(136.3)	(131.9)	(157.3)	(171.4)
Gross Profit	75.8	72.3	59.3	72.9	51.7
Other Income	1.4	1.1	1.2	0.8	1.1
Operating Profit	77.2	73.4	60.5	73.7	52.8
Finance Costs	-	-	-	-	-
Associates	-	-	-	0.5	-
Profit Before Tax	77.2	73.4	60.5	74.2	52.8
Net Profit	64.6	60.4	49.8	62.0	47.1
Minority Interests	(14.1)	(6.2)	(4.5)	(4.9)	(5.9)
PATMI	50.6	54.2	46.5	57.1	41.2
Basic Shares (m)	411.2	411.2	411.2	411.2	411.2
Basic EPS (sen)	12.4	13.2	11.4	14.0	10.1

Balance Sheet

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Cash	116.1	254.9	102.4	135.8	356.0
Receivables	236.6	380.6	602.1	690.2	678.6
Inventories	14.6	12.3	60.2	69.0	67.9
Development Costs	66.8	63.7	63.7	63.7	63.7
Associates	240.4	445.3	645.3	797.4	816.0
PPE	36.4	43.4	58.2	71.2	82.7
Others	0.1	0.1	0.1	0.1	0.1
Total Assets	711.0	1,200.3	1,532.0	1,827.5	2,064.9
Payables	275.3	404.0	481.7	552.2	542.9
Total Debt	-	-	-	-	-
Others	12.8	25.8	25.8	25.8	25.8
Total Liabilities	288.1	429.8	507.5	578.0	568.7
Shareholders' Funds	375.1	716.0	926.1	1,104.7	1,318.9
Minority Interests	47.8	54.5	98.3	144.8	177.3
Total Capital	422.8	770.5	1,024.4	1,249.5	1,496.2

Rates and Ratios

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
PER (x)	11.4	7.2	6.4	7.4	6.3
FD PER (x)	11.4	7.2	6.4	7.4	6.3
DPS (sen)	2.9	4.1	4.1	4.1	4.1
DY (%)	1.0	1.5	1.5	1.5	1.5
BVPS (RM)	0.8	1.3	1.7	2.0	2.4
P/B (x)	3.6	2.1	1.6	1.4	1.1
NTA/Share (RM)	0.8	1.3	1.7	2.0	2.4
EBITDA Margin (%)	23.7	32.7	20.2	19.0	17.0
EBIT Margin (%)	23.0	32.4	19.8	18.6	16.5
PBT Margin (%)	23.3	33.0	20.2	16.0	18.1
Net Margin (%)	19.1	27.4	18.9	14.7	16.3
ROE	36.9	38.2	28.3	19.8	19.5
ROA	24.6	24.9	20.2	14.7	13.8
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash

Cashflow Analysis

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
EBITDA	170.4	284.1	295.5	319.8	281.3
Working Capital	86.3	(34.0)	(191.7)	(26.4)	3.5
Net Interest	2.2	4.6	5.4	3.6	7.4
Others	(38.3)	(54.4)	(19.2)	(20.9)	(29.5)
CFO	220.6	200.3	90.0	276.0	262.7
Capex	(13.8)	(9.6)	(20.0)	(20.0)	(20.0)
Purchase/Disposal	0.4	0.8	-	-	-
Associate	(150.7)	(204.9)	(200.0)	(200.0)	-
Others	2.2	-	-	-	-
CFI	(161.9)	(213.7)	(220.0)	(220.0)	(20.0)
Financing	-	-	-	-	-
Shares Issued	-	176.9	-	-	-
Dividends	(11.6)	(18.4)	(22.6)	(22.6)	(22.6)
Others	(0.8)	(6.3)	-	-	-
CFF	(12.4)	152.2	(22.6)	(22.6)	(22.6)
Net Cashflow	46.3	138.8	(152.6)	33.4	220.2

Assumption Metrics

FYE 31 Dec (RM m)	2011E	2012E	2013E
Revenue	1,465.2	1,679.6	1,651.3
Construction	1,343.2	1,557.5	1,529.3
EBIT	290.3	312.8	272.8
Construction	285.5	308.0	267.9
EBIT Margin (%)	19.8%	18.6%	16.5%
Order Book Wins	800.0	800.0	800.0

Disclaimer

The information contained in this report is based on data obtained from sources believed to be reliable. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, is made as to the accuracy, adequacy, completeness or reliability of the info or opinions in the report.

Accordingly, neither Hong Leong Investment Bank Berhad nor any of its related companies and associates nor person connected to it accept any liability whatsoever for any direct, indirect or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the info or opinions in this publication.

Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Hong Leong Investment Bank Berhad has no obligation to update its opinion or the information in this report.

Investors are advised to make their own independent evaluation of the info contained in this report and seek independent financial, legal or other advice regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represent a personal recommendation to you.

Under no circumstances should this report be considered as an offer to sell or a solicitation of any offer to buy any securities referred to herein.

Hong Leong Investment Bank Berhad and its related companies, their associates, directors, connected parties and/or employees may, from time to time, own, have positions or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, is under copyright to Hong Leong Investment Bank Berhad. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to, websites. Hong Leong Investment Bank Berhad takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Hong Leong Investment Bank Berhad own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Hong Leong Investment Bank Berhad website shall be at your own risk.

1. As of 23 August 2011, Hong Leong Investment Bank Berhad has proprietary interest in the following securities covered in this report:

(a) -.

2. As of 23 August 2011, the analyst, Low Yee Huap, who prepared this report, has interest in the following securities covered in this report:

(a) -.

Published & Printed by
Hong Leong Investment Bank Berhad (43526-P)
 Level 8, Menara HLA
 No. 3, Jalan Kia Peng
 50450 Kuala Lumpur
 Tel 603 2168 1168 / 603 2710 1168
 Fax 603 2161 3880

Equity rating definitions

BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
TRADING SELL	Negative recommendation of stock not under coverage. Expected absolute return of less than -10% over 6-months. Situational or arbitrage trading opportunity.
SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
NOT RATED	No research coverage and report is intended purely for informational purposes.

Industry rating definitions

OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
UNDERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of less than -5% over 12-months.