

# Bina Puri Holdings

Recommendation: **HOLD**

Stock Code: 5932

Bloomberg: BIN MK

Price: MYR0.80

12-Month Target Price: MYR0.84

Date: August 20, 2009

**Board:** Main

**Sector:** Construction

**GICS:** Industrials/Construction & Engineering

**Market Value - Total:** MYR67.0 mln

**Summary:** Bina Puri Holdings (Bina Puri) is engaged in civil engineering, road and building construction, property development, quarrying and the manufacturing of natural oil polyol (base material for polyurethane foam).

**Analyst:** Seu Yee Lau



## Results Review & Earnings Outlook

- Bina Puri reported a net profit of MYR1.6 mln for 2Q09 (-15.2% YoY). Although the cumulative six months results appear to be below expectations, accounting for just 36% of our original full-year forecast, we believe that earnings may catch up in subsequent quarters as construction projects hit key billing milestones. Low 1H09 revenue was slightly offset by better-than-expected EBIT margin of 2% (vs. 2009E:1.8%) and a lower effective tax rate of 18.8% (vs. 2009E:30%). No interim dividend was declared, as expected.
- 1H09 revenue reduced by 2.6% YoY to MYR321.3 mln on the back of lower contribution from all divisions except construction (+11% YoY to MYR278 mln). The decline in contribution was most significant in property development (-75% YoY to MYR8.4 mln) with the absence of new launches and near completion of Jesselton and Taman Malawa Phase 2. EBIT margin also declined slightly to 2% (-0.2%-pts YoY) due to weaker margins from polyol (-3.6%-pts YoY) and smaller contribution from the higher-margin property division. Construction margin was flat at 1.6%. Meanwhile, the group's profitability was supported by lower effective tax rate of 18.8% (-3%-pts YoY). The net effect was a YoY decline in pre-tax and net profit by 15.2% and 15.3%.
- We have reduced our 2009 net profit forecast by 8% as we have pushed back recognition of some construction projects offset slightly by higher margins and a lower projected effective tax rate of 28% (vs. 30%). We have however, increased our 2010 net profit forecast by 5% as a result of the higher margins and lower taxation. To date, Bina Puri has in total secured MYR1 bln worth of new contracts in 2009.

## Recommendation & Investment Risks

- We upgrade our Sell recommendation to Hold from Sell due to recent share price weakness. Following the recent decline in share price, we believe the stock which is trading at a prospective 2010 PER of 8.8x is fairly valued and within the industry average of small to mid-sized construction companies. Whilst we like Bina Puri for its strong order book, we remain concerned over its high gearing and lackluster property earnings due to delay in new launches.
- We have raised our 12-month target price to MYR0.84 (MYR0.80 previously) We continue to value Bina Puri based on blended target multiples of PER of 9x and P/B of 0.8x but have rolled over our target valuation period to 2010 (from 2009). Our target price includes a projected net DPS of 3 sen.
- Bina Puri has a sizeable MYR2 bln of unbilled contract works although the group's EBIT margins of 1.6%-2.4% for the past 3 years have been razor thin. We understand that Bina Puri is aggressively expanding overseas and is expected to secure shortly a MYR160 mln contract to build a Malaysia embassy building in Russia. In addition, the group has secured LOIs of over MYR200 mln worth of local projects and expects to convert them by year-end. Bina Puri has recently proposed a debt capitalization plan via a restricted issue of up to 20 mln new shares, (19.3% of the enlarged share capital). We expect the exercise, when completed to dilute 2010 EPS by about 19%.
- Risks to our recommendation and target price include work delays for existing contracts, slower-than-expected orderbook replenishment and increase in material prices which could affect its razor-thin margins.

### Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	5.1	7.9
PER (x)	15.6	10.1
Dividend/Share (sen)	4.0	4.0
NTA/Share (MYR)	0.90	0.93
Book Value/Share (MYR)	0.90	0.93
No. of Outstanding Shares (mln)	83.8	
52-week Share Price Range (MYR)	0.72 - 0.98	
Major Shareholders:	%	
Jentera Jati Sdn. Bhd.	24.3	
Tan Sri Datuk Tee Hock Seng	17.4	
Tony Tan Cheng Kiat	10.8	

### Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	0.84	0.89	0.90	0.93
Cash Flow (sen)	17.0	17.8	13.7	16.4
Reported Earnings (sen)	6.3	8.5	5.1	7.9
Dividend (sen)	5.0	6.0	4.0	4.0
Payout Ratio (%)	56.9	50.9	56.2	36.5
PER (x)	12.6	9.4	15.6	10.1
P/Cash Flow (x)	4.7	4.5	5.8	4.9
P/Book Value (x)	1.0	0.9	0.9	0.9
Dividend Yield (%)	6.3	7.5	5.0	5.0
ROE (%)	7.7	9.9	5.7	8.6
Net Gearing (%)	467.4	204.0	151.1	153.7

\*Stock deemed Shariah compliant by the Securities Commission

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## Quarterly Performance

FY Dec. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	186.3	179.3	3.9
Reported Operating Profit	3.7	5.0	-25.9
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-1.0	-1.1	-12.5
Reported Pre-tax Profit	2.5	3.1	-19.1
Reported Net Profit	1.6	1.8	-15.2
Reported Operating Margin (%)	2.0	2.8	-
Reported Pre-tax Margin (%)	1.3	1.7	-
Reported Net Margin (%)	0.8	1.0	-

Source: Company data

## Profit &amp; Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	607.9	676.5	784.7	871.6
Reported Operating Profit	9.9	13.6	15.3	16.4
Depreciation & Amortization	-7.7	-7.2	-7.2	-7.2
Net Interest Income / (Expense)	-4.4	-4.1	-4.4	-4.4
Reported Pre-tax Profit	8.5	8.0	10.9	12.6
Effective Tax Rate (%)	6.5	35.7	28.0	28.0
Reported Net Profit	7.0	4.3	6.6	7.6
Reported Operating Margin (%)	1.6	2.0	2.0	1.9
Reported Pre-tax Margin (%)	1.4	1.2	1.4	1.4
Reported Net Margin (%)	1.2	0.6	0.8	0.9

Source: Company data, S&amp;P Equity Research

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**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

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**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.84
29-May-09	Sell	0.80
5-Mar-09	Sell	0.78
20-Feb-09	Sell	0.70
15-Jan-09	Hold	0.80
26-Nov-08	Hold	0.81
20-Jun-08	Hold	1.05
4-Oct-07	Not Ranked	
31-Aug-07	Hold	1.12
15-Jun-07	Hold	0.89
1-Mar-07	Hold	0.86
27-Nov-06	Hold	0.72

