

Bina Puri Holdings

Recommendation: **SELL**

Stock Code: 5932

Bloomberg: BIN MK

Price: MYR0.80

12-Month Target Price: MYR0.70

Date: February 20, 2009

Board: Main**Sector:** Construction**GICS:** Industrials/Construction & Engineering**Market Value - Total:** MYR66.9 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 2008 net profit of MYR4.35 mln (-38% YoY). The results were disappointing, making up about 72% of our full-year net profit forecast. While EBIT margins were in line with expectations, the group reported higher-than-expected associated/JV losses and taxation (effective tax rate of 35.4% vs. 2008E:28%). A final gross dividend of 2 sen was proposed, bringing the total gross DPS for 2008 to 4 sen (2007: 6 sen gross).
- 2008 revenue increased 11% to MYR677.3 mln. This is on the back of stronger works recognition for construction (+18% to MYR539.5 mln) and higher progress billings from property development i.e. Jesselton Condominium (+22% to MYR43.6 mln); partially offset by quarry and ready mix (-18% to MYR75.6 mln) due to lower road paving works secured and polyol (-20% to MYR18.7 mln). EBIT margin improved slightly (+0.5%-pts to 2.1%) due to better margins from construction (+0.6%-pts) and property (+4.5%-pts). However, this was offset by associated/JV losses of MYR1.48 mln (vs. MYR3 mln gain in 2007) mainly from its Thailand construction projects and a significantly higher effective tax rate of 35.4% (+28.9%-pts). These all together resulted in a decline in pretax and net profit by 4.7% and 38% respectively.
- We have reduced our 2009 net profit forecast by 19% to incorporate lower JV/associated contribution and a higher projected effective tax rate of 30% (vs. 28%). Meanwhile, we introduce our 2010 net profit forecast of MYR5.5 mln. We have included potential construction contracts (excluding associates) worth about MYR400 mln in 2010.

Recommendation & Investment Risks

- We downgrade our Hold recommendation to Sell with a lower 12-month target price of MYR0.70 (MYR0.80 previously). The downgrade is due to the concern of widening associated/JV losses and delay in the launch of property projects (as a result of the poor market sentiment) which are expected to weaken the group's 2009 earnings. In addition, Bina Puri is trading at a premium with a prospective 2009 PER of 12.2x as compared with the peer group average of 8x.
- We continue to value Bina Puri based on blended target multiples of PER of 9x and P/B of 0.8x on our 2009 estimates. Our target price includes a projected net DPS of 3 sen.
- The group's construction orderbook stands at MYR2.5 bln, of which over MYR1.2 bln is unbilled. There are potential projects worth about MYR1 bln (LOIs have been received) to add to its orderbook. Bina Puri is proposing a debt capitalization plan via a restricted issue of up to 20 mln new shares, representing about 19.3% of the enlarged share capital. If the exercise goes through, this will allow the group to pare down its borrowing to a gearing of 125% from 151% now. We expect the exercise to dilute FY09 and FY10 EPS by 19%.
- Risks to our recommendation and target price include work delays for existing contracts and slower-than-expected replenishment of the construction orderbook. Higher-than-expected increase in construction material prices could have a significant impact on group earnings, given that average margins are low (single-digit).

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	5.2	6.5
PER (x)	15.4	12.2
Dividend/Share (sen)	4.0	4.0
NTA/Share (MYR)	0.90	0.92
Book Value/Share (MYR)	0.90	0.92
No. of Outstanding Shares (mln)	83.6	
52-week Share Price Range (MYR)	0.66 - 1.09	
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	0.92
Cash Flow (sen)	17.0	17.8	14.4	15.8
Reported Earnings (sen)	6.3	8.5	5.2	6.5
Dividend (sen)	5.0	6.0	4.0	4.0
Payout Ratio (%)	56.9	50.9	55.4	44.0
PER (x)	12.6	9.4	15.4	12.2
P/Cash Flow (x)	4.7	4.5	5.5	5.1
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	5.8	7.2
Net Gearing (%)	467.4	204.0	151.2	142.2

*Stock deemed Shariah compliant by the Securities Commission

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FY Dec. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	147.1	195.1	-24.6
Reported Operating Profit	2.9	2.3	24.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-1.0	-0.8	20.1
Reported Pre-tax Profit	0.8	1.9	-55.6
Reported Net Profit	0.1	2.0	-97.3
Reported Operating Margin (%)	2.0	1.2	-
Reported Pre-tax Margin (%)	0.6	1.0	-
Reported Net Margin (%)	0.0	1.0	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	607.9	677.3	814.4	676.5
Reported Operating Profit	9.9	14.2	13.9	13.5
Depreciation & Amortization	-7.7	-7.7	-7.7	-7.7
Net Interest Income / (Expense)	-4.4	-4.6	-4.6	-4.6
Reported Pre-tax Profit	8.5	8.1	9.3	9.4
Effective Tax Rate (%)	6.5	35.4	30.0	30.0
Reported Net Profit	7.0	4.3	5.5	5.5
Reported Operating Margin (%)	1.6	2.1	1.7	2.0
Reported Pre-tax Margin (%)	1.4	1.2	1.1	1.4
Reported Net Margin (%)	1.2	0.6	0.7	0.8

Source: Company data, S&P Equity Research

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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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	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
16-Aug-06	Hold	0.70
30-May-06	Hold	0.67

