

Recommendation: **HOLD**

Stock Code: 5932

Bloomberg: BIN MK

Price: MYR0.96

12-Month Target Price: MYR1.05

Date: June 20, 2008

Board: Main

Sector: Construction

GICS: Industrials/Construction & Engineering

Market Value - Total: MYR77.9 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



Highlights

- Bina Puri has achieved steady earnings growth for the past three years, with a net profit of MYR7 mln in 2007, up 71% from 2005. However, in 1Q08, Bina Puri's net profit declined 12% YoY, due to margin squeeze arising from the escalating prices of raw materials. We however, expect margins to improve as management negotiates for better construction margins to reflect the higher material costs under the built-in cost escalation clauses for most its projects.
- Bina Puri has secured more than MYR600 mln worth of new contracts since early 2007, due to its established track record in civil and building construction, aggressive pricing and strong relationships with local state governments. The group is hopeful of converting Letters of Intent into additional projects worth more than MYR700 mln shortly. The group has an order book worth MYR2.2 bln, of which MYR1.2 bln is unbilled. Meanwhile, Bina Puri is expected to achieve steady earnings from its other businesses i.e. quarry and premix, property development and polyol manufacturing.

Investment Risks

- Risks to our recommendation and target price include work delays for existing contracts and slower-than-expected replenishment of the construction order book. Higher-than-expected increase in construction materials could have a significant impact on group earnings given that average margins are low (single-digit).

Recommendation

- We resume coverage of Bina Puri with a Hold recommendation and a 12-month target price of MYR1.05. Trading at a prospective 2009 PER of 10.8x, we believe Bina Puri is already fully valued and trading within the industry average of small- to mid-sized construction companies. Meanwhile, the group's significant outstanding order book, potential projects and steady contributions from its other divisions will help drive earnings forward. In addition we believe Bina Puri's decent yield of 6.2% should provide support to its share price.
- We have valued Bina Puri based on blended 11x PER and 0.8x P/B target multiples to our 2008 estimates. Our target price also includes projected net DPS of 4.5 sen (6 sen gross). The target multiple is at the slightly higher end of the valuation range for small and mid-sized construction companies. This is due to its: (i) earnings visibility underpinned by a present strong order book; (ii) potential new projects worth about MYR700 mln (Letters of Intent already received) to add to its order book; (iii) steady earnings from Bina Puri's other divisions (iv) long-term recurring earnings from the KL-Kuala Selangor Expressway 40-year concession when it commences operation; (v) potential earnings from its participation in part of the construction of the expressway.
- From its latest 2007 annual report, we note that Bina Puri recognizes its corporate social responsibility (CSR) commitments which include providing financial aid to the poor and needy via education incentives, scholarship awards and medical aid.

Key Stock Statistics

| FY Dec. | 2007 | 2008E |
|---------------------------------|-------------|-------|
| Reported EPS (sen) | 8.5 | 8.6 |
| PER (x) | 11.3 | 11.1 |
| Dividend/Share (sen) | 6.0 | 6.0 |
| NTA/Share (MYR) | 0.89 | 1.27 |
| Book Value/Share (MYR) | 0.89 | 1.27 |
| No. of Outstanding Shares (mln) | 81.2 | |
| 52-week Share Price Range (MYR) | 0.66 - 1.36 | |
| Major Shareholders: | % | |
| Jentera Jati Sdn. Bhd. | 25.1 | |
| Tan Sri Datuk Tee Hock Seng | 16.5 | |
| Tony Tan Cheng Kiat | 11.2 | |

Per Share Data

| FY Dec. | 2005 | 2006 | 2007 | 2008E |
|-------------------------|-------|-------|-------|-------|
| Book Value (MYR) | 0.81 | 0.84 | 0.89 | 1.27 |
| Cash Flow (sen) | 17.8 | 17.0 | 17.8 | 18.0 |
| Reported Earnings (sen) | 5.0 | 6.3 | 8.5 | 8.6 |
| Dividend (sen) | 5.0 | 5.0 | 6.0 | 6.0 |
| Payout Ratio (%) | 71.9 | 56.9 | 50.9 | 50.1 |
| PER (x) | 19.2 | 15.2 | 11.3 | 11.1 |
| P/Cash Flow (x) | 5.4 | 5.6 | 5.4 | 5.3 |
| P/Book Value (x) | 1.2 | 1.1 | 1.1 | 0.8 |
| Dividend Yield (%) | 5.2 | 5.2 | 6.3 | 6.3 |
| ROE (%) | 6.3 | 7.7 | 9.9 | 8.0 |
| Net Gearing (%) | 313.7 | 467.4 | 204.0 | 130.9 |

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Background

Corporate Profile

Bina Puri Holdings (Bina Puri) through its subsidiaries and associates are engaged in civil engineering and building construction, property development, quarrying and manufacturing of polyol. The group was founded in 1975 and was listed on Bursa Malaysia's Main Board in 1995.

Bina Puri holds a Class "A" contractor's licence and has completed about MYR5 bln worth of projects over the past 33 years both locally and internationally. These include diversified multi-million Ringgit construction projects, e.g. roads and highways, bridges and interchanges, airport works, waterworks and land reclamation. Bina Puri has also completed various building works ranging from low, medium and high-rise residential, commercial and educational buildings.

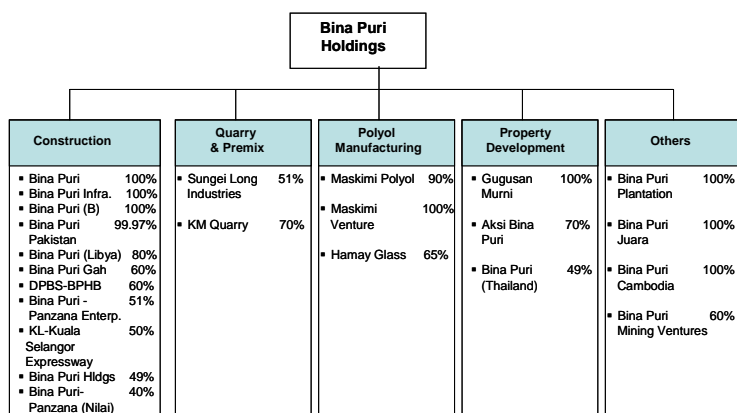
Notable local projects include the Jalan Pantai KK-Sulaman Coastal Road in Sabah (MYR315 mln), Capital Square development, which include retail centres and offices (MYR203 mln), North South Expressway (Alor Pongsu to Bukit Merah, Perak) (MYR217 mln) and a Mosque at Pulau Indah, Selangor (MYR950 mln).

On the international front, it has completed three major highways in India with combined value of MYR525 mln, a luxurious five star hotel in Nepal (MYR39 mln) and an access road for the Suvarnabhumi Airport in Bangkok (MYR183 mln). The group has operation offices in Vietnam, Thailand, UAE, Indonesia, Pakistan and Brunei.

Bina Puri's management comprises the Managing Director and key shareholder, Tan Sri Datuk Tee Hock Seng (16.4%) and his uncle, the founder-director, Dr Tony Tan Cheng Kiat, who owns an 11% stake. The group's largest shareholder, Jentera Jati holds a 24.6% stake.

We note that there are no significant issues with the corporate governance of Bina Puri. Independent directors are fairly well represented in the board by local standards and given its small size (three out of eight board members). In addition, the positions of Executive Chairman and Managing Director are held by two individuals with clear divisions of responsibilities between them.

Corporate Structure



Source: Company data

Business

Construction

The group presently has a substantial order book worth MYR2.2 bln, of which the unbilled portion is MYR1.2 bln. Overseas projects account for about 50% of the order book and include key projects such as the group's portion of the MYR141.2 mln UAE-AI-Reem project and the MYR185.1 mln housing development in Lahore, Pakistan. Bina Puri has also made successful inroads into Thailand in recent years via its 49% associated company, Bina Puri (Thailand). The present order book of Bina Puri (Thailand) stands at about MYR1.3 bln. The initial projects in Thailand was via a JV with Deva Property (not listed), secured more than MYR1.3 bln worth of projects from the National Housing Authority of Thailand (NHA) to build 30,000 of mainly low-cost apartments.

Bina Puri has been expanding its order book. Since early 2007 it has secured more than MYR600 mln worth of projects. The group is hopeful of converting Letters of Intent into confirmed additional projects worth more than MYR700 mln shortly. For its overseas projects, Bina Puri is looking for projects in Pakistan, Thailand, Brunei, Abu Dhabi, Saudi Arabia, UAE and Qatar.

Key Projects Secured

| | Project Value (MYR' mln) | Expected Completion |
|---|-----------------------------|---------------------|
| Local Projects | | |
| Civil Works | 355.2 | 1Q 08 to 1Q 2010 |
| Building Works | 905.6 | 2Q 08 to 3Q 2009 |
| Overseas Projects (exclude Thailand) | | |
| Civil Works | | |
| • Sg Liang Industrial Park, Brunei | 33.6 | 3Q 2008 |
| Building Works | | |
| • UAE AI-Reem Project | 141.2 | 4Q 2009 |
| • Housing Development, Lahore Pakistan | 185.1 | 4Q 2009 |
| Thailand Projects* | | |
| Building Works | 613.0 | 2Q 2008 to 3Q 2009 |
| | | -2.230 |

Source: Company data, S&P Equity Research

* Based on 49% of its share in Bina Puri (Thailand)

We believe the group won these contracts by pricing aggressively, against a competitive industry landscape. Margins are likely to be in the low single-digit range and the volatility of raw material prices leave little margin for error in project execution. To date, the group has not suffered losses from overseas projects though margins were razor thin. In 2007, construction generated the bulk of the group's turnover (75%) but contributed to only 31% of the group's net profit due to the relatively lower margin vis-à-vis its other businesses

KL-Kuala Selangor Expressway Concession

In February this year, Bina Puri and its partner, Arena Irama secured on revised terms from the Government, a 40-year concession to design, construct, operate, manage and maintain the expressway. The KL-Kuala Selangor Expressway is a 33km dual carriageway linking Assamjawa to Taman Rimba Templer. Bina Puri's 50% owned KL-Kuala Selangor Expressway (KLKSE) is the concessionaire for the project. Arena Irama owns the remaining 50% of KLKSE. The development cost of the expressway is estimated at MYR958 mln. The consortium recently appointed Mudajaya Corporation (MDJ MK, MYR3.60, Strong Buy) as the principal contractor of the expressway via a competitive tender exercise. We understand that Bina Puri is in the midst of finalising the concession agreement and financing arrangement. The project physical work is expected to commence in 3Q 2008 and completed within 30 months.

The expressway is expected to provide Bina Puri a stable income when it becomes operational. In addition, Bina Puri could also participate in part of the construction of the expressway if its price is competitive and acceptable to Mudajaya.

Quarry and Pre-mix

The group is one of the largest quarry operators in Selangor and a key supplier to the Selangor State Public Works Department and Dewan Bandaraya Kuala Lumpur (DBKL). Its quarry in Sungai Long, which operates on 640 acres of rock hill, produces and supplies many types of granite stone aggregates, ranging from blocks to quarry dust with production capacity of 150,000 MT per month. The group also has a quarry operation in Melaka to tap the state's market and also Johor. We understand that the group has plans to set up a quarry in Ipoh, Perak. The division also produces and supplies bituminous mixes for road and building construction, especially in the Klang Valley and Selangor. In 2007, the quarry and pre-mix generated 15% and 22% of the group's turnover and net profit.

Property Development

In 2007, the property division generated only 6% of the group's turnover but 38% of net profit due to its relatively higher margins. The contribution comes mainly from the on-going Jesselton condominium project in Kota Kinabalu with GDV of MYR64 mln. The project which was launched in November 2006 has already been fully sold and construction is expected to be completed end of the year.

The group recently launched Phase 2 of the Taman Malawa Jaya in Kota Kinabalu (GDV=MYR13 mln) early this year which comprises of 4-storey walk-up apartments totalling 96 units. To date, about 54 units have already been sold. Bina Puri is targeting to launch another development at Taman Puchong Impian 2 (GDV= MYR10.3 mln) at the end of this year, comprising 18 semi-detached houses and one bungalow. Bina Puri is looking to expand its property division via acquisition of land banks and joint ventures.

Polyol Manufacturing

The group is involved in the manufacturing and marketing of natural oil polyols (NOP) (essentially a composite material made from natural oils – e.g. palm oil – as opposed to petroleum) and NOP based polyurethane (PU). The product is environmental friendly and is used in industries such as building construction, refrigeration and furniture manufacturing. The PU is used as raw material for cold insulation, pipe insulation, roof panelling, furniture parts, spray foam, car bumper insert and others. Following seven

years of losses, its polyol manufacturing business turned in a small profit in 2004. In 2007, the polyol division accounted for about 4% and 8% of the group's turnover and net profit.

We believe polyol manufacturing has potential revenue growth opportunities given its recent breakthrough in the PU flexible foam industry, which allows supply to a larger market and provides an alternative to its present rigid foam product. The group exports its products to Brunei, Indonesia, Vietnam, Philippines, Singapore, Taiwan and the Middle East.

Earnings Outlook

Bina Puri has achieved steady earnings growth for the past three years, with a net profit of MYR7 mln in 2007, up 71% from 2005. However, in 1Q08, Bina Puri's net profit declined 12% YoY. This was due to margin squeeze arising from the escalating prices of raw materials such as steel bar, diesel and cement. This eroded its overall EBIT margin in 1Q08 (-1.3%-pts YoY to 1.4%). As a result, 1Q08 net profit declined 71% YoY to MYR1.2 mln, despite an increase in group revenue by 44% to MYR150.6 mln.

We have reflected the 1Q08 results in our 2008 projections but expect margins to improve. We understand that management is in the process of negotiating healthier margins for its construction projects to reflect the higher material cost, given that most contracts have built-in cost escalation clauses. We expect construction revenue, increased quarry and polyol demand and better margins to drive earnings forward. Supported by a significant outstanding order book of MYR1.2 bln, Bina Puri will be kept busy for the next few years. In addition, the group is hopeful of converting various Letters of Intent into additional projects worth more than MYR700 mln shortly, which will further boost its order book. However, we believe earnings risks are significant due to raw material price volatility. We project a net profit of MYR7.1 mln (+1% YoY) and MYR7.4 in 2009 (+4% YoY).

The group has a net debt of MYR141.2 mln as at end-March 2008, translating to a net gearing of 2.0x. Bina Puri has managed to pare down its net debt and net gearing from a high of MYR317.8 mln and 4.7x, respectively, as at end-Dec 2006. The reduction is due to the repayment of MYR102 mln of borrowings attributable to the Sipitang-Tenom Road project in Sabah. We expect the group's net gearing to decline to about 1.3x by the end of 2009 with improved earnings, pending additional borrowings that may be required for its equity portion for the construction of the KL-Kuala Selangor Expressway.

Valuation

We believe Bina Puri's is already fully valued and trading within the industry average of small- to mid-sized construction companies. The group's thin margins are vulnerable to sudden changes in industry and competitive conditions. However, the group's significant outstanding order book, potential new projects to be secured and steady contributions from its other divisions i.e. property, polyol and quarry will drive the earnings improvement.

Bina Puri Holdings

Recommendation: **HOLD**

Stock Code: 5932

Bloomberg: BIN MK

Price: MYR0.96

12-Month Target Price: MYR1.05

Date: June 20, 2008

We have valued Bina Puri based on blended 11x P/E and 0.8x P/B to our 2008 estimates. The target multiple is at the slightly higher end of the valuation range for small and mid-sized construction companies. This is due to its: (i) earnings visibility underpinned by a present strong order book; (ii) potential new projects worth about MYR700 mln (Letters of Intent already received) to add to its order book; (iii) steady earnings from Bina Puri's other divisions (iv) long-term recurring earnings from the KL-Kuala Selangor Expressway 40-year concession when it commences operation; (v) potential earnings from its participation in part of the construction of the expressway.

Profit & Loss

| FY Dec. / MYR mln | 2006 | 2007 | 2008E | 2009E |
|---------------------------------|-------|-------|-------|-------|
| Reported Revenue | 491.6 | 607.9 | 641.7 | 657.8 |
| Reported Operating Profit | 11.8 | 9.9 | 11.5 | 11.4 |
| Depreciation & Amortization | -8.6 | -7.7 | -7.7 | -7.7 |
| Net Interest Income / (Expense) | -5.1 | -4.4 | -4.4 | -4.4 |
| Reported Pre-tax Profit | 6.4 | 8.5 | 9.9 | 10.3 |
| Effective Tax Rate (%) | 19.2 | 6.5 | 10.0 | 10.0 |
| Reported Net Profit | 5.1 | 7.0 | 7.1 | 7.4 |
| Reported Operating Margin (%) | 2.4 | 1.6 | 1.8 | 1.7 |
| Reported Pre-tax Margin (%) | 1.3 | 1.4 | 1.5 | 1.6 |
| Reported Net Margin (%) | 1.0 | 1.2 | 1.1 | 1.1 |

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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Glossary

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.

S&P 12 Month Target Price – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

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 | 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 |
| 19-Oct-05 | Sell | 0.65 |

