

Company Update

Monday, 20 June 2007



For Internal Circulation Only

KLCI : 1,376.79

Sector : CONSTRUCTION

Bloomberg : BIN MK

Fair Value

RM1.63 (+44%) (Without Libya Job)

RM1.93 (+70%) (With Libya Job)

Analyst : Kamarulzaman Hassan

E-✉ : kamarul@ta.com.my

☎ : 20721277 ext 1614

Bina Puri Holdings Bhd

Unpolished Gem

RM1.13 Not Rated

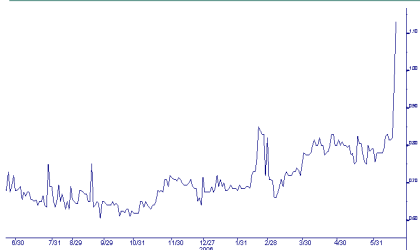
SHARE INFO

Stock Code		BPURI
Listing		Main Board
Enlarged Share Cap	(m)	80.9
Market Cap	(RMm)	91.4
Par Value	(RM)	1.00
52-wk Hi/Lo		1.17/0.60
Estimated Free Float	(%)	49.9%
Beta		1.11
12-mth Avg Daily Vol ('000 shrs)		54.9
Major Shareholders	(%)	
		Tee Hock Seng - 15.2%
		Tan Cheng Kiat - 11.2%
		Ibrahim Mohamed - 6.1%
		Tee Hock Hin - 6.0%
		Cheo Chet Ian - 5.3%
		Jentera Jati - 4.2%

RATIO & ANALYSIS

		FY06	FY07
NTA/Share	(RM)	0.84	0.88
P/NTA	(x)	1.34	1.28
ROE		15.9%	16.5%
ROA		1.71%	1.75%
Net Gearing	(x)	5.1	3.3

SHARE PRICE CHART



Source : Bloomberg

The Background

Bina Puri's history could be traced back to 1975. It started mainly doing small job and sub-contract works in civil as well as building works. Over the years, the company expanded into the Quarry & Brick as well as Ready Mix & Concrete businesses, complementing its existing construction core business. Growing in size, the company continues its success by being a main contractor specialising in the design and build projects. The group has completed wide range of projects locally and overseas and has shown resilience despite the Asian financial crisis. Its latest venture was into the property development with its Jesselton Building in Kota Kinabalu Sabah.

Huge Orderbook Under it's Belt

We visited Bina Puri on our rounds to the smaller cap construction players to see whether there is still any potential value for investors to reap. What we found out was quite remarkable given its outstanding orderbook is significantly large compared to its status as a "small" construction company status with a market cap of less than RM300mn. As illustrated in Table 1, Bina Puri's outstanding orderbook exceeds RM1.2bn, which is sufficient to last them for the next 2 to 3 years. Surprisingly, its overseas projects that focuses in Thailand makes up more than 50% of its orderbook.

EARNINGS SUMMARY (RMm) - BPURI

FYE Dec	2004	2005	2006	2007F*	2008F*	
Revenue	409.2	464.8	498.5	550	660	
PBT	4.8	3.3	5.4	14.0	16.7	
Tax	-0.6	1.7	-1.2	-3.0	-3.5	
Net Profit	4.7	4.1	5.1	11.0	13.2	
EPS	(sen)	5.8	5.1	6.3	13.6	16.3
Gross DPS	(sen)	0.0	5.0	5.0	5.0	5.0
Net DPS		0.0	3.6	3.6	3.7	3.7
PER	(x)	19.5	22.3	17.9	8.3	6.9
Sales Growth	(%)	-5.2	13.6	7.3	10.3	20.0
EPS Growth	(%)	14.6	-12.8	24.4	115.7	20.0
PBT Margin	(%)	1.17	0.71	1.08	2.54	2.52
Tax Rate	(%)	12.5	-51.5	22.2	21.5	21.0
Gross Dividend Yield	(%)	0.0	4.4	4.4	4.4	4.4
Net Dividend Yield	(%)	0.0	3.2	3.2	3.2	3.3

*Based on Company guidance

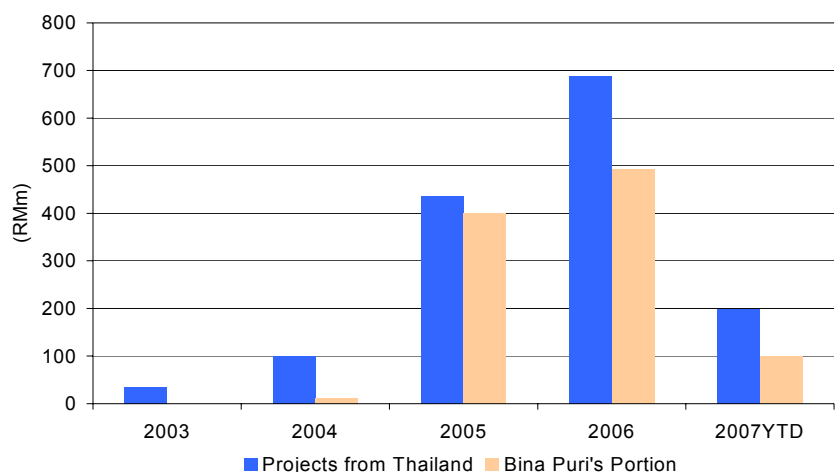
Table 1: Bina Puri's Orderbook

Overseas	
Low Cost Housing, Thailand	540.9
Mixed Development, Abu Dhabi @ 30% Stake	80.4
Local	
Dewan Undangan Negeri Complex	114.5
Students' Accomodation and Centre, Bangi	76.9
Jesselton Condo, Sabah	47.9
Capital Square Extension	26.2
Pasukan Gerakan Am, Muar	300.0
HQ 8 Plus, Subang	56.3
Ipoh-Lumut Interchange	54.7
Total Outstanding Orderbook	1,297.8
Potential	
Libya, Housing @ 60% stake	455.0
HUKM Extension	110.0
Assam Jawa -Taman Rimba highway	200.0
Malaysian Embassy, Moscow	150.0
New Holiday Inn, Mongolia	100.0
Potential Projects	1,015.0

Source: Companies, Bursa, TA Securities

Its successful ventures in Thailand can be dated way back in 2004 when it secures a small RM12mn low-cost apartment project for the Thai government. Having learned the "local" way, Bina Puri went with a bang by securing RM400mn project in 2005 and RM490mn in 2006 mainly from the Thai government. YTD, the group has secured close to RM100mn worth of contracts, however the clientele have changed from the government to private owners as the group is diversifying its business model in Thailand to achieve higher margin. The group expects to continue its success in Thailand and as a commitment, the group has set-up an office as well as deploying more personnel in Thailand to maintain its presence there.

Table 2: Thailand Projects Secured by Listed Construction Companies



Source: Companies, Bursa, TA Securities

More to Come from Overseas

In our meeting, the group has indicated that there are more contracts heading towards them. Based on our discussion, the group is finalising RM700mn worth of contract in Libya to build 3,000 units of houses. This we believe is the 1st phase out of the 3 phases, which will be awarded to Bina Puri. Although the management has declined to elaborate further, based on our sources, the group will be awarded project to build a total of 8,000 units of houses, valuing the project to around RM1.8bn, which is broken to 3 phases. The group is currently waiting to secure bond guarantee from EXIM bank before site hand over can take place in Libya. But what surprises us most is the potential margin that can be achieved. Based on our meetings with contractors that are venturing in Libya as well as some of the bankers that are actively involved, operating margin for building works can go as high as 10-15%. Most importantly is that the payment risk is minimal given that most of the contractors is given 15% advance payment and the rest of the payment is secured through irrevocable letter of credit by the Libyan government. The management is looking for the project to kick-start in 4Q07 while the impact to the bottomline to seep in FY08.

9MP beneficiary

One of the advantages that Bina Puri holds over other contractors is its ability to secure jobs from East Malaysia. Note that Sarawak is usually close to peninsular contractors but surprisingly enough, Bina Puri has been getting a fair slice of the cake with the RM229mn new Dewan Undangan Negeri Complex. Its exposure in Sabah is also phenomenal as the group has completed more than RM700mn worth of projects in the state over the past 3 years. With the impending 9MP spending in the East Malaysia, we believe the group is poised to secure more works. During the meeting, the group indicated that they are looking to secure additional RM500mn worth of contracts but no details were given.

After digging up our sources, we found out that Bina Puri has gotten a LOI to build a Malaysian Embassy in Moscow for RM150mn. Additionally, the group is also a frontrunner in the tender to expand Hospital University Kebangsaan Malaysia in Cheras valued at RM100mn-120mn. The group also holds an letter of intent to Assamjawa Taman Rimba Templer worth RM200mn that is still at discussion stage at Economic Planning unit. A quick check of the Lembaga Lebuhraya Malaysia website, out of the 23 highways on the list (Table 3), 4 highways are currently under construction while 2 highways have yet to begin construction namely Ipoh-Lumut Highway (which were awarded to Silex Sdn Bhd - Consortium of MRCB, Pasdec and Perak Government) and Assam Jawa - Taman Rimba Highway. Hence, looking at the list, we believe that Assam Jawa-Taman Rimba highway is likely to be implemented but just a matter of settling the finer details of the BOT agreements.

Table 3: Highways in Malaysia

Operational Highways

- North - South Expressway
- Kuala Lumpur - Karak Expressway
- Penang Bridge
- Shah Alam Expressway
- Kulim - Butterworth Expressway
- North-South Expressway Central Link
- Seremban - Port Dickson Expressway
- Malaysia-Singapura Second Crossing Expressway
- Sungai Besi Expressway
- Cheras - Kajang Expressway
- Damansara - Puchong Expressway
- Ampang Elevated Highway
- Western KL Traffic Dispensal Scheme (SPRINT)
- New Pantai Highway
- Kajang Traffic Dispensal Ring Road
- East - Coast Highway
- Guthrie Corridor Expressway(GCE)

Highways In Construction

- Butterworth Outer Ring Highway
- Kajang -Seremban Highway
- KL-KLIA Dedicated Highway
- Stormwater Management and Road Tunnel Project (SMART)

Signed Concession (Still Not in Construction)

- Assam Jawa - Taman Rimba Highway
- Ipoh - Lumut Highway

Source: Lembaga Lebuhraya Malaysia

Thin Margin is a Concern.

One of the setbacks that we noticed when going through the group's financial details was its low margin. Based on its historical performances, the group pretax profit has been trading at a thin margin of 2.5% in 2002 and declined to a low of 1.1% in 2005 before some improvement in 2006 at 1.3%. We questioned the management and we were told that the reason for the lower margin is due to a very competitive environment in the last couple of years. Additionally, the group was also hit by the rising raw material prices which could not be passed on to customers due to design and build concept (note that most of the tender was done 2-3years ago and the award was mid last year).

In order to address this issue, the group has taken several proactive measures to assure higher margin in the future that includes: 1) Having a better mix of clientele between public and private in its overseas ventures; 2) The group does not expect any further hike in raw material prices in the future and hence new projects secured should be having a better margin; 3) Its new venture in Libya is expecting to have much superior margin as compared to local and its Thailand ventures and 4) Its other divisions mainly the quarry & brick and ready mix & concrete are expected to show better performances due to stronger demand. Going forward, we expect the group to report a pretax margin of 2.5% for FY07 before climbing to more than 3% in FY08 and FY09. As reported in the group's 1QFY07 results, the group pretax margin has improved by more than 40bps to 1.72% as compared to 1.3% reported for FY06.

Valuation looks attractive - Two scenarios

Given that Bina Puri is not under our coverage, we will be giving two scenarios to investors in order to be fair (given that some investors are skeptical on the new Libyan job). The first scenario is based on current orderbook while the second scenario would include the new RM700mn Libyan job.

First scenario: Based on the management guidance, the group is looking to report net earnings of RM13.2mn in FY08, which translate to an EPS of 16.3 sen. We believe the guidance given by management is fair given that the company is looking to register a conservative pretax margin of 2.5% for the year. Attaching the prospective FY08 EPS to construction mid to small cap (below RM1.5bn market capitalisation) target PER of 10.0x (Table 4), we derived a fair value of RM1.63.

Second scenario: If we assume that the Libyan work worth RM700mn to be completed in 36 months beginning of CY08, a conservative pretax margin of 2.5% and tax rate of 30% (although the group is expected the margin to be much higher), we could see that the group's earnings is expected to be enhanced by RM2.45mn or 18.6%. Hence, if we attach the enhanced EPS of 19.3 sen to the same PER above, we derived a fair value

Table 4: Peer Comparisons

	EPS (RM)		PER		DPS (RM)		Dividend Yield	
	2007	2008	2007	2008	2007	2008	2007	2008
AZRB	0.433	0.519	7.39	6.17	0.15	0.15	4.69	4.69
Crest Builder	0.187	0.214	6.04	5.28	0.075	0.084	6.64	7.43
Ekovest	0.127	0.221	21.10	12.13	0.05	0.05	1.87	1.87
Naim Cendera	0.38	0.46	13.42	11.09	0.19	0.26	3.73	5.10
MTD Capital	0.202	0.31	10.59	6.90	0.04	0.05	1.87	2.34
HSL	0.343	0.422	11.90	9.67	0.14	0.14	3.43	3.43
Protasco Bhd	0.103	0.112	10.68	9.82	0.089	0.088	8.09	8.00
Brem Hldgs Bhd	0.134	0.126	11.64	12.38	0.286	0.08	18.33	5.13
Melati Ehsan Hldgs Bhd	0.211	0.23	6.97	6.39	0.063	0.09	4.29	6.12
Loh & Loh Corp Bhd	0.217	0.3	14.01	10.13	0.08	0.08	2.63	2.63
Sunway Holdings	0.086	0.108	16.74	13.33	0.001	0.001	0.07	0.07
Mudajaya Holdings	0.188	0.321	24.26	14.21	0.05	0.05	1.10	1.10
Muhibbah	0.354	0.41	20.48	17.68	0.05	0.065	0.69	0.90
Ranhill	0.199	0.24	10.15	8.42	0.05	0.05	2.48	2.48
Simple Average			13.24	10.26				

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for **TA SECURITIES HOLDINGS BERHAD**
Yaw Chun Soon, Executive Director - Operations

TA Securities Holdings Berhad (14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Menara TA One, 22 Jalan P Ramlee, 50250 Kuala Lumpur, Malaysia
Tel : 603 - 2072 1277. Fax : 603 - 2032 5048