AmResearch

Sector report

03 Dec 2014

SPECIAL FOCUS: PENANG

Penang Transport Master Plan: convergence of connectivity and rising land values

OVERWEIGHT

(Maintained)

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Rationale for report: Sector update

Investment Highlights

- **RM27bil Penang Transport Master Plan.** In this report, we highlight several evolving trends that may underscore the property up-cycle in Penang. At the core is the RM27bil Penang Transport Master Plan (PTMP), an ambitious project to drive the convergence of infrastructure and connectivity via an undersea tunnel, LRT, five new highways as well as a revamped public transportation system. Mooted by the Penang state government back in 2008, the request for proposals (RFPs) will close in February 2015 with the shortlisted Project Delivery Partners (PDPs) to be announced within six months. Based on our channel checks, the state government has already received ~50 proposals from potential PDPs.

  The mandate for PTMP's first component – the RM6.3bil Penang Third Sea Crossing – was awarded to a Sino-Malaysian consortium, Zenith-BUCG. This parcel involves the construction of three road bypasses and a 6.5km undersea tunnel that connects the end of Gurney Drive to Bagan Ajam on the mainland. The project is currently undergoing feasibility studies. The focus will now gravitate towards the balance RM20bil of infrastructure works.

- **PDP structure:** Under the PTMP, the PDPs will be entrusted to execute the entire project; i.e. from financing until ownership (likely to be on a BOT basis). This is because the state government's fiscal revenue is limited to quit rents, land premium, and more importantly, sale of state land to PDP partners as payment-in-kind. Therefore, the supply and demand dynamics of the Penang property market is crucial to the successful funding of the PTMP. The property market must remain strong to entice the PDPs to accept the land swap arrangements.

- **STP2 – a crucial source of funding:** There have been talks of the state government embarking on new reclamation projects including the Penang Middle Bank (1,500 acres), located opposite IJM Land's highly successful The Light project. Nonetheless, we do not believe these projects will not take off anytime soon due to tough regulatory approvals by the Federal authorities. Hence, the primary source of land for the state government will be the pre-approved reclamation projects. The most significant parcels of prime land anchoring the PTMP are in Sri Tanjung Pinang 2 (STP2), where Eastern & Oriental (E&O) will soon be reclaiming some 760 acres of sea-fronting land to create an island opposite its existing upper-end township, STP1. E&O will also be reclaiming 131 acres along the Gurney Drive shorefront.

  In return, the state government will be given 110 acres of land, comprising 60 acres (gross land: 88 acres) of net land at STP2 and 50 acres in Gurney Drive. Earmarked to be given to the Zenith-BUCG consortium as part payment for the undersea tunnel, we estimate the combined value of the land to be about RM4.2bil. The state government also has a 21.2% stake in the STP2 and plays a pivotal role in funding the PTMP.

- **We have raised our fair value for E&O to RM4.73/share,** based on a 50% discount to our NAV of RM9.47/share. We have assumed a higher land value of RM500psf for STP2 compared to RM250psf given our expectations that E&O is moving closer to the divestment of a commercial land parcel at STP2 to an established global developer. Award of reclamation tender is expected in February and reclamation works will follow suit in March 2015.

- **Net accretion to PDP estimated at RM5.7bil:** In this report, we also built a scenario analysis to show potential value accretion for the PDP partners based on certain assumed parameters to arrive at the NPV for the various components of the PTMP. We estimate the net value to be RM5.7bil: (i) NPV of LRT/Bus Rapid Transit concessions – net of assumed state subsidies worth RM6bil (RM3.7bil); (ii) concession debt of RM6.6bil; (iii) prime land parcels as payment-in-kind (RM2bil); and (iv) NPV of other public transport upgrade projects (RM34mil).

- **Gamuda at the forefront of PDP bids:** Gamuda’s perceived advantages are:- (i) its existing role as PDP for both the Klang Valley Lines 1 & 2; (ii) extensive tunneling expertise (e.g. Klang Valley MRT/Kaoshiung MRT, SMART Tunnel); and (iii) balance sheet strength. Assuming it successfully secures a 50% stake in the winning PDP consortium, we estimate Gamuda’s NAV to potentially increase by 14% to RM6.94/share; it will rise further to RM7.10/share if we factor in another RM0.17/share upside from its recent appointment as PDP for the Klang Valley MRT 2.

- **Other key beneficiaries:** As Penang Sentral’s status as the state’s future transport hub complements the PTMP, **MRCB** stands to benefit as the state government’s transport initiatives take shape. With the Tun Dr. Lim Chong Eu Expressway chosen as the starting point for two new major highways earmarked under the PTMP, the associated gains in future connectivity should add further premium to **IJM’s** The Lights as it embarks on Phase 2 (GDV: RM6.5bil) of this flagship development next year. Likewise, the opening of Second Penang Bridge last March bodes well for the remaining phases of **Mah Sing’s** Southbay City (GDV: ~RM2.7bil), located 1km away from the bridge at Batu Maung. The same positive re-rating catalyst applies to **Titijaya Land's** Batu Maung project (targeted launch: 2H 2015) located next to Southbay.

PP 12246/05/2013 (032379)

BUILDING FOR THE FUTURE

During our recent visit to Penang, we sensed that the state government is ramping up efforts to overhaul its infrastructure network – and more importantly, alleviate traffic congestion woes.

To this effect, the state government has drawn up a comprehensive RM27bil framework dubbed the Penang Transport Master Plan (PTMP) to improve its entire transportation network and system by 2030.

These initiatives, if properly executed, will improve accessibility, besides opening up new growth areas, e.g. Batu Maung on Penang Island and Batu Kawan (south of mainland Seberang Prai).

Along with the state government's concerted efforts to draw investments and create jobs –an example is the Penang Development Corp's (PDC) recently inked RM11bil MoU with Temasek to develop a business and technology hub in the state –we envisage these infrastructure-driven improvements to spur further gains in Penang's vibrant property market.

More importantly, we expect these major initiatives to create significant infrastructure opportunities for Malaysian contractors. Indeed, the spotlight will turn to the balance RM20bil of major infrastructure works being lined up within Penang over the next 25 years. The first component – the RM6.3bil Penang undersea tunnel project – was awarded to the Zenith-BUCG Consortium last October (feasibility studies and detailed design works to be completed by end-2015).

The state government's preferred approach is to appoint a Project Delivery Partner (PDP) to co-ordinate the entire project. The request for proposals (RFPs) – which have attracted ~50 suitor's to-date – will close next February. This will be quickly followed by the contract award in six months' time (i.e. by 3Q15) as physical works on the PTMP are scheduled to start by 2016.

Given the huge financial and technical requirements, our view is that the bidders will likely form consortiums to strengthen their chances, which include tie-ups with international contractors of repute. Among the pack, we believe Gamuda has the upper hand over its rivals.

To be sure, Gamuda already possesses the:-

(i) Necessary track record in handling MRT jobs. It is the PDP and tunnelling contractor for the Klang Valley MRT Line 1, and was recently appointed as the PDP for the MRT Line 2 as well (via a JV with MMC);

(ii) Relevant expertise in handling tunnelling works, i.e. Klang Valley MRT 1, Kaohsiung MRT and SMART tunnel; and

(iii) Balance sheet strength.

In our base scenario analysis, we assume that Gamuda will successfully secure a 50% stake in the PDP consortium that is chosen for the PTMP. The net value accretion to Gamuda, we estimate, is ~RM2bil. This will potentially lift Gamuda's NAV by c.14% to RM6.94/share; it will rise further to RM7.10/share if we factor in another RM0.17/share upside from its recent appointment as PDP for the Klang Valley MRT 2.

MRCB is another key beneficiary; its proposed Penang Sentral development (approved by the state government in September) is set be the main transport hub for Penang and the northern region of Peninsular Malaysia. Phase 1 (GDV: RM512mil) consists of a transport hub, terminal, and retail mall. While not directly under the PTMP, Penang Sentral certainly complements the state government's transport improvement agenda. This suggests more upside to the entire project's initial GDV estimate of ~RM2bil.

The imminent roll-out of the PTMP is a timely boost for IJM Land's The Lights in Jelutong, as it moves to launch the commercial components under Phase 2 (total GDV: over RM6bil). Strategically located along Tun Dr. Lim Chong Eu Expressway near the Penang Bridge, we envisage more value creation for The Lights going forward. Future accessibility to this flagship development will be gradually enhanced once two new bypasses earmarked under the PTMP – i.e. Air Itam Bypass and Jln. Pangkor-Tun Dr. Lim Chong Eu Expressway –are completed by 2020.

Last but not least, the opening of the Second Penang Bridge in March bodes well for the remaining phases of Mah Sing Group's Southbay City (GDV: ~RM2.7bil), which is located only 1km away from the bridge at Batu Maung. Future transport projects, as announced under the PTMP, should provide a kicker to this sea-fronting development. While its existing Penang landbank only makes up c.4% of the group's total GDV of RM65bil, management remains keen to replenish landbank in Penang, especially on the mainland, granted that the pricing and terms are favourable.

The same positive re-rating catalyst applies to Titijaya Land's Batu Maung project (targeted launch: 2H 2015) located next to Southbay.

HOLISTIC APPROACH

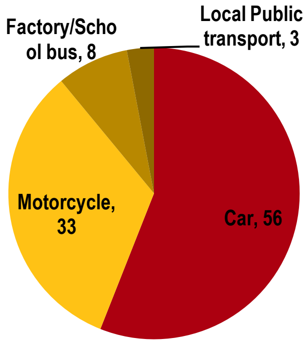
❑ ***20-year blueprint***

Since taking office in 2008, the state government has identified traffic congestion as a key impediment to Penang's overall progress.

As such, the PTMP was hatched to tackle Penang's traffic woes. This comprehensive plan – involving the integration of Penang Island and its mainland, akin to Hong Kong and Kow Loon –was drafted to allow for greater mobility of passengers and goods vehicles.

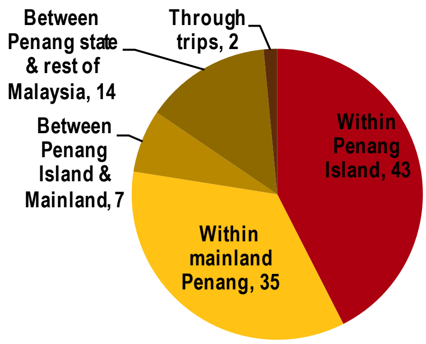
In May 2011, the Penang government and the Northern Corridor Implementation Authority (NCIA) appointed International consultancy firm Halcrow, AJC Planning

EXHIBIT 1: PENANG'S SHARE OF TRANSPORT MODES



Source: Penang Transport Master Plan, AmResearch

EXHIBIT 2: PENANG'S SHARE OF TRANSPORT MODES



Source: Penang Transport Master Plan, AmResearch

Consultants, and Singapore Cruise Centre to formulate a sustainable transport master plan strategy for the island state.

The 18-month study – costing RM3mil of which the Northern Corridor Implementation Corridor (NCIA) funded 40% of it – aims at providing a holistic, state-wide approach to address transportation problems.

It was completed in March, with the state government starting to look earnestly into its implementation in January this year.

Key items on the agenda include proposals to improve Penang's existing transport network, construction of new highways, public transportation systems and associated facilities.

Efforts were also made to conduct a series of meetings and workshops with various stakeholders within Penang's transportation system (e.g. NGOs, government bodies and interest groups) to identify any transport-related issues.

❑ *Three phases*

The estimated cost of this massive project is ~RM27bil. It is to be implemented over key three phases:-

(1) **2011-2015:**Creating building blocks/studies

(2) **2015-2020:** Measures to derive the best out of existing transport networks within Penang

(3) **2015-2020:** Implementation of major infrastructure projects within Penang

❑ *Moving people, not just vehicles*

In line with best international urban transportation practises, the state government's preferred option is a balanced approach.

Over the next 20 years, the overarching aim is to achieve a transport mix of 40% public transport and 60% private vehicles.

According to the PTMP, 225k-250k person trips are made (via both public and private transport) within the state during morning peak hours. Vehicles carrying goods account for another 3,250 to 5,250 trips.

Out of this total, trips within Penang Island make up the bulk at c.42% – followed by mainland Penang at 35%.

During weekday peak hours in the morning and evening, 56% of these trips are made by cars, motorcycles (33%), factory/school buses (8%), and local public transport (3%).

At the same time, the population in Penang is expected to rise from ~ 1.6 million in 2010 to 2.4 million by 2030.

To cater to the state's future travel needs, it is therefore imperative that public transport options rise in tandem.

Based on the master plan, it is anticipated that Penang's transportation woes will worsened by 2030 if nothing is done to circumvent it:

- The number of person trips made in the weekday morning peak hours will rise from 225k currently to 335k;
- Share of public transport mode will remain low at a tad below 4%;
- Overall number of vehicle kilometres travelled on Penang's roads will jump by more than 70%.

Ultimately, a paradigm shift in Penang's existing transportation system – along with a change in the mindset of local travelling habits – is required for Penang to achieve its targeted 40% public transport mode share by 2030.

INFRASTRUCTURE AND CONNECTIVITY

❑ *Second Penang Bridge: driven by social-economic reasons*

After several false starts, the long-awaited Jambatan Sultan Halim Mu'adzam Shah (Second Penang Bridge) opened to motorists on March 1, 2014. Users are charged RM8.50 per trip. This new 24km Second Penang Bridge is the longest in Southeast Asia.

It links Batu Kawan at Southern Prai on Penang's mainland to Batu Maung on Penang Island. Federal-backed Jambatan Kedua Sdn Bhd (JKSB) was earlier appointed as the concessionaire for the toll bridge.

From our checks, this second link will help ease traffic congestion along the first Penang Bridge by 20% to 30%.

EXHIBIT 3: PENANG THIRD SEA CROSSING TIMELINE

Details	Phase	Description	Timeline
Pre-construction Stage		Feasibility studies and design	2013-2015
Construction Stage	1a	2km Elevated 4 lane expressway and 2.2km tunnel from Tun Dr. Lim Chong Eu Expressway to Air-Itam/Farlim	2015-2018
	1b	11.5km paired road from Tg.Bungah to Batu Feringhi	2015-2018
	2	4km 4-lane underground tunnel from Jln. Pangkor to Tun Dr. Lim Chong Eu Expressway	2017-2020
	3	6.5km 4-lane undersea tunnel from Jln Pangkor to Bagan Ajam (Penang-Butterworth)	2019-2023

Source: AmResearch, Zenith-BUCG

Meanwhile, three traffic dispersal packages are currently being implemented over the next two to three years to improve traffic flow, in tandem with the opening of the bridge. The packages are:

(1) Second Penang Bridge interchange to Queensbay: Works began a year ago and are set to complete in less than three years.

(2) Second Penang Bridge interchange to Bayan Lepas via Batu Maung: To be ready by 2015 (contracts have been tendered out; land acquisitions had begun in July 2013).

(3) An elevated highway starting from Bayan Lepas Airport to Teluk Kumbar. Works began on 17 February, and should take 30 months to complete.

These set of projects are set to complete in three years' time.

❑ *Third Sea Crossing*

The Penang government had in October 2013, approved the development of the Third Sea Crossing that consists of an undersea tunnel and three road bypass projects.

This massive project is to be undertaken by Consortium Zenith-BUCG.

Apart from Zenith Construction Sdn Bhd, the consortium comprises Sri Tinggi Sdn Bhd, Juteras Sdn Bhd, and Chinese state-owned conglomerates Beijing Urban Construction Group (BUCG) and China Railway Construction Corp.

The Third Sea Crossing is a vital cog of the Penang government's transport improvement agenda after several other infrastructure proposals – mostly requiring the Federal government's assistance or endorsement (e.g. Penang Outer Ring Road or PORR and another monorail project) – failed to make any headway.

Key project components (to be built over four phases) are:-

(1) 4km road and tunnel link between Tun Dr. Lim Chong Eu Expressway and Bandar Baru Ayer Itam/Farlim - (Air Itam Bypass);

(2) 12km expansion of an existing paired road from Tg. Bungah to Teluk Bahang, which includes either a bridge or tunnel crossing Mt.Erskine (North Coast Pair Road);

(3) 4kmunderground tunnel between Tun Dr. Lim Chong Eu Expressway and Persiaran Gurney Highway (George Town Inner Ring Road); and

(4) 7.2km Penang-Butterworth link, of which 6.5km will be the undersea tunnel *(Refer to later section for more details).*

The new undersea link connects Jln. Pangkor near Gurney Drive – on the northern portion of the proposed George Town Outer Bypass –to the Butterworth Outer Ring Road at Bagan Pajam, on mainland Penang.

EXHIBIT 4: PENANG THIRD SEA CROSSING ROAD PROJECTS

Source: Penang government,AmResearch

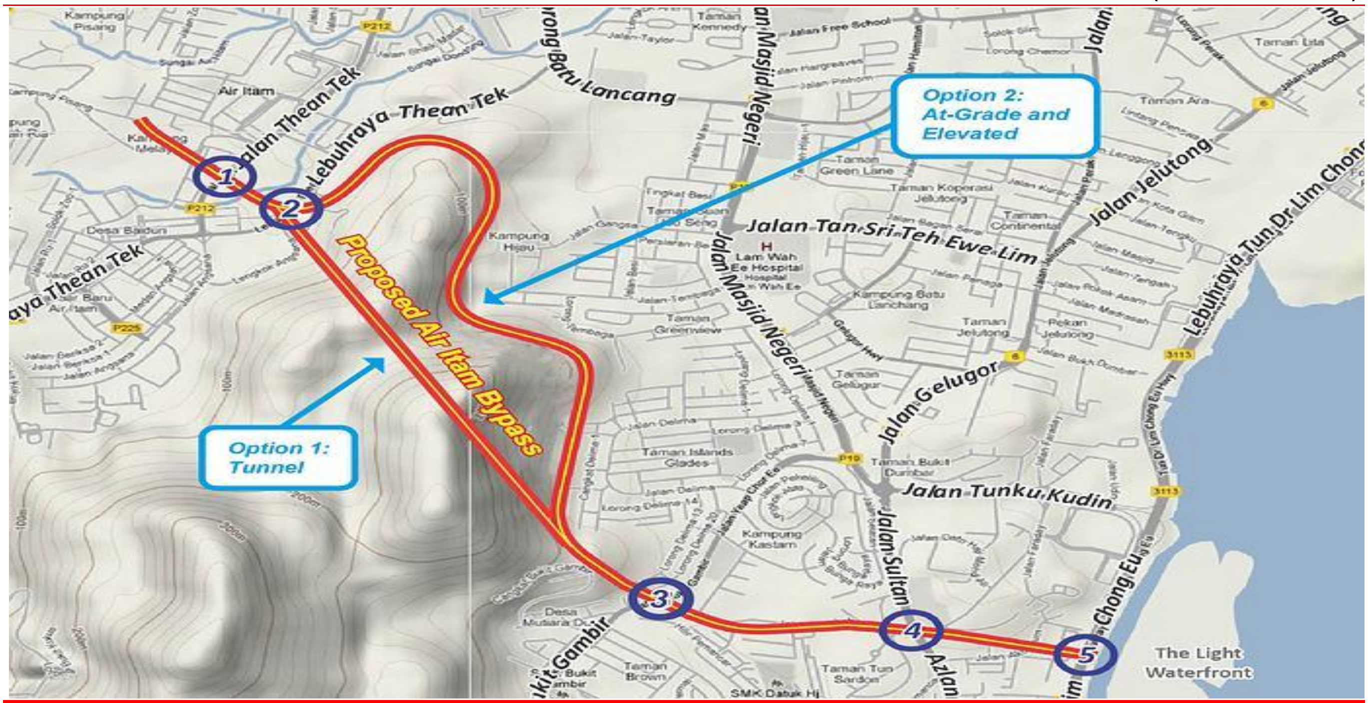
It will be constructed as a tunnelled sea crossing, with at least two traffic lanes in each direction. As per the Zenith-BUCG's original schedule, construction works was to be done by 2023 – at least two years ahead of the timeline set under the PTMP (2025-2030).

The estimated cost of the entire project is ~RM6.3bil. As payment in kind, Zenith-BUCG will be given the rights to:-

(i) **A 30-year toll concession:** The toll collection applies only to the undersea tunnel portion, with toll rates being tied to the Second Penang Bridge.

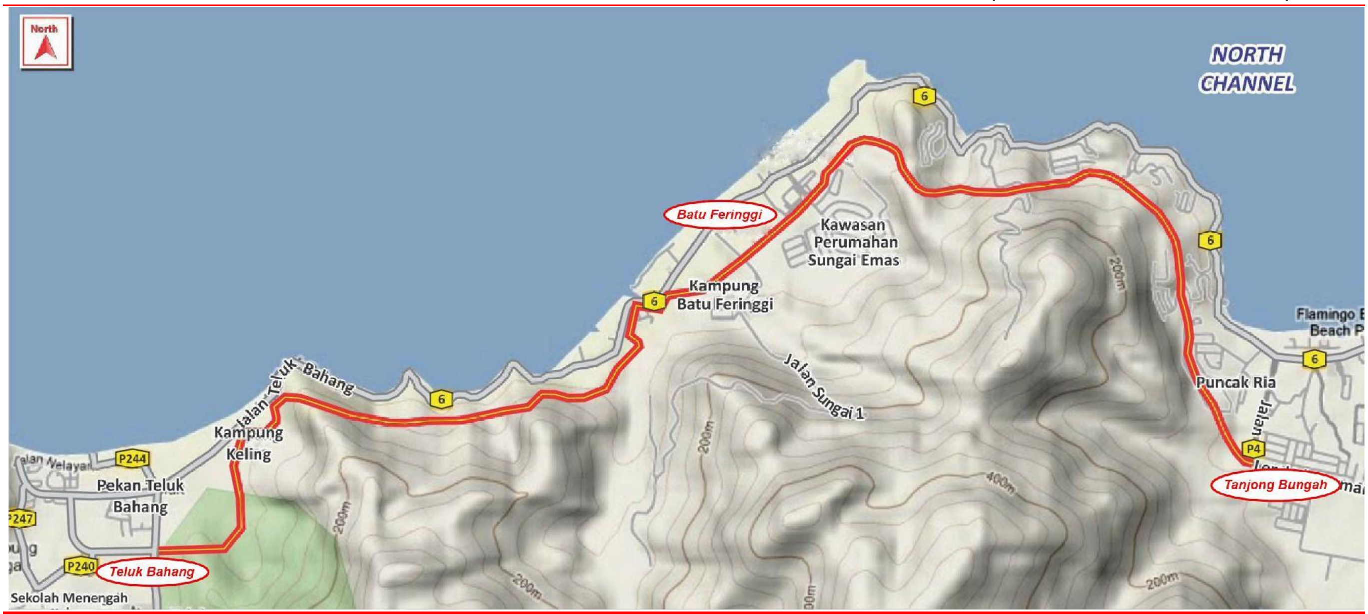
(ii) **110 acres of reclaimed land by the state government:**(60 acres net land) from Eastern &Oriental's (E&O) proposed Sri Tanjung Pinang 2 (STP2) and 50 acres along the shoreline towards Gurney Drive.

EXHIBIT 5: PENANG THIRD SEA CROSSING PHASE 1A - TUN DR. LIM CHONG EU EXPRESSWAY-AYER ITAM (AIR ITAM BYPASS)



Source: AmResearch, Zenith-BUCG

EXHIBIT 6: PENANG THIRD SEA CROSSING PHASE 1B - TG.BUNGAH-TELUK BAHANG (NORTH COAST PAIR ROAD)



Source: AmResearch, Zenith-BUCG

The total amount of reclaimed land to be received has since been revised to 100 acres following a 9-acre tract along STP1 that the Penang government has carved out to the consortium earlier this month *(please see section below).*

While the Second Penang Bridge was most likely conceptualised to lift social-economic development at Batu Kawan– predominantly an industrial area at the moment – the Third Sea Crossing project is pivotal in de-congesting Penang's traffic snarl, we believe.

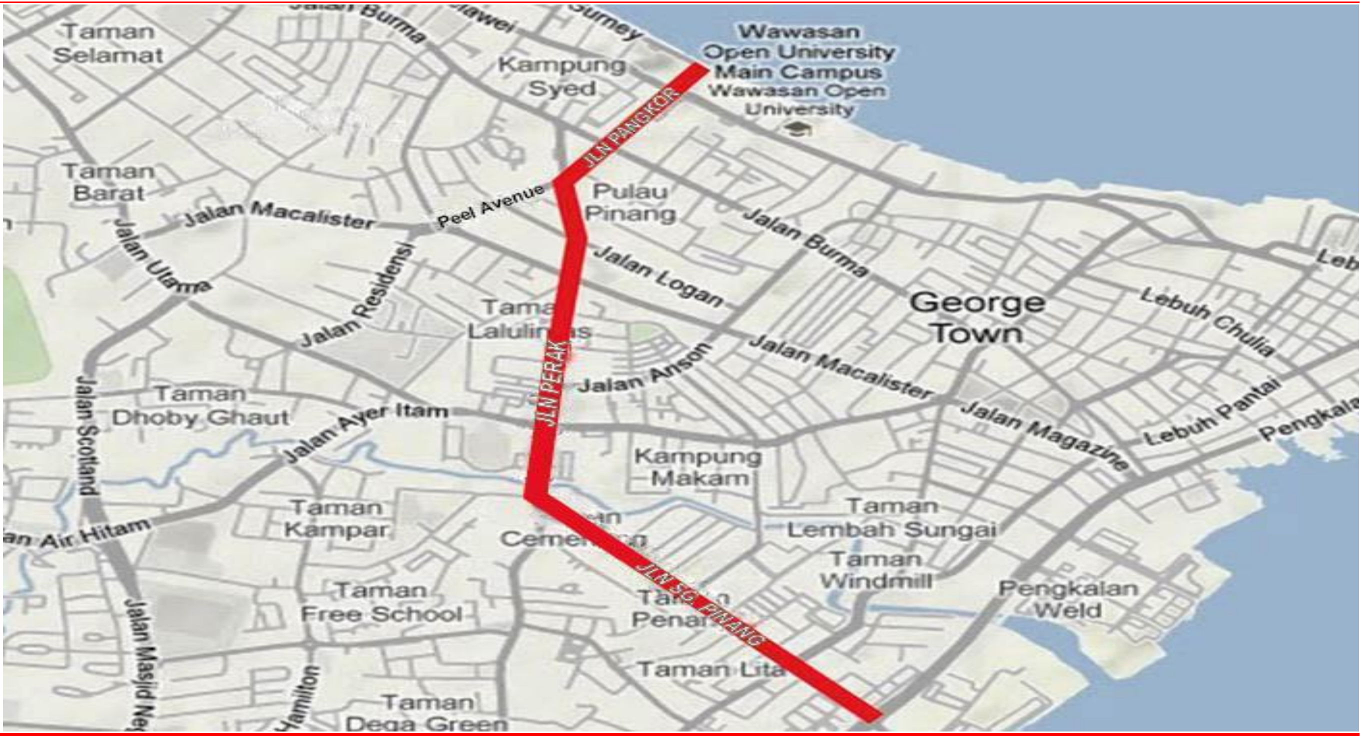
The existing road network on Penang Island does not have a middle-ring road that can channel traffic out. On the other hand, roads within Georgetown and the city center are too small to cope with heavy traffic load.

Hence, this new link is required to ease traffic along the main road arteries leading to and from Georgetown, as well as the busy Gurney Drive stretch.

On the island, there will be two main access paths to the tunnel – i.e. the northern portion of the George Town Outer Bypass and Tun Dr. Lim Chong Eu Expressway on the eastern part of George Town – once both the George Town outer and inner ring roads are implemented.

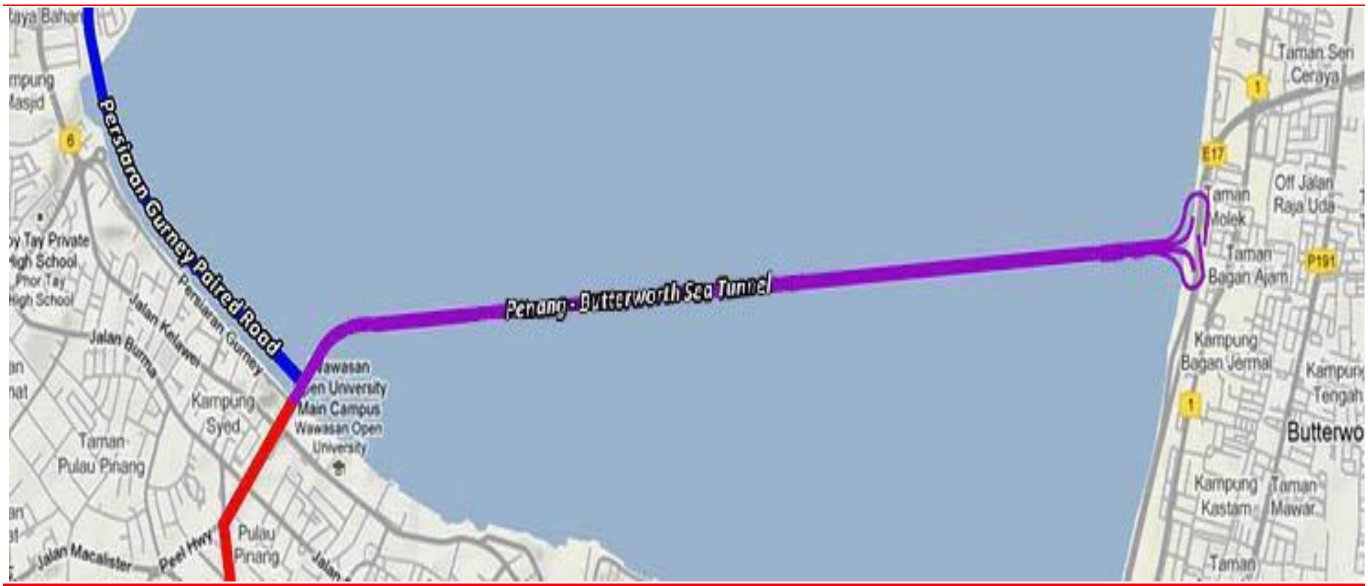
As part of its obligations under STP2, E&O is also set to build two bridges of five metres deep each and 400 metres long. One connects STP1 with STP2, and the other connects STP1 to Gurney Drive that will also link up to the undersea tunnel.

EXHIBIT 7: PENANG THIRD SEA CROSSING PHASE 2 - TUN DR. LIM CHONG EU EXPRESSWAY- GURNEY HIGHWAY



Source: Zenith-BUCG, AmResearch

EXHIBIT 8: PENANG THIRD SEA CROSSING PHASE 3: PENANG-BUTTERWORTH UNDERSEA TUNNEL



Source: AmResearch, Zenith-BUCG

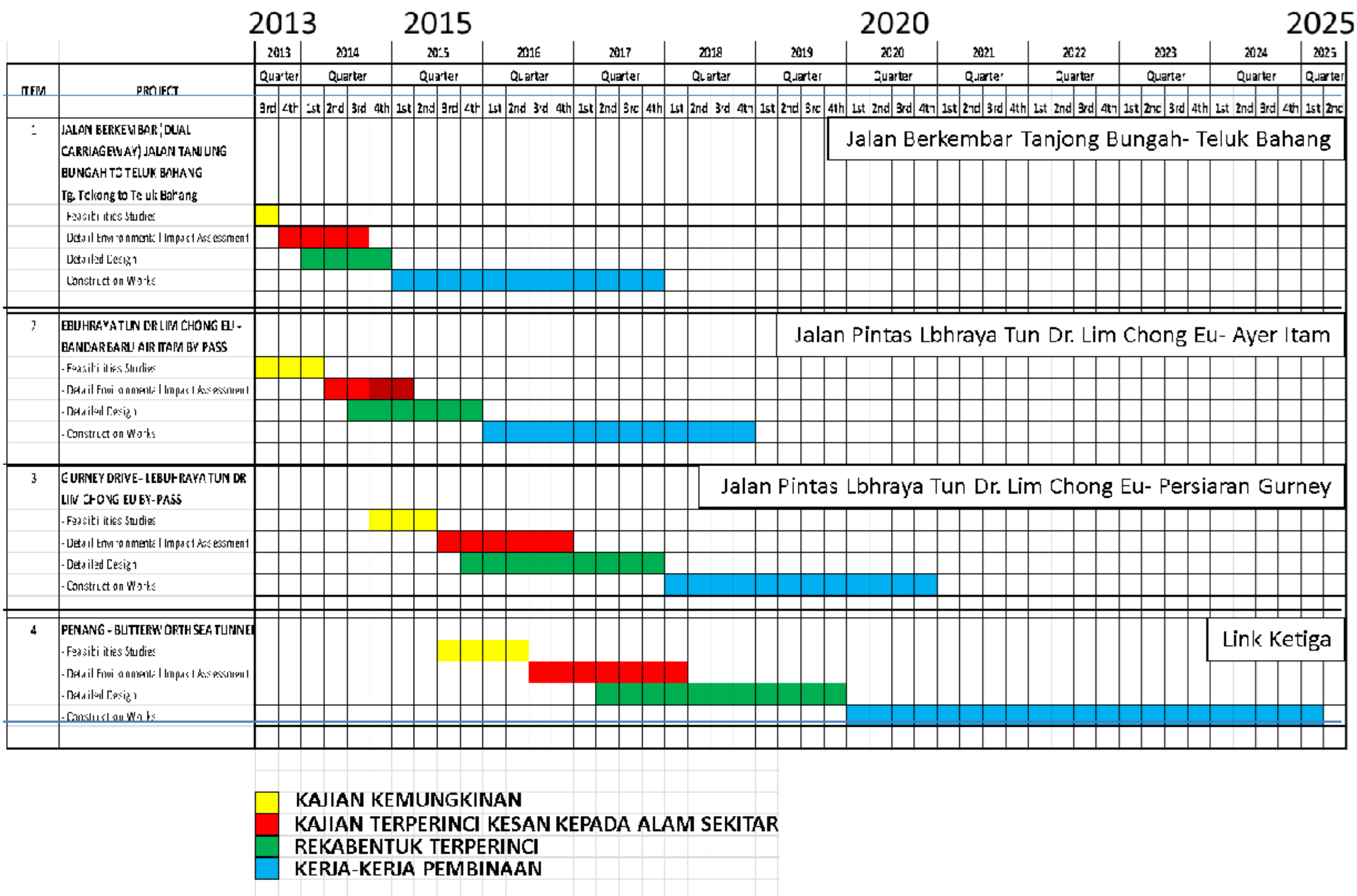
From our latest checks, the undersea tunnel project is still at the feasibility stage. The preliminary report was supposed to have been ready by April this year. However, it has since been delayed, possibly partly due to the termination of a contract to conduct the feasibility studies.

Recall that Zenith PMC Sdn Bhd, a unit of Zenith Construction, had in September 2013, signed a JV agreement with Astral Supreme Construction Sdn Bhd to carry out a feasibility study, design and environmental impact assessment (EIA) for the undersea tunnel.

EXHIBIT 9: PENANG THIRD SEA CROSSING OVERVIEW

Source: Zenith-BUCG AmResearch

EXHIBIT 10: PENANG THIRD SEA CROSSING TIMELINE



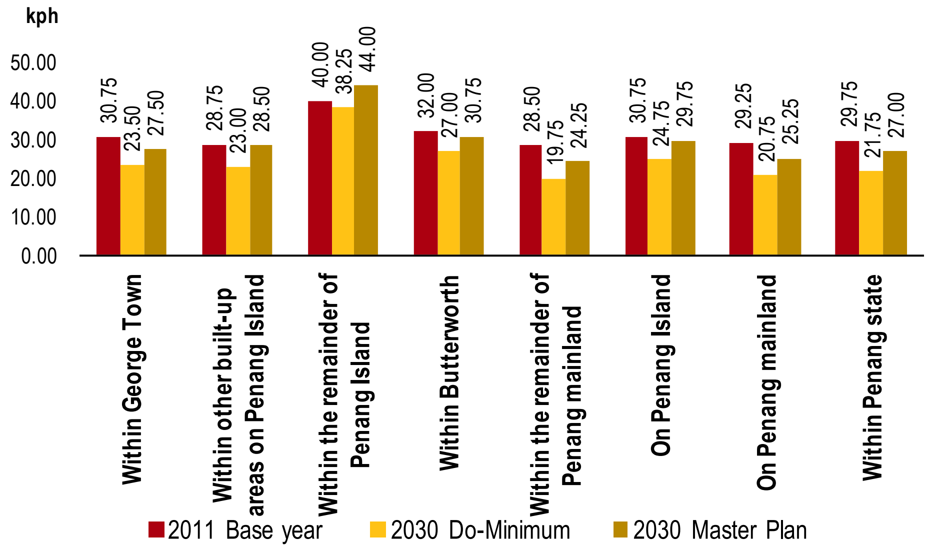
Source: Zenith-BUCG AmResearch

These requirements must be met before detailed design works can be carried out to ascertain the final budget for the project. The JV was subsequently terminated in August; feasibility studies for the main roads in Penang are now being carried out by professional consultants before it is vetted by a state-appointed independent consultant.

Physical works should kick-off by early-2016 if Penang is to fulfil its ultimate mission of having an integrated transport network at its disposal by 2030.

To be sure, our ground check indicates that the Penang government could appoint a PDP to coordinate the PTMP's execution by 3Q15,approximately six months after tenders for the PDP contract close (refer to section below).

EXHIBIT 11: TRAFFIC CONDITIONS IN PENANG UNDER DIFFERENT SCENARIOS



Source: Penang Transport Master Plan, AmResearch

In the meantime, Consortium Zenith has signed another RM200mil MoU with Koperasi Staff CIDB Malaysia Bhd (KoCIDB) whereby the latter is to provide labour supply and management for the upcoming jobs in Penang.

Construction of the first local Integrated Construction Workers Complex (ICWC) is expected to start by 1Q15, (completion: end-2015) to house~2,000 workers expected to be involved in the construction of the undersea tunnel.

We understand that the project would be broken down into four phases. The first three phases – to be completed between2015 and 2020 –would involve the construction of the three road bypasses along Penang Island. This will then be followed by the final leg of the undersea tunnel, which is required by 2025-2030.

RM27BIL TRANSPORT MASTER PLAN TAKING SHAPE

- ***Integrated transport system overhaul***

Excluding the RM6.3bil undersea tunnel, we estimate that ~RM20bil is required to complete the balance of the PTMP. This would involve a revamp of all transport components that centres on improved highway network& systems, LRT, trams, Bus Rapid Transit (BRT) as well as new ferry services.

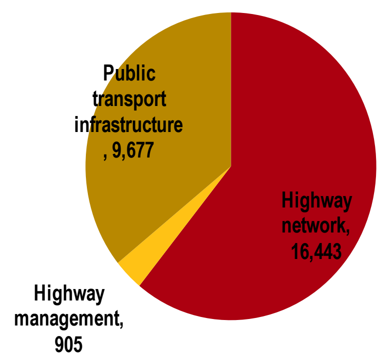
These programs are geared towards ensuring better end-to-end connectivity via the integration of multi-modal transport modes, improved road conditions, lesser reliance on cars, and stimulating higher public transport ridership.

Rather than just resorting to new highways as a short-term relief against increasing traffic woes, the Penang government's "balanced approach"' entails the following framework:-

- Short-to-medium term: Facilitating better use of the state's existing transport networks;
- Long-term: Providing additional highway and public transport infrastructure; and
- Policy-based proposals tailor-made to reduce private vehicle movements.

Other proposals include:-

EXHIBIT 12: BREAKDOWN OF PENANG TRANSPORT MASTER PLAN CAPEX



Source: Penang Transport Master Plan, AmResearch

EXHIBIT 13: BREAKDOWN OF HIGHWAY NETWORK UPGRADING COST: PENANG TRANSPORT MASTER PLAN

Details	(RM mil)
Highway widening projects	2,645
Strategic highway intersection improvement projects	2,643
Pedestrian related highway intersection improvement projects	115
Public transport related highway intersection improvement projects	3
New highways	10,038
Other predestrian, motorcyclist & cyclist targeted improvements	1,000
Total	**16,443**

Source: Penang Transport Master Plan, AmResearch

- An upgrade of the existing highway network;
- Enhancing the public transport network (e.g. LRT, trams, commuter trains, buses, taxi, ferry services); and
- Improving the highway network enforcement and management (e.g. modernisation of existing traffic signal operations).

❑ *Three out of five major new highways to be built by 2020*

Out of the RM27bil allocated for the PTMP, we estimate that some RM16bil has been allocated to improve Penang's highway network. New highways alone –inclusive of the RM6.3bil Penang undersea tunnel project – are forecast to account for RM10bil.

Between 2015 and 2020, the state government plans to build five major new highways. The actual alignment of these highways will only be finalised pending more detailed feasibility studies. Out of this five, we understand that construction of the George Town Inner Ring Road, North Coast Pair Road and Air Itam-Bypass are to be prioritised.

The three highways represent three road bypasses that the Zenith-BUCG consortium has been entrusted with as part of Penang's Third Sea Crossing project.

Most importantly, these new expressways are critical to free up road space for public transport use, e.g. street running trams and BRT projects.

(1) North Coast Pair Road

When completed, the North Coast Pair Road is supposed to provide traffic relief to the existing section of the Federal Highway 6 that passes through the popular Tg. Bungah and Batu Feringgi beach areas.

This new road will be positioned as a strategic route and will cater to both longer-distance private vehicle trips and the transportation of goods.

Similar to the George Town Outer Bypass, the road will have limited access with no frontage development. Vehicular access will be restricted to its interchanges with the George Town Outer Bypass and Jln. Teluk Bahang, together with its intermediate interchanges leading into Tg. Bungah and Batu Feringgi.

The alignment may hug the hill line of Penang Hill given the challenging coastal terrains within this area.

Once constructed, the eastern section of the existing corridor could then be utilised for the street running of trams.

(2) George Town Inner Ring Road

Together with the Georgetown Outer Bypass, the George Town Inner Ring Bypass is a priority road project that needs to be completed by 2020. It will likely take the alignment of Jln. Pangkor, Jln. Perak and Jln. Sg. Pinang – linking the northern fringes of Georgetown towards Tun Dr. Lim Chong Eu Expressway on the eastern sections of Penang Island.

To complement this new inner cross city link, the George Town Outer Bypass was also mooted by the Penang government.

The latter will also serve as an 'outer loop' along the north-east axis of Penang Island, joining the Tun Dr. Lim Chong Eu Expressway with Jln. Sultan Ahmad Shah on the north coast.

The routes limited access is largely confined to providing intermediate connections for Jln. Sultan Azlan Shah, Jln. Bukit Gambir, Jln. Thein Teik and the Gurney Drive area.

We understand that both new expressways – earmarked as toll-free routes – are supposed to ease traffic congestion on the busy Georgetown area. Future linkages to the North Coast Pair Road and the Air Hitam-Relau Pair Road could also in the works.

(3) Air Itam Bypass

Under Phase 1B of its master plan, Zenith-BUCG is to construct the Air Itam Bypass road; i.e. from Bandar Baru Ayer Itam (Farlim) to Tun Dr. Lim Chong Eu Expressway.

The bypass has been designed as a dual carriageway road involving 4 lanes. We understand that the 4km highway will be designed to be partly elevated (2km of four lanes) and part tunnel (2.2km) from Jln. Thean Tek towards The Lights development at Tun. Dr Lim Chong Eu Expressway.

To further improve traffic access to the Balik Pulau area, we were made to understand that an extension of this route will involve Air Hitam-Relau between the intersection of the George Town Outer Bypass with Jln. Thean Teik and the northern fringes of Relau.

Once this new route has been opened to traffic, the existing roads through Air Itam, together with Jln. Paya Terubong, will be downgraded to local road status.

By extension, this will enable improved local accessibility along with the provision of public transport, with a street-running tram – running within Air Itam and the northern portion of Jln. Paya Terubong – on the cards.

(4) North-South Expressway Link Road

To alleviate traffic bottle-necks along untolled stretches of the North-South Expressway (NSE), the PTMP has called for the construction of a new relief road.

EXHIBIT 14: PENANG'S CORE PUBLIC TRANSPORT NETWORK

Route	Service	Mode	Destination		Via	Interval
			From	To		(mins)
George Town - North Coast Line	Primary	Tram	Weld Quay	Masjid Terapung	Jln. Burma	5
George Town - Air Hitam Line	Primary	Tram	Weld Quay	Paya Terubong	Dato Keramat	5
George Town - Airport Line	Primary	Tram	Weld Quay	Airport	Jelutong	5
Macalister Radial Line	Primary	Tram	Komtar	Jesselton	Macalister	5
Butterworth-Bukit Mertajam Line	Primary	BRT	Penang Sentral	Machang Bubok	Megamall	5
Mainland Southern Corridor Line	Primary	BRT	Penang Sentral	Simpang Empat	Sunway Carnival	5
Mainland Commuter Rail (Northern Arm)	Primary	Commuter Rail	Penang Sentral	Pinang Tunggal	Bukit Mertajam	15
Mainland Commuter Rail (Southern Arm)	Primary	Commuter Rail	Penang Sentral	Nibong Tebal	Bukit Mertajam	15
Butterworth-George Town Ferry Service	Primary	Catamaran	Penang Sentral	Weld Quay	-	7.5
CAT orbital Loop	Secondary	Tram	Weld Quay	Weld Quay	Komtar	5
Times Square Orbital Loop	Secondary	Tram	Times Square	Times Square	Komtar	5
Goergetown Orbital Loop	Secondary	Tram	Gurney Quay	Gurney Quay	Masjid Negeri	5
Bayan Lepas Orbital Loop	Secondary	BRT	Batu Uban	Batu Uban	Queensbay, Sg. Nibong	5
Butterworth-Gurney Quay Ferry Service	Secondary	Catamaran	Penang Sentral	Gurney Quay	-	15
Butterworth-Queensbay Ferry Service	Secondary	Catamaran	Penang Sentral	Queensbay	-	15

Source: Penang Transport Master Plan, AmResearch

The current bottlenecks mainly encompass the eastern suburbs of Butterworth, in addition to other hotspots along mainland Penang's north-south corridors.

From what we know, the suggested route will leave the existing NSE at the southern tip of the Second Penang Bridge interchange, before re-joining the expressway in Kepala Batas.

There is to be only one intermediate interchange providing direct access to the Butterworth-Kulim Expressway (BKE). In any case, a detailed feasibility study is still required to gauge the merits of having an additional interchange for direct access to Bukit Mertajam.

As it is one of two new highways that would likely be tolled under the PTMP, we believe the North-South Expressway Link Road could be opened up to private companies under a Built-Operate-Transfer (BOT scheme).

At the moment, the PLUS Expressways Bhd (a unit of Khazanah Nasional and the UEM Group) operates and maintains the NSE, the core expressway backbone of Peninsula Malaysia that runs from Johor Bahru to Bukit Kayu Hitam.

Interestingly, PLUS was reported to have mooted two new highways in Penang, namely the Jelapang-Selama-Batu Kawan Expressway (JELAS) and Sungai Juru-Batu Kawan Expressway.

The proposals – which were made known last March –were among several new highways worth RM40bil that the Federal government is currently evaluating in its bid to boost road connectivity over the next three to four years.

❑ *Strengthening Penang's public transportation system*

As part of the state government's quest to reduce vehicular movements over the longer-term, due attention will be paid to delivering an efficient and reliable public transportation system throughout Penang.

After screening through the PTMP, one of the state's key thrust going forward is in developing a "core public transport network".

This revolves around the use of tram/LRT or BRT, commuter rail as well as catamaran services under a single, unified network.

To this end, the core public transport network leverages on a series of high frequency, dedicated core routes that are both:-

- **Radial:** Directly linking suburban centres and city centres; and
- **Orbital:** Linking different suburban centres to each other.

The entire upgrade is expected to cost close to RM10bil. Out of this total, trams and/or LRT projects accounts for 46% and25% of the budget.

❑ *Integration is key*

Another important element is the creation of an extensive network of feeder bus services that will also cover selected suburban centres. It is to come with interchange facilities to-and-from core network routes.

In terms of frequency, the Penang government has targeted its core public transportation network services to operate at five minute intervals during peak times. For feeder buses and enhanced secondary buses, it will be 15 and 20 minutes, respectively.

For ease of convenience, a single integrated fare system will likely be adopted. All core public transport network routes will operate within dedicated corridors, segregated from general traffic activity.

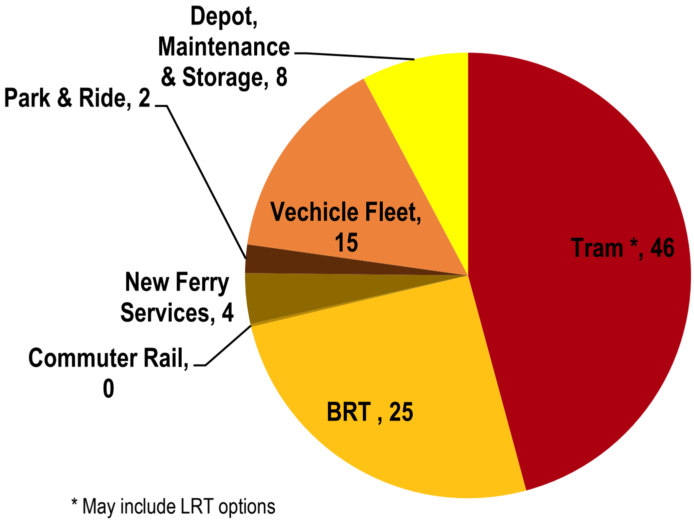
As for the mainland commuter rail services, it will mainly utilise the alignment of the existing KTM rail facility, where this route has been upgraded under the Ipoh-Padang Bear double tracking and electrification project.

Also, the core network can be accessed via stations that are strategically placed along its alignment. Most of these stations are supposed to be multi-functional – catering for both the local as well as more strategic forms of accessibility.

EXHIBIT 15: PENANG'S PUBLIC TRANSPORT UPGRADE COST

Details	Value (RM mil)
(1) Tram Routes	
- George Town-North Coast Line	532
- George Town-Air Hitam Line	720
- George Town-Airport Line	1,171
- Macalister Line	160
- CAT Line	244
- Times Square Loop Line	256
- Georgetown Orbital Loop Line	1,348
(2) BRT Routes	
- Bayan Lepas Orbital Loop Line	867
- Butterworth-Bukit Mertajam Line	655
- Mainland Southern Corridor Line	945
(3) Other Public Transport Routes	
- Commuter Rail Service	20
- New Ferry Service	355
(3) Park and Ride Sites	
- Primary	140
- Secondary	60
(4) Vehicle Fleet	
- Tram	650
- BRT	50
- Ferry	268
- Commuter Train	450
- Bus	35
(5) Depot, Maintenance & Storage Facility	
- Tram fleet	350
- BRT fleet	100
- Commuter Rail fleet	200
- Ferry fleet	100
	9,677

EXHIBIT 16: BREAKDOWN OF PENANG'S PUBLIC TRANSPORT UPGRADE COST (%)



Source: Penang Transport Master Plan, AmResearch

Source: Penang Transport Master Plan, AmResearch

To further enhance its delivery system, interchange facilities will be designed to shorten walking distances. Other things on offer include integrated ticketing systems for taxi, 'kiss and ride', cycling as well as 'park and ride' facilities.

❑ *Minimising land acquisition*

To reduce dependency on third-party land, in particular privately-held ones, core public transport network routes in Penang will follow existing road alignments – most of which are, in any case, already key public transport corridors.

As for radial routes, the introduction of the George Town Orbital Loop services will help reduce passenger traffic moving into the Komtar area, en-route to journeys towards the suburban areas.

At the moment, radial routes on Penang island normally pass through Komtar, before continuing towards Weld Quay.

Therefore, the proposed realignment of routes seeks to augment public transport usage within the heritage areas of George Town. Still, we understand that Komtar will remain as a major point of interchange for those travelling between the suburban areas and the city centre.

❑ *The 15 core public transport network routes*

As the PTMP progresses towards its second phase(2015-2020), early groundwork has been laid for the conceptualisation of a 'Core Public Transport Network'. The preliminary emphasis is on rolling out primary LRT/trams and BRT services ahead of other complementary secondary schemes.

To achieve this, the state government has identified 15 core public transport network routes. Most of those routes will operate on a two-way basis throughout their respective journeys.

Nine of them have been designated as primary, radial routes, of which six of these operate as rail-based modes that will utilise either the tram or LRT *systems (more details in the upcoming sections).*

The land-based primary routes provide journeys that move out from Georgetown and Butterworth towards Penang's suburban centres. The solitary non-land-based primary route is envisaged to link George Town and Butterworth via a high-quality, catamaran-based ferry service.

As for secondary routes, four land-based loops have been designated for orbital movements between George Town and the island's suburban areas.

The remaining two secondary routes offer are sea-based – offering ferry trips from Butterworth to Gurney Quay and Queensbay.

❑ *LRT system a key option*

While it is still in early days, the local press reported that the state government is keen on implementing an LRT system worth around RM4.5bil.

Two key components of this proposal, we understand, revolve around:

- 17.5km new LRT line connecting the Komtar building to Penang Airport; and
- Another link cutting across Penang Island (from Bayan Lepas to Tg. Bungah).

As the proposed Bayan Lepas-Tg. Bungah line passes through a mountainous terrain, it would mostly likely require tunnelling works.

From our channel checks, the Komtar-Penang Airport (George Town-Airport Line) will likely be mooted first as it goes in line with the state government's plans for a new tram network within George Town.

Due to concurrent needs to build new highways on Penang Island, we nevertheless understand that construction works bar the outer sections of the Komtar-Penang Airport line will not be carried out before 2020. This new route – together with its inner sections – is scheduled to complete in 2022.

Having an LRT system seems practical in addressing Penang's rising population growth and attendant transport requirements. Much like the Klang Valley, rising land costs are driving developments further away from the city centre and, notably, demand for landed homes.

The real challenge, however, is in making the LRT project financially viable against its projected ridership. For the record, Penang has a relatively small population base with only ~700k inhabitants living on the island currently.

❑ *Other public transport improvement projects by 2020*

(1) Bus: A re-organisation of the state's existing bus network into Core Bus Network, Feeder Bus Network and an upgraded Secondary Bus Network is on the cards.

In this regard, the construction of the Bayan Lepas Orbital Loop Line under the BRT complementary service might be brought forward. This is to provide early public transport solutions to the eastern part of Penang Island, which is densely populated.

Prior to this, detailed feasibility studies are supposed to have been conducted for the Air Hitam-Weld Quay corridor. Also taken into account are the final requirements for the George Town-Air Hitam corridor, once trams are introduced.

(2) Ferry Services: There have been suggestions for a new passenger-based catamaran ferry service between George Town and Butterworth. With the completion of the Second Penang Crossing, existing vehicular users of the ferry can then be diverted to use the bridge.

As such, new docking facilities at both Penang Sentral and Weld Quay would be introduced along with the setting up of a maintenance facility.

3) Others: Efforts have been intensified to complete pedestrian improvement works prior to 2020. Pedestrian facilities will be provided at existing traffic signalled intersections; footways will be added to most urban roads and 32 new traffic-signalled controlled intersections on local roads will be installed.

Primary Park-and-Ride sites, along with an improved bus network, and the introduction of commuter rail services will undoubtedly improve accessibility to Penang's rural areas.

4) **Commuter rail:** As the Ipoh-Padang Bear Double Tracking project nears completion, the existing KTM facility can be leveraged to introduce new commuter rail services over the next five years.

❑ *Quantifying the objectives*

Assuming status quo is maintained, a thorough study by PTMP reveals that its existing highway systems can still maintain its level of efficiency in 2030, albeit with slight drop in average travel speeds along some of the state roads.

For instance, the average travel speed within the whole of Penang will drop to 21.75km per hour (kph) by 2030 from 29.75kph in 2011, but will improve to 27kph if the recommended strategies under the master plan are properly and robustly executed.

In terms of accessibility to public transport, access will however drop by 25% over the next 15 to 20 years if no action (other than those already committed) is taken, but will see a 25%-40% improvement if the recommended strategies are carried out.

The latter survey is to gauge employment opportunities within an hour of actual public transport travel time.

Therefore, we believe the PTMP's recommendations are in essence, pre-emptive moves by the state government to ensure lesser traffic downtime and by extension, improve productivity levels in Penang over the mid–to-longer term.

❑ *Lessons from the PORR*

Recall that the concession to build the Penang Outer Ring Road (PORR) was previously awarded to privately-owned Peninsula Metroworks Sdn Bhd (PMW).

The 17km dual lane highway was supposed to link Tg. Bungah to the Penang Bridge, with roughly 60% to be built on elevated structures. The estimated cost of the highway then was ~RM1bil.

In return for delivering the highway, PMW had back in July 2007, claimed that it would be granted with reclamation rights to ~200ha plot along Gurney drive together with a 148ha man-made 'Middle Bank' island.

However, the PORR had been postponed together with the Penang Monorail during the mid-term review of the 9th Malaysia Plan (9MP). Since then, there have been no updates regarding the project.

In our view, the PORR project may not be financially viable if the original terms remain as it will likely be bogged down with several years of negative cash flows before any reclamation works and pre-sales from the development can be carried out.

PDP – THE WAY FORWARD

❑ *Results to be known by 3Q15*

As mentioned earlier, the state government had in August, called for an open tender for the PDP to execute its PTMP. Drawing its cue from the ongoing Klang Valley MRT project, we have reliably learnt that the various state agencies involved are leaning towards appointing an overall PDP to lead-manage the entire project's supply chain.

Stringent criteria would be applied in the tender evaluation process (the RPFs were issued in August) that seeks to both create maximum value to the Penang government and citizens, and minimising execution risk.

Somewhat similar to the Klang Valley MRT projects (under the MMC-Gamuda JV), the PDP will coordinate the overall revamp of Penang's transport system that includes, among others:-

(1) **Conducting tender exercises** for various work packages under this massive project, which are due for completion by 2030.

(2) **Federal licensing:** Public transportation – notably an LRT system – is crucial to the state government's transport improvement agenda. As such, the PDP would be tasked with liaising with various Federal agencies (e.g. Public Land Transport Commission or SPAD) and most importantly, secure the relevant transport licenses that are issued at the Federal level.

(3) **Source for funding:** The PDP will have to come up with the all-important funding structure for the infrastructure projects. In doing so, the state government has set a condition that only permits companies with a minimum annual turnover of RM3bil and a track record of 15 years to participate in the tender exercise.

❑ *Gamuda is ahead of the pack*

Based on our conversations with various state agencies in Penang, the deadline for interested parties to submit their respective RFPs has been set for February 2015. Thus far, ~50 local and international construction companies have participated in this tender exercise, we were told.

The Star had in July 2014, reported that Gamuda, IJM, WCT, Bina Puri, Scomi, and Syarikat Prasarana Negara Bhd (SPNB) are among a host of interested bidders.

In return for services rendered, the local press had reported that the Penang government may grant the PDP with rights to reclaim two large tracts of land within Penang Island:

(1) Southern Part: 2,000 acres, of which 30% or c.600 acres will be carved out for the expansion of Penang International Airport and the enlarged Free Industrial Zone (FIZ); and

(2) Middle Bank seagrass: Reclaimed land in between the Penang Bridge and the river mouth of Sg. Pinang.

EXHIBIT 17: BASE CASE SCENARIO - NPV CALCULATION FOR THE PDP

Projects	Value (RM mil)	Method	Concession/ work period (years)
NPV of public transport projects			
LRT	3,113.5	NPV@8%	70
BRT	1,233.2	NPV@8%	70
	4,346.7		
add: Subsidies	**6,000.0**	State funds	
less: Debts	(6,626.4)	80:20 D/E structure	
	3,720.3		
NPV of other public transport upgrading projects			
New ferry facilities	22.5	NPV at 8%	2015-2030
Commuter rail line	11.1	NPV at 8%	2015-2020
	33.6		
Payment-in-kind (land swap)	**2,000.0**	Market Value	
Total NPV	**5,753.9**		
Gamuda's share of NPV (50%)	**2,876.9**		
Gamuda's 50% equity requirements	828.3		
Net accrement to Gamuda's NPV	**2,048.6**		
NAV accrement/share	**0.83**		
Public Transport Project Debts			
LRT	4,504.8		
BRT	2,121.6		
Total	**6,626.4**		

Source: AmResearch

Meanwhile, the outcome of the tenders could be known within six months of the closing of the RFPs - i.e. mid-3Q15. Of the potential suitors, we believe Gamuda is in a strong position to land the highly-coveted PDP role. This is because:-

(1) Gamuda already possesses the track record as PDP for the first two phases of the Klang Valley MRT project alongside MMC;

(2) Gamuda has the added advantage of undertaking several high-profile jobs that involve major tunnelling works (e.g. the ongoing Klang Valley MRT projects, SMART Tunnel and Kaohsiung MRT project); and

As a leading light among Malaysian contractors, we are reasonably assured that the group is one of handful of Malaysian contractors that can fulfil the state government's strict operational and financial criteria.

Interestingly, the same report by *The Star* revealed that Gamuda has already seized the initiative by presenting its proposal to the Penang government two months earlier.

Among the other hopefuls, the Scomi group had previously received a Letter of Intent (LOI) from the Federal Government in January 2008, granting it with rights to undertake a monorail project in Penang (via a consortium with MRCB and Penang Port Sdn Bhd).

However, the project did not kick-off following a change of political guards in Penang right after the 2008 General Elections.

As for SPNB, its reported interest may include joint bids with private entities. SPNB's key selling point, we believe, is in its17-year experience as owner and manager of Klang Valley's urban public transport systems (e.g. LRT, Monorail, stage, as well as feeder buses).

Indeed, SPNB has already established a presence in Penang by providing stage bus services within the state(via Rapid Penang).As a unit under SPNB's Rapid Bus Sdn Bhd, Rapid Penang operates 450 buses plying 46 routes with an average daily ridership of 80,000.

PDP – BUILDING OUR BASE CASE SCENARIO

❑ *Key assumptions*

In this segment of the report, we strive to attach a base case scenario that underpins our appraisal of potential value creation to the PDP partners that are chosen to undertake the PTMP.

EXHIBIT 18: BASE CASE SCENARIO – FUNDING ASSUMPTIONS FOR THE PDP

Details	Est.Value (RM mil)	Potential source of funding	Within PDP scope	Consideration for PDP
Five new highways				
Third Penang Crossnig & three road by-pass projects	6,300.0	Zenith-BUCG	No	n/m
North-South Expressway Link Road	3,737.5	Other private entities	No	n/m
Sub-total	**10,037.5**			
Other highway improvement projects	**6,405.0**	Public or other private entities	No	n/m
Highway network management	**905.0**	Public or other private entities	No	n/m
Tram/LRT	**4,431.0**	PDP consortium	Yes	BOT
BRT	**2,467.0**	PDP consortium	Yes	BOT
Depot, maintenance & Storage for Tram/LRT/BRT	**450.0**	PDP consortium	Yes	BOT
Commuter Rail Line	**220.0**	KTMB/federal agencies	Yes	PDP fee: 3%
Infrastructure for new ferry services	**455.0**	Other private entities	Yes	PDP fee: 3%
Park & Ride facilities	**200.0**	PDP consortium	Yes	BOT
Vehicle Fleet				
Tram/LRT	650.0	PDP consortium	Yes	BOT
BRT & Other Bus	85.0	PDP consortium	Yes	BOT
Ferry	268.5	Other private entities	No	No
Commuter Train	450.0	KTMB/federal agencies	No	No
Sub-total	**1,453.5**			
GRAND TOTAL	**27,024.0**			
Total contract value under PDP	**8,958.0**			
Total assets directly funded by PDP	**8,283.0**			
Source of Funding for PDP				
Debt	6,626.4			
Equity	1,656.6			
Total	**8,283.0**			

Source: AmResearch

Here, we have made the following assumptions:

(1) **PFI:** Given the Penang government's fiscal constraints (refer earlier sections), we believe there is a strong likelihood that the project will require the PDP to both source for, and raise a fairly significant portion of capital (both debt and equity) to fund the various infrastructure projects under its books.

In our view, a few of the local bidders may form bids with international contractors or tap into cash-rich state funds looking for long-term investments/yields.

(2) **State subsidies:** Out of the RM27bil being budgeted under the PTMP, our ground checks indicate that the Penang government could commit between RM3bil and RM10bil in direct contributions although it is unclear how much of this is in an actual cash re-imbursements.

In this regard, we present here a few options that the state government may have at its disposal:-

- **Developer charges:** Under this proposal, developers will make contributions to a development fund relative to the impact the new development has on Penang's future transport system.
- **Land betterment charges:** The state government could impose a 'real estate development premium' on new properties that are located near proposed rapid transit stations. The levy is supposed to reflect the associated gains in land values arising from the availability of this new transport facility. By the same token, existing properties that are perceived to benefit from higher capital/rental values with improved transport infrastructure in the future may be subject to additional land or property taxes.

- **Other sources of income:** The various urban transportation projects being lined up may open up opportunities for the state government to earn ancillary income:

    - **Rental or management opportunities** may exist in the areas of retail, commercial as well as the provision of banking facilities around the stations.

    - **Advertising revenue:** Spaces within the public transportation systems – i.e. bus, BRT, LRT, trams, commuter trains and ferries – could be monetised for advertising purposes.

    - **'Rail-plus-property':** The Penang government may consider emulating Singapore and Hong Kong in embracing the 'rail-plus-property' model. This, in turn, will help defray part of the state's associated infrastructure ownership costs via development profits on residential commercial projects that are built on top or near the proposed stations.

  All said, we highlight that the state government's fiscal revenue is still by and large limited to quit rents, land premium, and more importantly, the sale of state land to the PDP partners as payment-in-kind.

(3) **PDP partnership:** Apart from the huge funding required, the PDP has its work cut out as a "chariot master" that plans and integrates the various sub-sets of transport modes – both on land as well as sea – on a significant scale.

Not forgetting astute traffic management skills, particularly in smoothing over traffic disruptions during peak hours.

With so much at stake, we do not discount the possibility of seeing multi-joint ventures being forged to solidify chances to be the PDP.

This may include strategic partnerships between local and international contractors, such as the Zenith-BUCG pact.

(4) **Payment-in-kind:** Similar to the Penang Third Sea Crossing, we believe the PDP will be mainly paid through the following means:

- **Development Land:** By our reasoning, the state government may make available prime plots of development land as consideration to the PDP. This could take the form of reclaimed land with either:- (i) immediate development potential (e.g. Penang Middle Bank); or (ii) transit-oriented developments (TODs) in fringe areas that will increase in value over time, with improved accessibility.

- **Concessions:** Our base case assumes that the PDP will recoup part of their investments via a Built-Operate-Transfer (BOT) concession. Based on this scenario, the PDP will be allowed to collect toll revenue for tolled highways, while fare box revenues will be permissible for LRT/BRT systems. Granted, of course, the PDP is successful in obtaining all the requisite licences from the Federal government. In this regard, SPNB will certainly be an interesting proposition, if it decides to throw itself into the mix of things.

❑ *PDP net accretion valued at RM5.7bil –Gamuda is our pick*

Our valuation is predicated upon a few key parameters highlighted below:

(1) **Contract value of ~RM20bil.** This excludes the RM6.3bil Third Penang Crossing.

(2) **Funding structure:** Based on an 80:20 debt/equity structure, we estimate that the PDP will be required to raise up to RM6.6bil in debts for the LRT/BRT projects (WACC: 8%).

(3) **State subsidies:** We have assumed that the state government will contribute RM6bilas cross-subsidies for the LRT/BRT projects throughout their respective concession periods.

(4) **Land-swap:** As part consideration, we have assumed that the PDP would be granted development rights to c.RM2bil worth of prime, state-owned land within Penang. The said parcels could be located within TODs that have either immediate or future development potential.

(5) **Scope of PDP:**

- **Road projects:** The PDP will not have direct involvement or stakes in the five new highways being mooted under the PTMP, we assume. As highlighted earlier, four of the highways will be undertaken by the Zenith-BUCG Consortium under the Third Sea Crossing (including the tolled undersea tunnel). For the remaining highway – i.e. the North-South Expressway Link Road – we believe it will likely be dished out to private entities on a BOT basis.

  Likewise, our base model assumes that the ~RM7bil in highway improvement (e.g. upgrading of federal/state roads) and network management projects are outside the scope of the PDP. How these projects will be executed, i.e. timing and structure, is beyond the scope of our report.

  The flipside to this is that a full integration of the various public transport modes under the PTMP, and its associated benefits, is a tad more difficult to achieve for now, we opine.

- **BRT/LRT:** The PDP is to run and manage both transport schemes under a BOT, with a concession period of 70 years. The corresponding net NPV of the concessions is RM3.7bil, after taking into account state subsidies of RM6bil and concession debts of RM6.6bil.

- **Upgrading of other public transport services.** We have assumed that the mandate of upgrading new ferry services will be the responsibility of other private entities.

  Similarly, we have presumed that KTMB will provide the capital outlay for the construction of a new proposed commuter line at Megamall, and bear any new rolling stocks.

However, our base case assumes that the PDP will receive a net fee of 3% from overseeing the construction of these new facilities (minus rolling stock) at a combined contract value of ~RM675mil.Thisresults in an NPV accretion of RM34mil (@8%).

Additional NAV of RM0.83/share for Gamuda

We earlier argued that Gamuda should be in the driver's seat for the PDP job, given its proven track-record, tunnelling expertise and financial strength.

We also do not discount the likelihood of Gamuda forming partnerships with other international bidders of good technical and financial standing, while limiting its stake in the JV to 50%. This, we believe, is to avoid the need to consolidate the hefty concession debts in its books.

Assuming Gamuda ends up in the winning consortium with a 50% share, we estimate the PDP contract to lift Gamuda's NAV by~RM0.83/share (+14%) to RM6.94/share. It will potentially rise further to RM7.10/share if we factor in another RM0.17/share upside from its recent appointment as PDP for the Klang Valley MRT 2.

PENANG SENTRAL

While it does not directly come under the PTMP's scope, a successful launch of the Penang Sentral project could complement the state government's bold moves given its status as a future transport hub serving both Penang and the northern region of Peninsula Malaysia. As the prime mover for Penang Sentral, MRCB could emerge as a winner as more value-unlocking prospects unfold.

Greenlight received in September

Located in Butterworth next to the ferry terminal, Butterworth Outer Ring Road (BORR) and Penang Port container yard, the 22-acre Penang Sentral appears to have enjoyed a new lease of life after nearly seven years of delays.

This came about after the Penang government gave its consent to Penang Sentral Sdn Bhd– the project developer –to proceed with construction works for a transport terminal back in September. The development order and building plan approval were received a month earlier.

Modelled after KL Sentral, Penang Sentral will serve as a future transportation hub for the northern region. Based on original plans, the entire development footprint has an indicative GDV of ~RM2bil.

Just a few months ago, MRCB bought a 51% stake in Penang Sentral from Palauan Harahan Bhd (PHB), making the latter a 100% unit of the group. Interestingly, PHB owns ~10 acres of land within the Penang Sentral project area.

The acquisition is positive, in our view, as it will enable MRCB to assume full control over Penang Sentral's prospects moving ahead.

Phase 1: GDV RM512mil

The initial phase of Penang Sentral will consist of a transportation hub, terminal and retail mall. The mall will have an indicative NLA of ~500k sf, and the transport hub has 130k sf. The indicative GDV is around RM512mil.

Initial piling works on the ~5 acres site have already commenced. The transport terminal will be built at a cost of ~RM230mil. Future phases, which may include residential, office and hotel components, will be based on market demand.

Targeted to complete in 2017, the terminal will connect Penang's ferry, bus, rail and taxi services. It is expected to accommodate 180k commuters daily (first two years: 80k). The entire Phase 1 is to be developed by 2019.

As a transport hub, the strategic positioning of Penang Sentral would undoubtedly serve as a catalyst for the development's future launches.

Major improvements underway

From what we know, the direct links from the Penang Sentral transportation hub and ferry terminal will invariably provide higher footfall visibility to the proposed ten-storey high mall.

Rooftop food & beverage (F&B) outlets will be located on the highest floor that faces the sea. Some constructive changes have also been its master plan to make it more user-friendly:

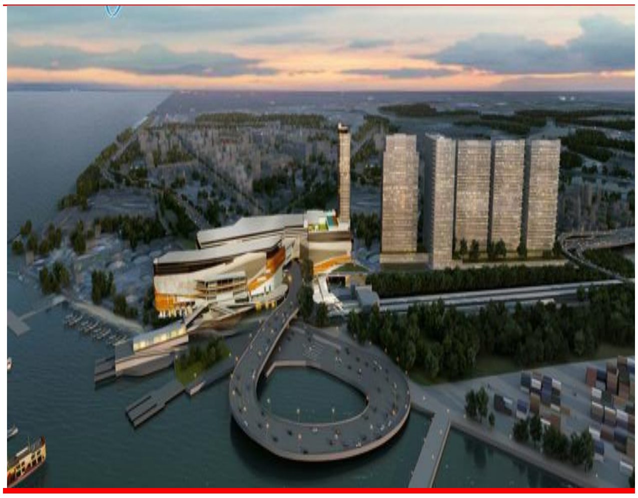
(i) The shopping mall and other commercial features would be built as a single standalone structure.

(ii) A separate transport hub would be built. It will then link up Penang Sentral with the train station, ferry terminal and the BORR. Existing ramps would be utilised along with upgrades to the pedestrian links.

Complementing Penang's transport master plan

We envisage Penang Sentral to complement the state government's transport initiatives, although the project is not a formal component of the PTMP.

EXHIBIT 19: PENANG SENTRAL – FERRY TERMINAL



Source: MRCB, AmResearch

EXHIBIT 20: PENANG SENTRAL TRANSPORT HUB & HOTEL

Source: MRCB, AmResearch

With the completion of the northern double tracking line, we foresee the likelihood of new commuter rail services being introduced at Penang Sentral over the next few years.

After all, Penang Sentral has been identified as a key station for new BRT, commuter, or ferry services mentioned under the master plan. At the same time, there could also be new docking facilities within the project.

In expanding its boundaries, we do not exclude the possibility of seeing MRCB forging partnerships with other land owners within the vicinity to accelerate Penang Sentral's growth cycle. This suggests more upside to the development's deep embedded value.

E&O'S STP2 IS CRITICAL FOR THE FUNDING OF THE PTMP

❑ *STP2 integral to the PTMP*

As part of the broader framework of the PTMP which includes investments in public transport, **we believe STP2 is a crucial component to the Penang government's efforts to alleviate traffic congestion and enhance accessibility through infrastructure efficiency and public transportation.**

The state's thrust to improve public transport will enhance overall land value across the state and benefit developers like E&O, which can successfully capitalise on location advantage that such infrastructure offers.

Tanjung Tokong area is one of the main landing points of the new proposed highways. Notably, STP2 will benefit from the undersea tunnel which links the northern portion of the George Town Outer Bypass to the Butterworth Outer Ring Road, and provide connection to the northern part of Penang island.

This will be directly connected to an expressway on E&O's reclaimed 131 acres of land. We understand that entrance to the link sits at the end of Gurney Drive.

More importantly, we view E&O as one of the biggest beneficiary of the PTMP as the reclamation works of STP2 are expected to commence in 1Q15.

Moreover, STP2 is arguably the single largest and most important prime project on Penang island, after IJM Land's The Light project.

❑ *Commencement of STP2 reclamation signals Penang government's commitment*

The commencement of the 760-acre reclamation works at STP2 further provides a greater degree of certainty to the execution of the PTMP.

E&O has already obtained the necessary approvals for the STP2 development and is currently in the tender pre-qualification stage. Reclamation is likely to commence in March 2015.

In April 2014, E&O passed the main hurdle – the Detail Environmental Impact Assessment (DEIA) study – to reclaim 760 acres at STP2.

❑ *STP2 is viewed as the primary source of funding for the PTMP*

We opine that STP2 plays a pivotal role in funding the PTMP. The primary source of land for the state government will be the pre-approved reclamation projects.

The most significant parcel of prime land anchoring the PTMP is STP2.

Furthermore, the state government also has a 21.2% stake in the STP2 through PDC and land entitlement totalling 191 acres.

The land reclamation by E&O involves a total of 891 acres. In totality, **E&O is to surrender 191 acres to the Penang government** comprising:-

(1) **131 acres along Gurney Drive**

- 81 acres: Linear park at Gurney Drive
- 50 acres: Government reserve

(2) **60 acres of net land area on STP2** (equivalent to 88 acres of gross land).

Based on our estimates of 68% net usable area for STP2 (refer to Exhibit 21), we project the land to be given to the state government to be valued at RM4.2bil.

These consist of:-

(1) Gurney Drive (50 acres on gross land): RM1.1bil on an assumed land value of RM500psf; and

(2) STP2 (88 acres on gross land): RM3.1bil on an assumed land value of RM800psf, given that the nine acres land swap at STP1 to Zenith-BUCG by the state government is reported to be valued at RM778psf. We view that STP2 should be valued higher, underpinned by its prime piece of land.

E&O is surrendering 12% of net development land on STP2 to the state government (60 acres of net land area of 517 acres). This is in line with the concession agreement where 10% of net land area is required to be given to the state government.

EXHIBIT 21: LAND AREA TO BE RECLAIMED BY E&O

Land area to be reclaim	Acres	Land area to be given to Penang Govertment	Land value (RM mil)	Assumptions
Gurney Drive	131	81 acres: Linear park 50 acres: State government reserve	Nil 1,089.0	Public park not for sale Valued at RM500psf
STP2	760	60 acres on net land area: Government reserve (Gross land equivalent to 88 acres)	3,074.8	Valued at RM800psf on gross land area 68% of net usable area at STP2
Land area	**891**		**4,163.82**	

Source: E&O, AmResearch

After accounting for the state's land allocation, E&O will end up with 457 acres of net development land at STP2.

EXHIBIT 22: ALLOCATING 12% OF NET DEVELOPMENT LAND TO PENANG GOVERTMENT

	Acres
Gross land area on STP2	760
Net usable area	68%
Net land area on STP2	517
Allocation to Penang state government at STP2	60
Net residual land for development for E&O	**457**

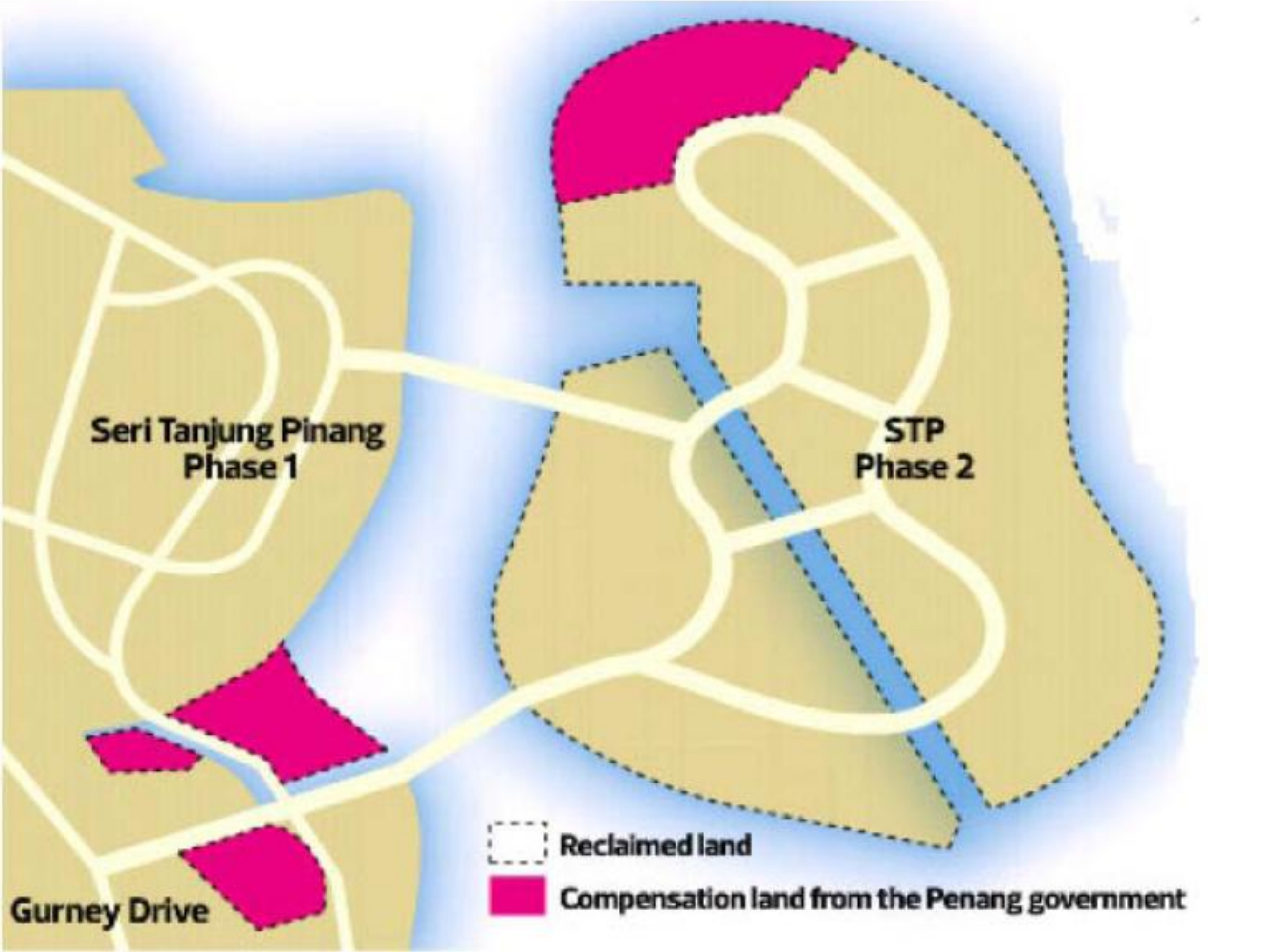
Source: E&O, AmResearch

- ***Assumed higher land value of RM500psf at STP2 vs. RM250psf previously***

We have raised our assumed land value for STP2 to RM500psf in our NAV model compared to RM250psf when we initiated coverage on E&O. This is given our expectations that E&O is moving closer to the divestment of a commercial land parcel at STP2 to an established global developer.

Refer to E&O's report titled "Raising STP2 assumed land value to RM500psf" for the revised NAV model.

EXHIBIT 23: RECLAIMED LAND PARCEL TO BE GIVEN TO THE PENANG GOVERNMENT



Source: The Edge, AmResearch

❑ *Visible commitment from Penang government to accelerate STP2; 21.2% stake of Tanjung Pinang Development*

More importantly, PDC holds a 21.2% stake of STP2 and is entitled to a share of development profit. For STP1, the PDC holds a 4.4% stake.

Based on an assumed land value of RM500psf on 672 acres of gross land for development, the state government is entitled to RM3.1bil of development profit, while the remainder RM11.5bil is E&O's portion.

Combined with the state government's land entitlement and stake at STP2 level, we clearly see a need to accelerate the reclamation of STP2 to ensure the materialisation of STP2 goes well, underpinned by funding concerns for the PTMP.

While the PTMP is an initiative driven by the state government, it is mainly funded by the private sector.

This, we believe, can be funded through land swap arrangements or land sale of state-owned land.

EXHIBIT 24: DEVELOPMENT PROFIT ENTITLEMENT

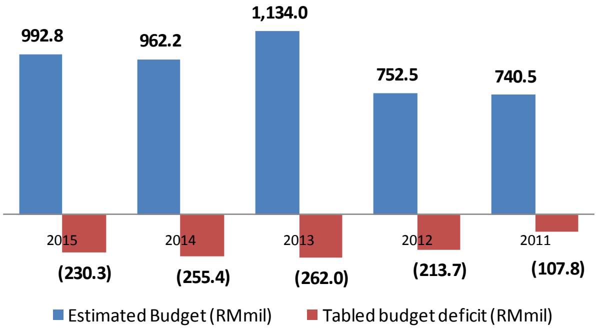
		Development profit (RM mil)
Assumed land value at STP2 (RMpsf)	500	
Gross land for development (acres)	672	
Respective stake at STP2 level (%)		
- E&O	78.8%	11,529
- Penang Development Corporation	21.2%	3,102
		14,631

Source: E&O, AmResearch

❑ *Penang government tabled a budget deficit for 2015*

Notwithstanding this, the Pakatan Rakyat-led government has been tabling deficit budgets annually since the 2008 state budget.

EXHIBIT 25: TABLED BUDGET AND DEFICIT



Source: Various media source, AmResearch

An estimated budget deficit further solidifies our view that a funding solution is crucial in order for its PTMP to go ahead. Hence, STP2 plays a pivotal role in funding the PTMP.

Based on the Auditor General's Report for the year 2013 issued by the National Audit Department Malaysia, Penang state government's financial position is still good.

The consolidated fund stood at RM1.3bil at end-2013, an increase of 8.4% from 2012. However, this appears insufficient to fund the Penang PTMP estimated at RM27bil.

Revenue collected in 2013 amounted to RM833.7mil. We understand that typically, the government's revenue components comprise the following:-

(1) 60%-70%: Quit rent

(2) 30%-40%: Land sale, land premium and conversion of land premium

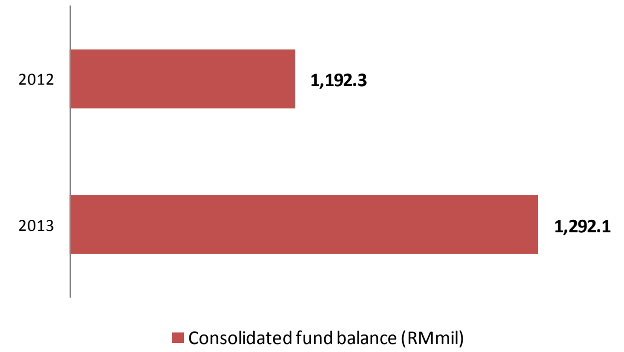
As the state government's revenue is limited to quit rents, land premium, and more importantly, sale of state land, the demand and supply dynamics of the Penang property market is crucial for the successful funding of the PTMP.

The property market must remain strong to entice PDPs to accept the land swap arrangement. The state needs to accelerate the roll-out of the PTMP to enhance land value and continue attracting domestic and foreign direct investments.

As it is, the accelerated pace of development at Batu Kawan bodes well for the state government's revenue through the conversion of land premium and land sale.

Moving forward, we do not exclude the possibility of more land reclamation projects given the effective land sales through land reclamation rights.

EXHIBIT 26: PENANG'S CONSOLIDATED FUND BALANCE



Source: National Audit Department Malaysia, AmResearch

Penang government has just tabled an RM993mil budget for 2015 with a deficit of RM230.3mil, according to various media articles. The estimated 2015 budget is RM962mil (+3.2% YoY), while the estimated deficit for 2015 is 11% lesser compared to 2014.

The expected revenue for 2015 is RM658mil, representing a 12% increase compared to 2014's RM588mil. The increase of RM69mil in state revenue is to be generated from land premium payments, namely developments at Bayan Mutiara and Batu Kawan.

Administrative expenditure is estimated at RM887mil, up by 5.2% from 2014. The higher expenses are mainly due to the increase in funding for PDC's affordable housing scheme, and social and welfare programmes.

❑ *Land swap is an option to fund infrastructure works*

We believe that land swap is an economically viable solution for the Penang government to raise fund for infrastructure plans. Funding will come from state government and mostly the private sector.

To further underscore this, a land swap deal was done for a parcel of land at STP1, measuring nine acres, for RM305mil (or RM778psf) between the state and Consortium Zenith BUCG Sdn Bhd on February 2014, as a payment in kind for the RM6.3bil underground sea tunnel linking the island to the mainland.

This is the only land swap arrangement by the state government to-date. Such land swap arrangement essentially means that no cash is involved for the deal. The consortium will undertake the project from the beginning until completion, in exchange for land.

We understand that the state has earmarked 110 acres of land – 60 acres at STP2 and 50 acres along Gurney Drive – and 30-year toll concession for the undersea tunnel as payment in kind for Zenith BUCG.

The reclaimed 110 acres is viewed as the most prime land that Penang government owns – a crown jewel on Penang island.

While we are uncertain whether the Penang undersea tunnel would take-off, the state government could easily redeploy the earmarked land for other use, we think.

As E&O's reclamation of STP2 would likely be ready two years later, the state government has given the consortium nine acres at STP1 first to fund the cost of the initial feasible studies and detailed design works of the undersea tunnel project.

The RM305mil of land worth at STP1 will be spent on:

(1) Detailed design work – RM180mil (60%)

(2) Feasibility studies – RM92mil (30%)

(3) Detailed environment impact assessment – RM31mil (10%)

Local press reported that nine acres at STP1 will be carved out into two parcels by the consortium:

(1) Parcel 1 (3.73 acres): Joint mixed development between the consortium and Ewein Land (40:60 joint). GDV is reported to range from RM700mil to RM1bil.

(2) Parcel 2 (5.7 acres): The consortium has yet to select a developer although it has already received a few proposals.

Consortium Zenith BUCG is a special purpose vehicle company set up by a joint venture between local company Construction Zenith, China Railway Construction Corporation Ltd (CRCC) together with Beijing Urban Construction Group (BUCG), Sri Tinggi Sdn Bhd, and Juteras Sdn Bhd. BUCG is a major Chinese construction company that built the Beijing Olympic Stadium Bird Nest, while CRCC built most of the railroads in China.

❑ *Mooting for more land reclamation projects, i.e. Penang Middle Bank*

Infrastructure network would need to be integrated for the property market to remain vibrant and for property prices to hold. Therefore, implementation needs to be accelerated.

As the enhanced infrastructure would overall elevate land value across the state, we think that the state government will be inclined to ensure that property prices stays firm in Penang.

We expect more potential reclamation in the pipeline as part of the state government's source of funding and revenue arises from granting reclamation rights to the private sector.

We think this is part of the state's move to address scarcity of land on Penang island and rising land cost.

While we do not rule out the possibility of potential reclamation projects in the pipeline, i.e. Middle Bank, the approval process for land reclamation is rather lengthy (See Exhibit 27).

Nonetheless, we believe new reclamation projects would not take-off anytime soon due to the tough regulatory approvals by the Federal authorities – e.g. the approval for the Detailed Environmental Impact Assessment (DEIA) by the Department of Environment under the Ministry of Natural Resources & Environment.

Unlike E&O's STP and IJM Land's The Light developments, the approval on the DEIA was given by the Federal and was awarded by the previous state government.

The proposed reclamation of **Middle Bank** involves a massive 1,500 acres of seagrass land, located in between the Penang Bridge and river mouth of Sungai Pinang (to the left of The Light's development towards George Town).

The Middle Bank project would take years to kick-off as the DEIA study has not been carry out and is still subject to the Federal's approval. We understand that PDC had called for a RFP to reclaim Middle Bank.

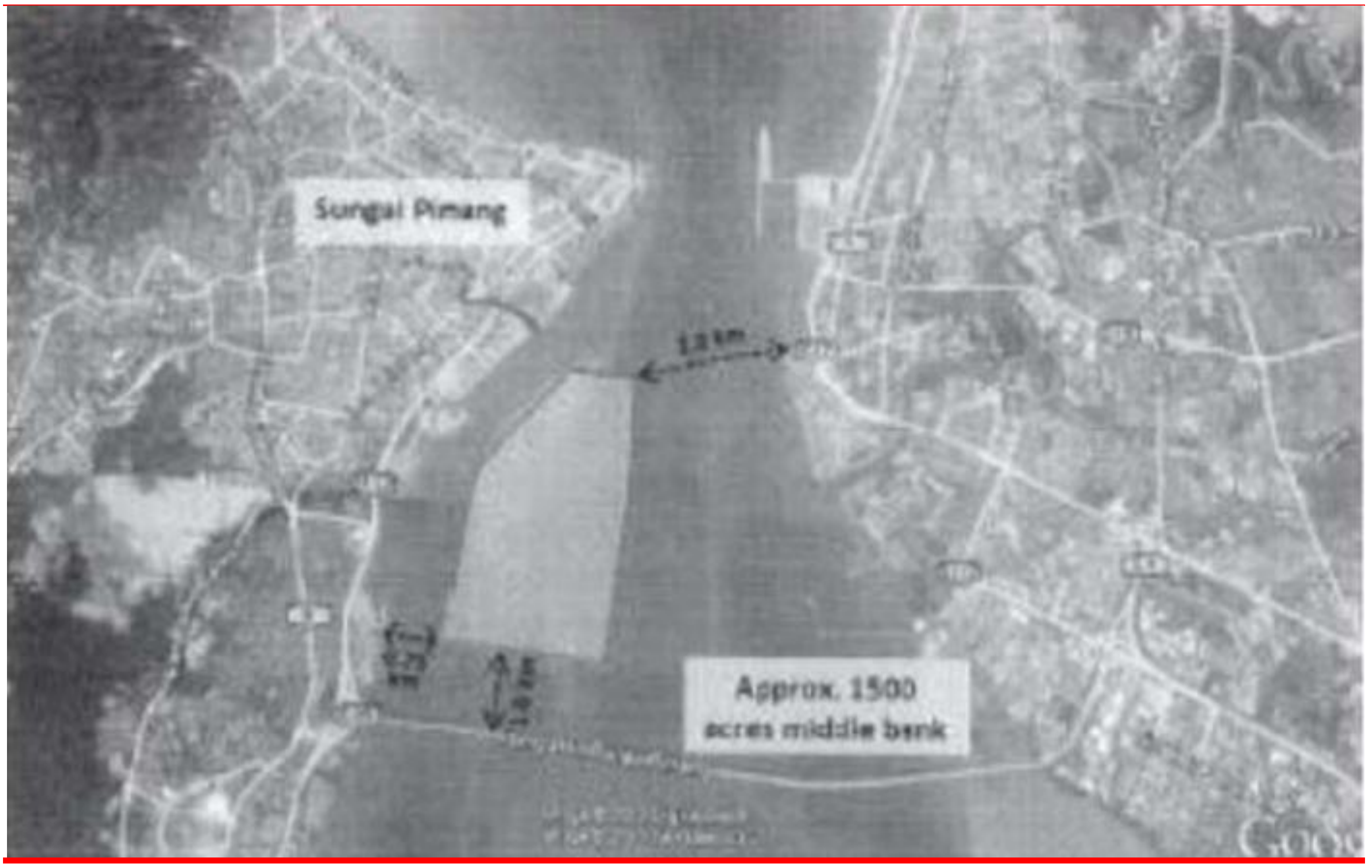
We see the unlikelihood of any other massive reclamation project to kick-off anytime soon.

EXHIBIT 27: APPROVAL PROCESS FOR LAND RECLAMATION

- Step 1
  - Submit layout plan to the Penang govertment for conditional approval
- Step 2
  - Application to the Department of Environment under the Ministry of Natural Resources & Environment for approval on the Detailed Environmental Impact Assessment
- Step 3
  - Application to the Penang govertment for approval on the land use masterplan
- Step 4
  - Commence reclamation

Source: AmResearch

EXHIBIT 28: PENANG MIDDLE BANK



Source: PDC, AmResearch

❑ *Penang land prices to stay firm*

The significance of land swaps or land sale of state-owned land is viewed as an economically viable solution for funding.

As such, from the state's perspective, there is a need for land prices to stay firm in Penang. This is pivotal to the state's plan to raise funds to meet its infrastructure target.

Our conviction is that the PTMP is a key structural driver for real estate prices in Penang.

In addition to new roads and highway, new investments in public transport (i.e. inner city trams and trains) will eventually benefit strategically-placed residential developments.

Similar to the significant positive impact brought by the MRT and LRT lines in Klang Valley, the PTMP provides an added kick to enhancing land value, both from the state and property developer's views, we believe.

Notably, property developers are poised to benefit from new roads and public transport.

The key beneficiary is E&O, given the prime location of STP2 and its emergence as the biggest land owner at the island once reclamation of STP2 is completed.

More importantly, the improved infrastructure will underpin future demand for residential and commercial properties.

Our ground check with developers and real estate players in Penang revealed that residential property prices in the state are unlikely to weaken and would remain firm beyond this, due to rising construction cost and scarcity of land.

We think there is likelihood for more increasing land swap and land sale to materialise in the future. And given the scarcity of land in Penang, we do not exclude the possibility of increasing land reclamation projects, i.e. Penang Middle Bank.

❑ *Land value has surged significantly; reflating land values in Penang*

Notably, infrastructure coupled with various job-creation initiatives are the key drivers to rising land values and by extension, property prices. The Penang property market is of no exception.

To be sure, a report on Penang by *The Edge* reveals that property prices on both ends of the Second Penang Bridge have appreciated by ~5x (on the island side) and ~7x (on the mainland, e.g. Seberang Prai) since the project was announced in 2007.

Also, evidently, there have been increased land transactions of state-owned land in recent years, particularly within the Batu Kawan area on the mainland. Improved road networks and enhanced accessibility had clearly attracted investment and property developers to arbitrage land value.

All things being equal, the proposed PTMP will have similar positive implications for real estate values on both the island and mainland.

The PTMP is a game changer to the Penang landscape as it opens up new areas and accessibility.

Within the Georgetown enclave, land value has also increased significantly. This is because residential prices in prime neighbourhoods have already surpassed RM1,000psf, implying reflating land values. See Exhibit 29 for land transactions in the past few years.

The recent land transaction within Georgetown serves as a good benchmark for land valuations for Penang Island.

In 2013, the transacted price for a land along Jalan Macalister, measuring 1.1 acres was at RM1,242psf.

This year, another land located along Northam Road was transacted at RM1,495psf. This is a sea-fronting land which, we understand is only 1.5km from STP2.

While there is no precedent pricing for STP2, we believe STP2 would be similarly-priced. By owning 760 acres of prime seafront land, E&O is strategically positioned to be the property price leader on Penang island in the future.

In addition, Penang government's share of development profits at STP2 and entitlement to 191 acres further underscore our view.

We have assumed land value of RM500psf in our NAV model for STP2 –at a 56% discount to the reported STP1's land price of RM778psf to the consortium Zenith BUCG.

We understand that pent-up demand on the island remains strong. Improved infrastructure will further drive future demand for residential and commercial properties in STP2 from locals and foreign buyers.

EXHIBIT 29: LAND TRANSACTIONS ON PENANG ISLAND

Location	Acres	Value (RM mil)	Transaction price (RMpsf)
2012			
Georgetwon (Jalan Kelawei)	0.6	18.1	698.2
Georgetown (Jalan Magazine)	0.6	17.5	682.1
Georgetown (adjoining Komtar)	1.1	32.4	677.1
Georgetown (along Jalan Macalister)	2.1	41.5	455.8
Batu Ferringhi (seaward side)	2.8	42.0	346.8
Bukit Gambier	0.8	11.4	330.0
Jalan Lembah Permai	21.3	185.6	200.1
Jelutong	9.4	82.0	200.1
Tanjung Bungah	21.3	185.6	200.0
Tanjung Bungah	35.3	290.6	189.3
Tanjung Bungah & Batu Ferringhi	13.9	105.0	172.9
Relau	19.2	64.6	77.3
Tanjung Bunga	9.7	31.5	75.0
Pulau Betong (near Balik Pulau)	9.4	13.5	33.0
Pulau Betong (near Balik Pulau)	21.0	25.6	28.0
Pantai Acheh (near Balik Pulau)	9.3	11.4	28.0
Mount Erskrine	29.6	25.0	19.4
Paya Terubong	42.1	29.0	15.8
2013			
Jalan Macalister	1.1	60.0	1,242.4
Off Penang Road	0.4	14.9	850.0
Jalan Anson, Georgetown	1.1	29.0	599.8
Jalan Faraday	6.1	119.8	447.1
Jalan Brook, Pulau Tikus	1.6	30.3	429.0
Off Jalan Sultan Azlan Shah	4.7	71.5	350.0
Off Jalan Sultan Azlan Shah	2.2	13.3	137.9
Paya Terubong	12.8	55.0	98.7
Off Jalan Erskine	10.0	35.0	80.6
Bandar Air Itam	116.9	112.5	22.1
2014			
Northam road	2.0	132.0	1,494.6
Paya Terubong	24.5	267.4	250.6
Jalan Dato Hashim	24.3	93.0	88.0

Source: Various, AmResearch

- ***Penang: Next hub for regional expansion; tapping on the shared service outsourcing (SSO) sector***

Underpinning incremental demand is the economic consideration of job creation. Penang is tapping the rapidly growing outsourcing sector.

Penang aims to move up the value chain by driving its third wave of knowledge intensive and innovation-led growth.

In March 2014, Penang launched the Business Processing Outsourcing-Information Technology Outsourcing (BPO-ITO) hub. This RM3.3bil BPO-ITO hub encompasses:-

(1) BPO Park at Bayan Lepas (74 acres);

EXHIBIT 30: BPO PARK

Source: Invest Penang, AmResearch

(2) BPO Prime at Bayan Baru (6.5 acres) ; and

EXHIBIT 31: BPO PRIME

Source: Invest Penang, AmResearch

(3) Creative Animation Triggers (CAT) at the George Town Heritage Enclave (100,000sf). The CAT will provide creative animation services, e.g. post-production, animation, game development, E-learning, mobile and interactive content based services. The completion of CAT is in 2016.

EXHIBIT 32: CREATIVE ANIMATION TRIGGERS

Source: Company, AmResearch

The establishment of the BPI-ITO hub bodes well for the Penang state.

BPO-ITO hub is expected generate 30,000 high-paying jobs when the project is fully developed in 10 years. In the first five years, about 21,000 high-paying jobs are expected to be created.

BPO-ITO hub is viewed as a key catalyst to boost Penang's economy to a higher level. This creates an ecosystem where it is a trigger point for supporting industries.

Furthermore, the establishment of the BPI-ITO hub signals Penang's commitment in the service industry, especially in the SSO sector. This includes Knowledge Process Outsourcing, Business Process Outsourcing, and Information Technology Outsourcing.

The sector covers services such as IT infrastructure management, IT consulting services, network and desktop management, contact centres, finance and accounting, human resources, legal services, sales and marketing, market research and customer analytics, financial and stock market research, engineering services and product design, and research and development.

Malaysia is ranked as the 3rd most preferred outsourcing destination after India and China. According to the global trends, costs of setting up SSO companies in China and India are increasing. Hence, timing is good to attract international companies to set up outsourcing centres Penang where costs are lower with complete facilities and infrastructure.

As it is, more than 3,350 SSO projects have been approved to establish regional office in Malaysia. In fact, the SSO industry in Malaysia has grown to 289 companies in 2013 from 15 companies in 2009, with 72,730 jobs created in 2013.

It was reported that Penang's outsourcing sector saw more than a 20% increase in revenue last year. Malaysia, particularly Penang, is becoming a choice location for US companies that want to diversify in Asia.

EXHIBIT 33: SSO SECTOR

Industry
- Electrical & Electronics
- Electronics Manufacturing Services (EMS)
- Light Emitting Diodes (LED)
- Life Sciences / Medical Devices
- Aerospace / Avionics
- Renewable Energy (RE)
- Halal & Food Industry

Services
- Shared Services & Outsourcing (SSO)
- IC Design & Development
- ICT / Software development & Creative Multimedia
- Operational Headquarters, International Procurement Centre and Regional Distribution Centres
- Logistics & Transportation
- Healthcare & Wellness Services
- International Education
- Meeting, Incentives, Conferences, and Exhibitions (MICE)
- High value Tourism / Hospitality

Source: Invest Penang, AmResearch

❑ *Joint venture of Temasek Holding and PDC signals a commitment to invest and develop BPO Prime and PITP*

Singapore's investment arm, Temasek Holdings has inked an agreement with PDC for the construction of a technology park and an outsourcing centre.

BPO Prime and Penang International Technology Park (PITP) are two Penang projects outlined in a Memorandum of Understanding that Temasek, PDC and Economic Development Innovations Singapore Pte Ltd (EDIS) signed in May.

These projects are to be developed by PDC and Temasek, of which PDC will have a 51% stake. Economic Development Innovations Singapore Pte Ltd will manage the projects once completed.

This joint venture deal between PDC and Temasek signals a renewed confidence in the future prospects of Penang.

This collaboration will spur a total gross development value of about RM11.3bil or SGDS$4.4bil and will be completed over the next five to 10 years.

BPO Prime and PITP projects have been identified as Penang's priority development projects to transform Penang into an international outsourcing hub. It is also part of the state's government plan to be among the top 31 BPO hubs in the future.

We view that the endorsement of STP2 is timely ahead of Temasek's commitment to invest and develop PITP and BPO Prime with PDC, as it bodes well for job creation and inward migration.

BPO Prime is a mixed-development property, which will occupy the site of the present PDC building. It comprises a podium with two towers of offices (29-storey and 25-storey), retail outlets, and recreational facilities.

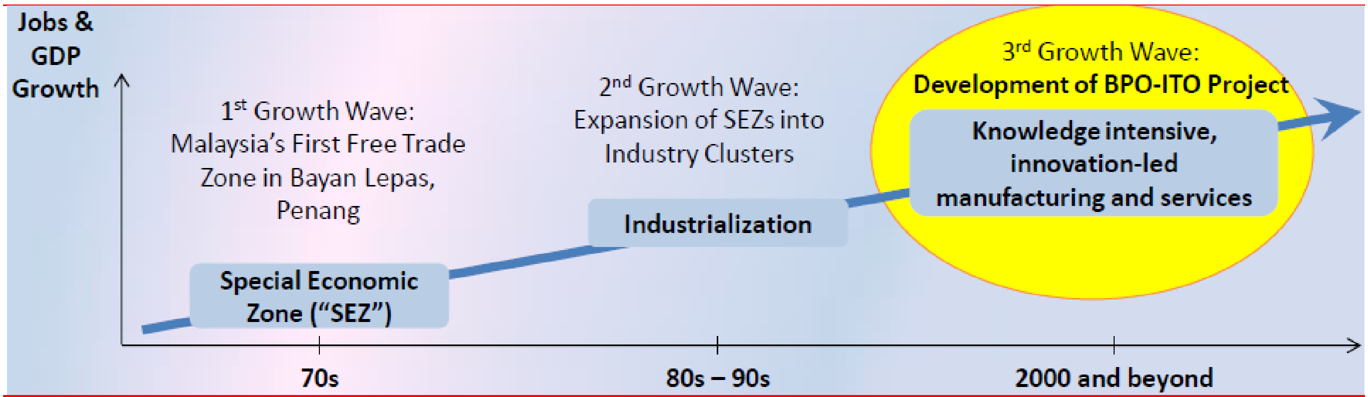
It will take two to three years for BPO Prime to complete construction while the PITP will be developed within the next five to 10 years.

The ground breaking ceremony for BPO Prime is earmarked in the first half of next year. Once completed, residential and commercial space would comprise about 1.6mil sf. The commercial element will focus on BPO.

EXHIBIT 35: INTERNATIONAL COMPANIES PRESENCE IN PENANG

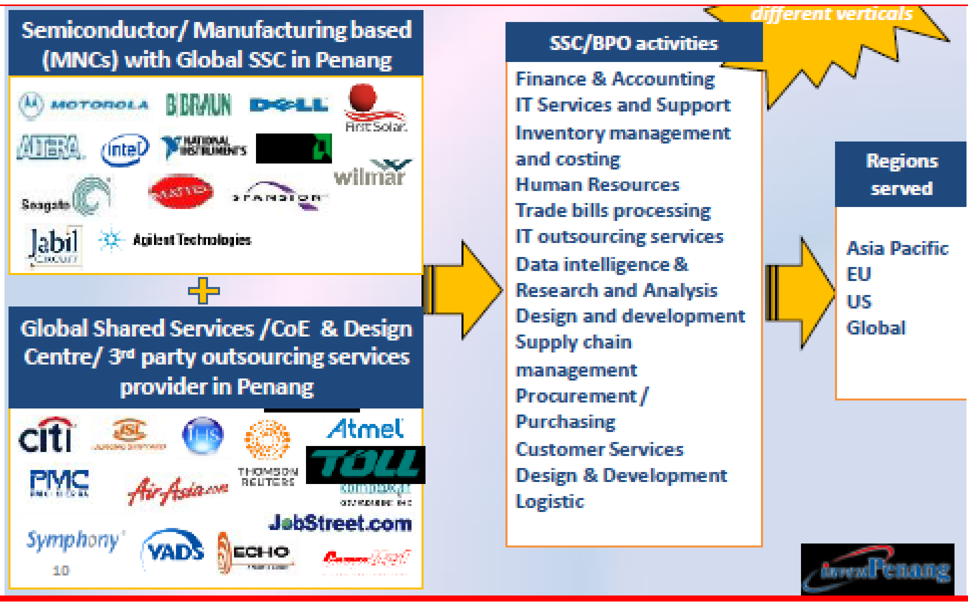
Source: Invest Penang, AmResearch

EXHIBIT 34: PENANG'S THIRD GROWTH WAVE



Source: Invest Penang, AmResearch

EXHIBIT 36: GLOBAL SHARED SERVICES CENTRE/BPO-ITO COMPANIES IN PENANG



Source: Invest Penang, AmResearch

STP2: BUILDING A LANDMARK DEVELOPMENT IN PENANG

❑ ***760 acres of crown jewel on Penang island***

STP is E&O's flagship development – a world class seafront development – situated along Penang's northeast coast.

STP1 sits on a prime location between the UNESCO World Heritage City of George Town and renowned beaches of Batu Ferringhi. As it is, E&O's STP1 (220 acres) is already a landmark project in Penang and is well sought after by both locals and foreigners.

STP2 set to transform the property landscape on the Penang island given the 760 acres of prime seafront land (of man-made islands) opposite the high-end residential STP1 project.

With reclamation works of STP2 to commence soon, E&O has now emerged as the largest land owner of prime seafront land in Penang with a total of 980 acres at STP 1 and 2.

The primary valuation driver of STP2 is its high development potential and lucrative profit margin.

We therefore expect STP2 to usher in a new era of exponential growth trajectory for E&O.

E&O is a key beneficiary to Penang's infrastructure plans due to its sizeable land at the northern part of Penang Island.

Notwithstanding this, the improved infrastructure will make Penang a more vibrant and liveable city. This will underpin future demand for residential and commercial properties in STP2.

This should assist in sustaining the strong interest in Penang properties and enhance property prices on the island and by extension, the mainland.

EXHIBIT 37: LOCATION OF STP2

Source: E&O, AmResearch

❑ *Market leader in Penang in terms of pricing*

Improved connectivity should provide support for property prices within STP2.

Being the largest land owner with the best tract of prime seafront land, E&O will become the market leader on the Penang island in terms of pricing.

STP1's well-planned and balanced township with impeccable design sums up E&O's ability to continue setting benchmark prices and achieve strong take-up rates.

Our view is further strengthened by the fact that STP1 joins a list of world-class waterfront communities, including the Australia's Sovereign Islands and Sentosa Cove in Singapore. It is also similar to Canary Wharf in London, Dockland Waterfont City in Melbourne, and Queens Quay in Toronto.

Evidently, STP1 represents E&O's initiative to showcase the best integrated seafront living with residential, commercial, entertainment, business, and hospitality components within a development.

To be sure, the recent launch of Andaman at Quayside (Block 1G) at RM1,500psf is higher than those for the previous blocks (average selling price of 1H is RM1,350psf and 1F is RM1,030psf). Meanwhile, the 3-storey super terraces launched in February 2014 were priced at RM640psf.

We believe STP2 will follow suit in terms of pricing. We are bullish on STP2 given its unique exclusivity appeal, strategic location, sea-fronting land, the firm establishment of STP1, exciting development concept, and enticing architectural designs.

The litmus test for E&O is the monetising of land value at STP2, which we believe is currently pending. This would trigger precedence in pricing land values for STP2.

E&O is likely to carve out select parcels of commercial land at STP2 to be sold to established global developers to enhance land value.

We believe there is no short of intrinsic buyers given the appeal of the land, underpinned by scarcity of land on Penang island.

As mentioned earlier, a land sale along Northam Road that took place this year was transacted at just under RM1,500psf. This sea-fronting land is located nearby STP2, i.e. 1.5km away. This has set a new benchmark price within the vicinity.

❑ *Proven track record of its appointed architect*

STP2 will continue to showcase the best integrated seafront living. In addition, E&O's appointment of renowned international and local architects and planners will also raise the benchmark even further.

One of them is GDP Architect which has a proven track record with local and overseas projects (including STP1).

A few of GDP Architect's key waterfront projects include the Marina Square in Abu Dhabi and Sebana & Marina Resort in Kota Tinggi.

Interestingly, GDP Architect is involved in the masterplan of Al Reem Island in Abu Dhabi (also known as the Emirates Pearl Island), which we view as rather similar to the master plan of STP2.

Al Reem Island is located on the north-eastern fringe of Abu Dhabi with a land area of 1,560 acres. It is bridged to the main island of Abu Dhabi.

Al Reem Island is a self-contained, waterfront precinct development with a 1.5km long waterfront promenade.

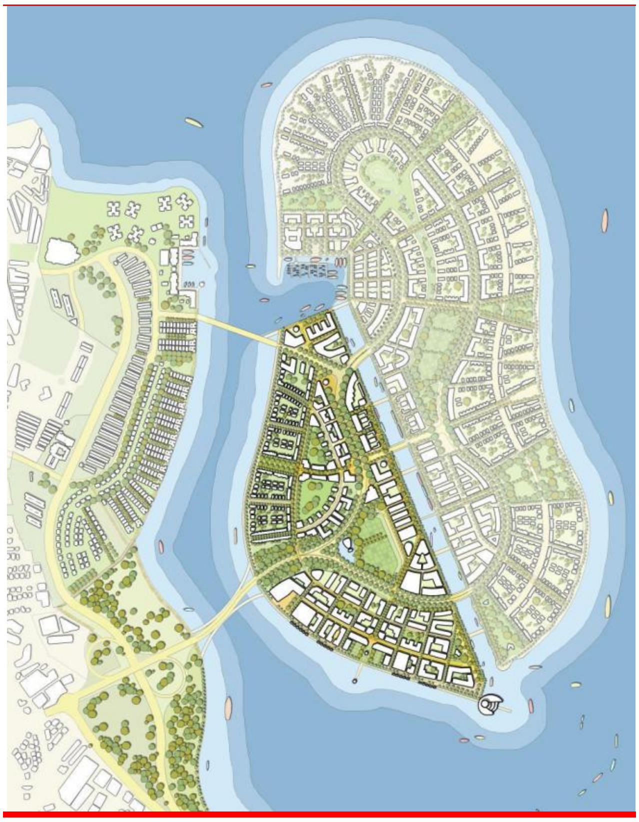
The master plan strategy uses the shape of the island to clearly define three main districts connected via a central and pivotal zone. The island's Central Business District is placed at the north of the central zone, whereas the remaining two zones at the east and south of the island are predominantly residential.

As the pioneer development on Al Reem Island, Marina Square sits southwest of the island and covers an area of 50 acres comprising residential, commercial, and business projects that sit on a natural island.

EXHIBIT 38: REEM ISLAND – SIMILAR MASTERPLAN TO STP2

Source: GDP Architect, AmResearch

EXHIBIT 39: MASTERPLAN OF STP2



Source: E&O, AmResearch

❑ *Successful establishment of STP1; STP2 will follow suit and is poised to be "the" residential address*

Based on our ground check, prices for the earlier launches of STP1 had appreciated by more than 100%.

For example, its maiden launch in 2005 called the Ariza Courtyard terraces, comprising 2.5-storey terraces were launched at RM220psf. We understand that secondary prices are now more than RM600psf.

Bungalow parcels launched in 2006 were selling at RM170psf back then. Secondary transaction price is more than RM400psf currently.

Its three-storey semi-detached homes (Avalon) were transacted at more than RM700psf in the secondary market. These were launched at RM300psf in 2006.

Evidently, the successful establishment of STP1 has fuelled strong buying interest given the notable strong take-up from domestic buyers and foreign ones from Singapore, Taiwan, Indonesia, China, and Britain.

Furthermore, E&O's pool of buyers have also expanded to Japan since 2011, following its marketing collaboration with Mitsui Fudosan.

As it is, STP1's latest launch called the Link Villas (Phase 1: 22 units of 3-storey super terraces) achieved a 70% take-up rate with an average selling price of RM635psf. The built-up ranges between 5,226sf and 6,465sf.

We believe E&O's launch of Andaman at Quayside (Block 1G) will continue to increase the benchmark on prices on the island.

With and exclusive and sea-fronting land, STP2 will be the landmark development on Penang island, we opine. STP2 is poised to be "the" residential address for high-income earners and set the benchmark for property prices.

Underpinned by the scarcity of land in Penang and rising land value, pent-up demand for quality homes will continue. Incremental demand will be underpinned by infrastructure improvements and inward migration.

❑ *Monetising land value through land sale sets benchmark prices for STP2*

Once the reclamation cost is fixed, we believe that E&O is likely to carve out select land parcels for commercial developments to be sold to reputable global or regional developers. This is to monetise land value once reclamation commences.

Such a move will not only set a precedent in pricing land values at STP2, but also enhance the entire development of STP2.

Investors will then be aware of how valuable the STP2 land is.

❑ *STP2 reclamation likely to commence in February 2015*

STP2 land reclamation will provide E&O a massive landbank of 760 acres of artificial island (two islands separated by a canal), similar to Dubai's Palm Jumeirah.

Including the 131 acres of land along Gurney Drive for Penang government, E&O will reclaim a total area of 891 acres.

The timeline for reclamation of STP2 is intact.

EXHIBIT 40: RECLAMATION TIMELINE

December 2014
Tender pre-qualification stage

↓

January 2015
Call for reclamation tender

↓

February 2015
Award reclamation tender

↓

March 2015
Commencement of reclamation works

Source: E&O, AmResearch

The pre-qualification of reclamation contractors will be held in December. The tender is expected to be called in

January 2015 and will likely be awarded by March 2015. Reclamation will commence thereafter, comprising 384 acres under Phase 1.

Bidding tender is seen to be competitive given the absence of massive reclamation projects around Asia.

We think E&O is highly likely to award the tender to a sizeable foreign contractor with strong financial muscle and balance sheet as reclamation will be funded through a banker's guarantee. This is to ensure smooth execution for the entire reclamation process.

Reclamation works will be broken down into two phases.

EXHIBIT 41: TWO PHASES OF RECLAMATION

Phase	Acres to be reclaimed	Timeline
Phase 1	**384 acres** - 131 acres along Gurney drive - 253 acres at STP2	2 years
Phase 2	**507 acres at STP2**	3 years

Source: E&O, AmResearch

The full completion of reclamation works would take up to five years. Based on the concession agreement, E&O is required to complete reclamation by 2019.

The first property launch at STP2 is likely to happen earliest in 2017, we think.

Similar to Dubai's Palm Jumeirah, the reclamation of STP1 employs one of the most extensively used reclamation technologies in the world called the Sand Replacement Method. This was used for Singapore's Tuas Biomedical Park 2, Disney Team Park in Hong Kong, and Betuweroute Railway in Netherlands.

❑ *Reclamation of STP2 will be funded through banker's guarantee*

The entire reclamation cost will be privately funded by E&O although PDC has a 21.2% stake in STP2. Nevertheless, based on our assumed land value of RM500psf for STP2, we estimate the state government's portion of development profit at RM3.1bil.

Similar to the funding structure of STP1, the funding for STP2 will be undertaken through banker's guarantee.

Upon the completion of reclamation works and delivery of the last parcel of reclaimed land (including land title) by the contractors, the banker's guarantee will be converted into a term loan.

This essentially means that no cash outlay is needed until the completion of reclamation. We see this as a good funding structure for E&O as it would not burden its cash flow and gearing level.

As for STP1, a banker's guarantee of RM290mil was provided and the term loan was for a tenor of 8 year or 96 months.

The proceeds to be raised from its corporate exercise (bonds issue with free detachable warrants) will not be used to fund the reclamation of STP2 but for preliminary fees.

❑ *Estimated reclamation costs of RM2.8bil*

We have revised our estimated land cost for both Gurney Drive and STP2 to RM2.8bil from RM2.4bil previously.

This includes the estimated reclamation costs – including infrastructure and bridge costs (two bridges connecting STP2 to Straits Quay and Gurney Drive at 400 metres each).

Reclamation cost for STP2 will be higher than STP1's, given the deeper water depth of 4m-6m.

As for the reclamation works along Gurney Drive, we revised upwards our projected reclamation cost to RM18psf. No infrastructure contribution is required for Gurney Drive.

Our reclamation cost of RM50psf for STP2 is maintained, but we have revised the estimated infrastructure cost to RM30psf for STP2.

EXHIBIT 42: CHANGES TO OUR ASSUMPTIONS

Estimates	Now	Previous
Gurney Drive		
Estimated reclamation cost (RMpsf)	18	15
STP2		
Estimated reclamation cost (RMpsf)	50	50
Estimated infrastructure cost (RMpsf)	30	20

Source: AmResearch

EXHIBIT 43: REVISED LAND COST (RECLAMATION AND INFRASTRUCTURE)

Gurney Drive	
Land area to be reclaimed (acres)	131
Estimated reclamation cost (RMpsf)	18
Total reclamation cost (RM mil)	**102.7**
STP 2	
Land area to be reclaimed (acres)	760
Estimated reclamation cost (RMpsf)	50
Estimated infrastructure cost (RMpsf)	30
Total reclamation and infra cost (RM mil)	**2,648.4**
Total attributable cost (RM mil)	**2,751.2**

Source: AmResearch

EXHIBIT 44: ESTIMATED RECLAMATION COST IN PHASES

		RMmil	
	Acres	Phase 1	Phase 2
Gurney Drive	131	103	
STP2	253	882	
STP2	507		1,767
Total	**891**	**984**	**1,767**

Source: AmResearch

❑ *Break-even land cost estimated at RM94psf*

We have also revised our assumption and incorporate a higher net usable area of 68% from 55% previously. The net usable area for STP1 is 55%.

We now estimate the break-even land cost at RM94psf (vs. RM85psf previously), based on the gross land equivalent of net residual land for development of 672 acres. On a net land costs basis, the break-even land cost is RM138psf.

Our projection includes the total 191 acres of land to be given to the state government.

EXHIBIT 45: BREAK-EVEN LAND COST

	Acres
Gross land area on STP2	760
Net usable area	68%
STP2 net land area	517
Allocation to Penang state government	60
Net residual land for development for E&O	**457**
Net land cost (RMpsf)	**138.3**
Gross land equivalent at net residual land of 457 acres	672
Gross land cost, (RMpsf)	**94.0**

Source: AmResearch

❑ *Sizeable GDV of RM25bil*

STP2 is expected to have a GDV of approximately RM25bil, compared to STP1's RM5bil.

STP's sizeable landbank will provide E&O a good earnings stream as the entire development is expected to last E&O up to 15-20 years.

Of the 760 acres at STP2, 39% will be allocated for residential development, 18% for commercial development, 20% for government reserves and the rest for other purposes.

A total of approximately 12,000 homes are expected to be built. Of which, 32% will be low-rise developments (below four storeys), 45% for medium-rise (between 5-10 storeys) and 23% for high-rise (more than 10 storeys).

The mixed-used commercial space of 28.5mil sf will include retail, office and serviced apartments. There will also be a tourism hub with a seafront promenade, museum, and international marina.

We understand that STP2's plot ratio is likely to be fixed at 2.5x, higher than STP1's 1.2x.

EXHIBIT 46: COMPONENTS OF STP2

Masterplan	Stage A	Stage B
Acres	253	507
Residential	41%	47%
Commercial & mixed use	34%	15%
Public spaces, infra, utilities	25%	38%

Source: E&O, AmResearch

❑ *Remaining GDV of approximately RM1.5bil at STP1*

The commencement of STP2 reclamation is viewed timely for E&O as the remaining GDV at STP1 is approximately RM1.5bil.

E&O plans to launch these projects by end-CY15:

(1) Link Villas (Phase 2) – GDV: RM110mil

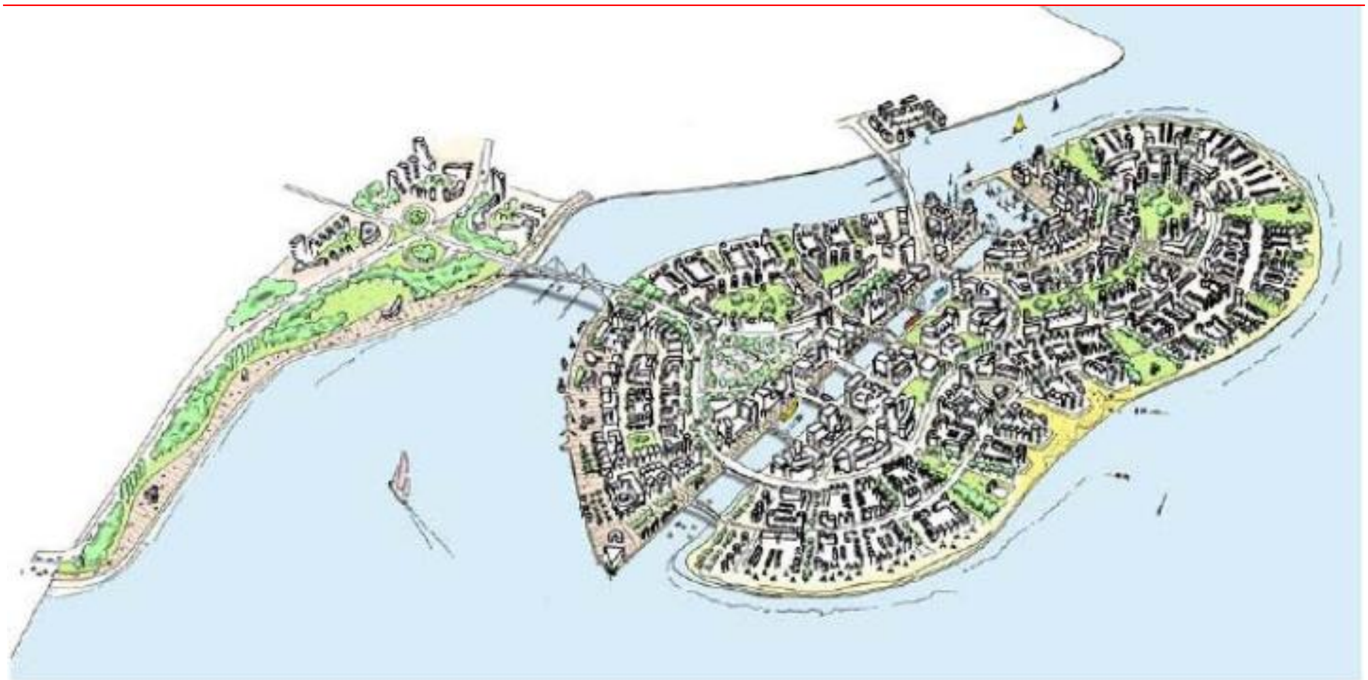
Phase 2 consist of 29 units of 3-storey super terrace units. Phase 1 was launched in February 2014 and has achieved a 70% take-up rate.

(2) Andaman at Quayside (Block 1G) – GDV: RM600mil

(3) The Tamarind (commercial land) – GDV: R900mil

The Tamarind comprises executive apartments. Average selling price would be less than RM1,000psf. Note that this is not part of the affordable homes scheme.

EXHIBIT 47: MASTER PLAN OF STP2



Source: E&O, AmResearch

EXHIBIT 48: ARTIST IMPRESSION OF STP2

Source: Company, AmResearch

BATU KAWAN: SECOND PENANG BRIDGE OPENS UP ACCESSIBILITY

- ***Increasing investments at Batu Kawan since the completion of Second Penang Bridge***

The recently completed Second Penang Bridge in March 2014 has vastly improved connectivity and accessibility between the island and mainland; it provides linkage between Bayan Lepas via Batu Maung and Batu Kawan.

The bridge is reported to relieve traffic congestion on the first bridge by about 25%. The bridge has shortened travelling time to the island to 30 minutes compared to 45 minutes on the first Penang Bridge.

More interestingly, the enhanced accessibility had spurred tremendous interest in the south of Seberang Perai, i.e. Batu Kawan and Bukit Tambun, being the least matured district within Seberang Perai.

Batu Kawan, which is a focal point of development for PDC, experienced accelerated development.

In the recent years, the announcement of the opening of Bridge had:-

(1) Fuelled strong buying interest from developers looking to arbitrage land value in Batu Kawan on the mainland.

(2) Accelerated development of 6,400 acres Batu Kawan, where the bridge's exit is located. This is evidenced by increasing investments. Several major catalytic projects announced thus far are IKEA, KDU University College, a golf resort and theme park.

(3) Driven economic transformation with associated job creation underpinned by inward residential migration to the Batu Kawan area.

More importantly, the accelerated development at Batu Kawan bodes well for the state government's revenue given the conversion of land premium and land sale.

- ***The new hot spot – Northern Region's newest urban centre***

We are positive on the Batu Kawan area as it is set to become the Northern Region's newest urban centre.

The bridge has clearly changed the ball game for the mainland, particularly Batu Kawan given its strategic location where the bridge's exit is located**.**

Other areas in the south of Seberang Prai including Batu Kawan, Bukit Tambun, and areas along the truck road such as Simpang Ampat, Jawi, Sungai Bakap and Nibong Tebal, are also benefiting from the second bridge.

The key appeal for Batu Kawan, we believe, is the availability of landed homes at significantly cheaper

EXHIBIT 49: PENANG SECOND BRIDGE

Source: Various, AmResearch

prices compared to those on the island.

Given the significantly lower base, sustained business and economic developments coupled with rapid urbanisation, the real estate price gap will eventually narrow as the Batu Kawan area transforms into a well-planned township.

Notwithstanding the price points, the shortened travelling time between the island and mainland makes it easier for people to own a house in Batu Kawan and work on the island.

These coupled with the scarcity of land and high property prices on the island and ample undeveloped land on the mainland, would make Batu Kawan an appealing and cheaper alternative for homebuyers.

We view that Batu Kawan's accessibility is undoubtedly much better when compared to Tambun Indah's Pearl City. Despite being located further north, property sales at Pearl City have done very well due to its affordable pricing and availability of landed homes.

More importantly, the entry of IKEA (in addition to the Second Penang Bridge) will result in the development of Batu Kawan being fast-tracked. The retail mall anchored by IKEA will serve as the destination mall at the Northern Region.

Once IKEA and the premier shopping outlet opens for operation, we believe that Batu Kawan will have the ability to draw greater crowd and interest given the sizable catchment area (from Kedah, Penang and Perak), in addition to the inflow of foreign tourists.

The spill-over into Batu Kawan will be significant not only due to IKEA's entry, but also the establishment of industrial parks, education institutions and premier outlet developments in the area.

By extension, this would drive job creation and create a huge demand for housing. This would eventually raise capital value within Batu Kawan and its surrounding areas.

Furthermore, Seberang Perai has a long industrial belt including the Penang Science Park and Batu Kawan Industrial Park. The state government, through PDC, is actively promoting the manufacturing and service sector. International companies like HP and Seagate recently announced plans to build plants at Batu Kawan. We have seen exciting developments in the shared services outsourcing segment where companies such as Wilmar, Citi Group, Air Asia, HIS, First Solar Global Service and TOLL have invested in regional and global hubs in the state.

This would result in accelerated job creation within Bandar Cassia. We are expecting a significant growth in population base in the near future.

For a general comparison, we understand that real estate prices on the island for similar products are about 2.5 to 3 times higher than that on the mainland. Double-storey houses in Batu Kawan are being priced at about RM400,000/unit.

- ***1,000 acres of unsold/non-committed Batu Kawan land by PDC***

Batu Kawan is the key beneficiary of the Penang Second Bridge due to its close proximity. This agricultural land with improved accessibility is the new growth corridor on the mainland.

PDC is spearheading the 6,400-acre Bandar Cassia development in Batu Kawan. The master plan involves Bandar Cassia as an eco-city (as a mega scale development) in one area.

The development plan includes 1,500 acres for industrial parks, and 1,300 acres for residential areas and commercial developments such as retail outlets, education institutions, a theme park, golf courses, retirement villages, wellness/spa centres etc. A total of about 12,000 affordable houses will be built in Bandar Cassia.

During our recent visit, we understand that PDC has a total of 1,000 acres of unsold land at Batu Kawan. PDC is actively eyeing landbank within the surrounding area of Batu Kawan.

Based on our ground check, we understand that land prices surrounding Batu Kawan are currently at about RM30psf (excluding infrastructure).

As it is, land prices at Batu Kawan Industrial Park and Penang Science Park are at RM40psf, including infrastructure. This is a significant jump from 2006's RM8psf-RM9psf.

PDC has several high-impact projects in the works aimed at boosting growth in Batu Kawan. For many years, the Batu Kawan area was largely defined by low-to-medium cost housing along industrial parks.

- ***Expect higher incremental demand for properties; 12,000 affordable housing to be built by PDC***

Following the opening of Penang Second Bridge, **the incremental demand for properties on Penang mainland would be buoyed by increasing employment opportunities in the economic corridors of Batu Kawan and south Seberang Perai area.**

This is further underpinned by state-initiated developments and inflow of investments by MNCs. The exciting developments in Batu Kawan should continue to raise interest in the mainland.

Batu Kawan's appeal is increasing due to the expectation of a higher population base. We understand that PDC is expecting 250,000 people to live in Bandar Cassia, Batu Kawan.

In view of this, Bandar Cassia will see more than 11,800 units of affordable housing being built over a 10-15 year period – 3,372 low-medium cost apartments and 8,428 medium cost apartments.

Currently, Phase 1 of Bandar Cassia consists of:-

(1) 149 units of 800sf low-medium cost apartments, priced at RM72,500; and

(2) 371 medium cost apartments – 98 units of 900sf priced at RM168,000 and 273 units of 1,000sf priced at RM220,000.

Interestingly, Batu Kawan's affordable project will be designed by Surbana International Consultants, who is responsible for the world-famous Singapore HDB homes.

❑ ***Rolling out catalytic investments in Batu Kawan***

(1) IKEA

The announcement of IKEA's entry into Batu Kawan in January 2014 has further boosted the attractiveness of Penang.

This is seen as a re-rating catalyst for real estate value in Batu Kawan and south of Seberang Perai.

Notably, property prices surrounding Mutiara Damansara in Petaling Jaya, population density and economic activities were boosted by the entry of IKEA, shopping malls and commercial activities surrounding it.

We expect a similar trend for Batu Kawan as business activities picks up coupled with improved infrastructure.

Penang based developer, Aspen Group had sealed a partnership with Ikano Pte Ltd (JV called Aspen-Ikano on 49%:51% ownership) to bring in the first IKEA store into the northern region.

Aspen had entered into a sale and purchase agreement with PDC for 245 acres of land in Batu Kawan. The freehold land was bought for RM484mil and payment is to be made within five years.

Aspen's land is strategically located at the landing point of the Second Penang Bridge.

Majority of the land at Batu Kawan is on a leasehold basis with the exception to Aspen and Paramount Group's land.

Aspen-Ikano will jointly develop a regional integrated shopping centre (75 acres) anchored by the IKEA store and mixed development of offices and residences (170 acres)comprising:-

- 20 acres for IKEA Store – This is much larger than the first IKEA store at Mutiara Damansara;
- 10 acres for Phase 1 of the shopping mall;
- 45 acres for Phase 2 of the shopping mall; and
- 170 acres for mixed development of residences, offices, medical facilities and central park.

The reported breakdown of the joint venture agreement is as follows:-

- IKEA store (20 acres) – 100% owned by Ikano
- Shopping mall (55 acres) – 70% by Ikano, 30% by Aspen
- Mixed use development (170 acres) – 20% by Ikano 80% by Aspen

The entire development is expected to be completed within 10 years with an estimated GDV of RM8bil.

We visited Aspen Group during our visit in Penang. We understand that plans are afoot with the earthworks ground breaking expected to be held in early 2015. The group is currently calling for tenders for earthworks.

Aspen plans to start construction work for phase 1 (including IKEA) by the end of 2015 with completion by 2018.

The maiden launch for its 3-storey shop lots is expected by end-2014 or early-2015 with sizes ranging from 22'x52' to 26'x60'. We expect the selling price for the shop lots to come in above RM1mil.

On a separate note, Aspen is funding Penang's first privately initiated affordable housing project, called the Tri Pinnacle in Tanjung Tokong. This comprises 650sf low-medium-cost apartments (390 units) priced at RM72,500 and affordable 800sf condos (859 units) priced at RM299,000.

(2) Penang Designer Village

Another important project in the pipeline is the Penang Designer Village, which we think, will be the other kicker for Batu Kawan.

Sarawak-based PE land is developing the RM1bil Penang Designer Village on 40 acres. This includes a premium outlet which will be Malaysia's second premium outlet after Johor Premium Outlet.

Besides attracting an influx of tourists from neighbouring states and foreign countries, the Penang Designer Village will also be a key pull factor for the locals.

We do not expect any cannibalisation resulting from the premium outlet as the land is located about 40km from the nearest commercial centre in the city.

In addition to the market outlet shopping mall, the village will also include a 300-room international hotel, cafe, food and beverage outlets, landscaped garden and residential units.

The development is to be built within three years – shopping mall, hotel and related developments to be completed within 2 years and residential development within 3 years. About 3,000 job opportunities are expected to be created.

This land is located just next to Paramount's proposed KDU University College campus. The reported land premium paid amounts to RM65.4mil or RM38psf.

(3) University institutions

In September 2013, Paramount Corp Bhd acquired 30 acres of land from PDC for RM66mil (or RM50psf). This tract of land is slated for **KDU University College** (10 acres) and an integrated development (20 acres).

This is the second university announced for Batu Kawan following UK-based University of Hull. KDU University College would offer courses in engineering, accounting, business, pre-university studies, hospitality, culinary and tourism, information systems, mass communications, design and English.

Meanwhile, **University of Hull** is also setting up the first franchised campus in Batu Kawan and is expected to open in 2017. The university plans to set up schools of engineering, accountancy, law and logistics. This is supported by the Federal government. The state government has allocated five acres of land for this purpose.

The setting up of such university campuses will further boost Batu Kawan as education hub. This augurs well for the knowledge-based projects planned by the state and PDC.

(4) Theme park and golf resort

We look forward to the Penang government's official award for the proposed theme park and golf resort.

In August 2013, PDC called for a RFP for the purchase and lease of 685 acres of land on a hillock close to the landing point of the new crossing between Batu Kawan and Batu Maung.

The winning bidder will have to develop 215 acres of theme park (west of Batu Kawan) and 470 acres of golf resort (north of Batu Kawan).

Eco World Development Group is considered to be the forerunner to win the bid, which is reported to open at RM45psf.

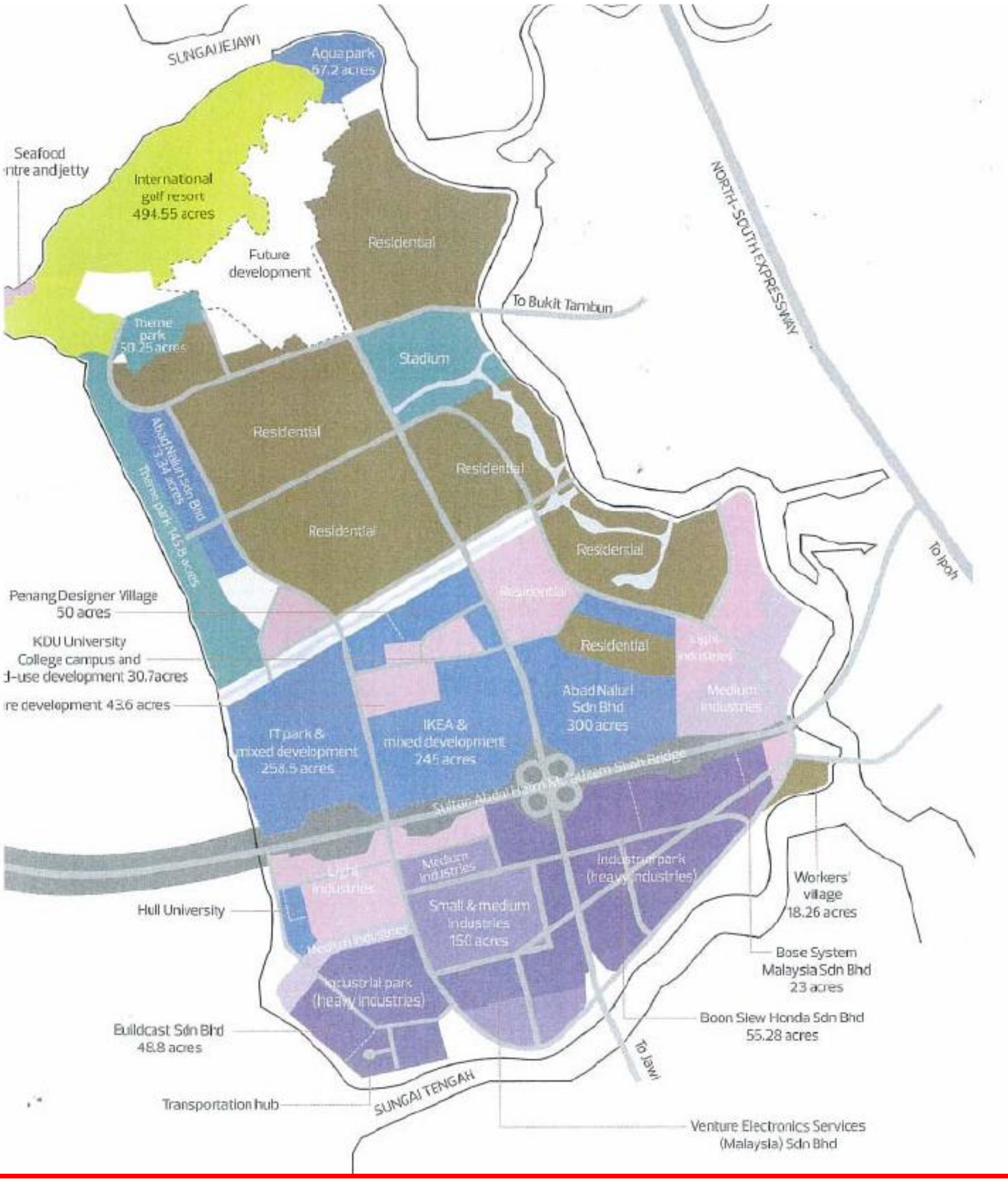
Should Eco World be the successful winner, Eco World would emerge as the largest land owner on Batu Kawan.

EXHIBIT 50: SIGNIFICANT EVENTS IN PENANG

Date	Events	Land area (Acres)	Transaction price (RMpsf)
Aug-13	Request for proposal for an international theme park and golf resort in Batu Kawan	685	n.a
Sep-13	University of Hull to set up franchised branch campus at Tambun Indah	5	n.a
Sep-13	Paramount Corporation Bhd to KDU Univerisity College	30	50.2
Oct-13	PE Land Sdn Bhd to set up Penang Designer Village - a premier outlet	40	37.9
Jan-14	Aspen-IKANO to set up IKEA store, including retail mall and mixed development	245	45.3
Mar-14	Opening of the Penang Second Bridge	n.a	n.a
Feb-14	Consortium Zenith-BUCG granted nine acres at STP1 by Penang government	9	778.0
May-14	Memorandum of Understanding between PDC and Temasek Holdings to develop Business Process Outsourcing Prime and Penang International Technology Park	207	n.a
Jun-14	E&O granted endorsement by Penang government to reclaim STP2	760 + 131	n.a

Source: AmResearch

EXHIBIT 51: INVESTMENTS IN BATU KAWAN



Source: PDC, AmResearch

❑ *Key industrial players setting base at Batu Kawan Industrial Park*

While Batu Kawan has seen an inflow of catalytic investments, 1,500 acres of Batu Kawan Industrial Park continues to do well.

Some industrial space has been pre-sold with anchor tenants at Batu Kawan Industrial Park including Boon Siew Honda, VAT, Bose System, Venture Electronics Services, Bosch Solar Energy, and Malaysia Automotive Lighting.

PDC is working closely with Invest Penang to promote the Batu Kawan Industrial Park to attract high-technology and skills-intensive industries into this area.

The key focus hinges on attracting big brands to set up a manufacturing or service base at Batu Kawan Industrial Park.

The most recent major entry is US-based Seagate Industries in August 2014 to set up a new facility in Batu Kawan. Seagate will purchase 40 acres with the option to purchase another 30 acres in Batu Kawan Industrial Park.

More importantly, PDC's partnership with Singapore's Temasek Holdings for PITP to promote the service sector would further accelerate the industrial landscape at Batu Kawan and attract foreign direct investments, underpinned by Temasek's strong branding.

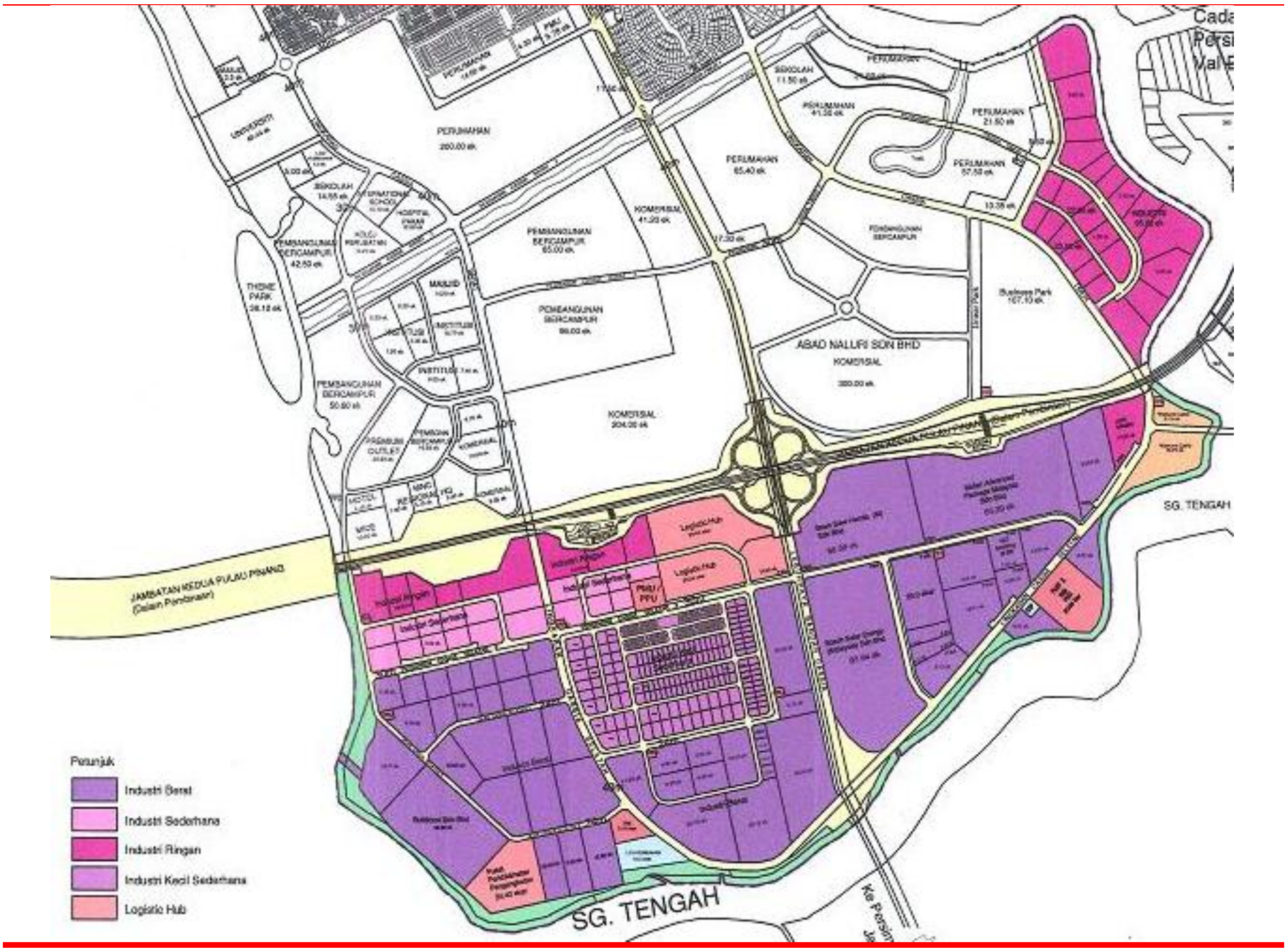
See page 27 for more details on the PITP and BPO Prime projects.

Batu Kawan Industrial Park complements the successful Penang Science Park located within close proximity to Batu Kawan and Bukit Minyak. One of the major tenants which had set up a base is Ibiden Electronics.

The south of Batu Kawan Industrial Park will feature about 831 acres. Earthworks for the east (436 acres) of Batu Kawan Industrial Park have been completed, while works for the west (395 acres) are still on-going.

Plans are also underway to develop 150-acre SME Village that offers ready-built factory units and a service centre. Phase 1 comprises four semi-detached factory buildings, 40 terraced factory buildings and 27 factory lots, while Phase 2 comprises a service centre.

EXHIBIT 52: BATU KAWAN INDUSTRIAL PARK



Source: PDC, AmResearch

❑ *Developers are landbanking ahead of a pricing up-cycle*

Likewise, in recent years, we have seen property developers from and outside of Penang such as Mah Sing, IJM Land, Ivory Properties and Tambun Indah landbanking ahead of Batu Kawan's transformative growth potential underpinned by enhanced accessibility and increasing investment.

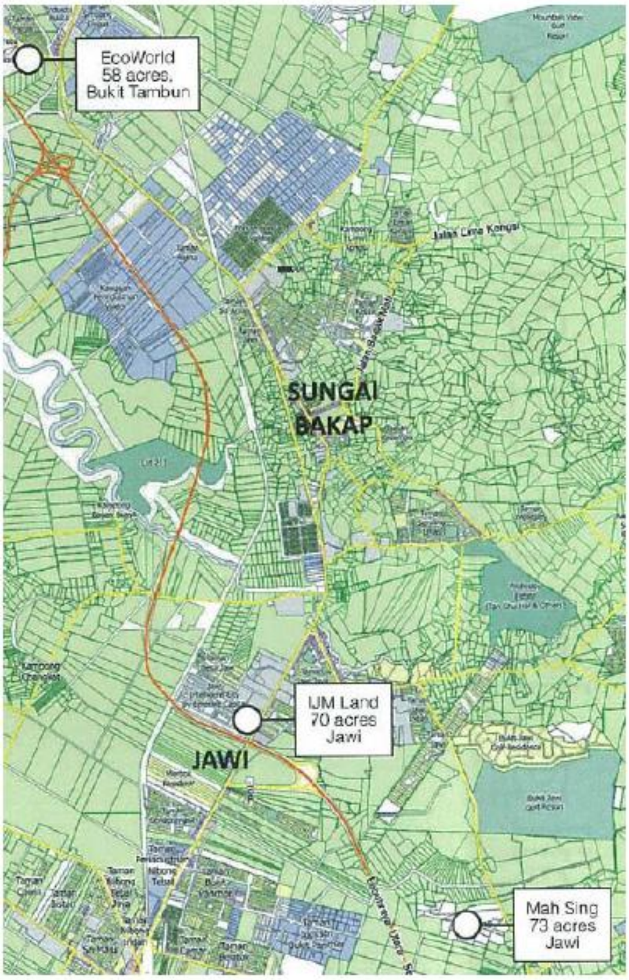
Some recent land sale transactions that took place surrounding Batu Kawan vicinity include:-

(1) Mah Sing acquiring 73 acres of freehold land in Jawi for RM12.80psf;

(2) Eco World Development Group acquiring 58 acres near Simpang Ampat for RM30psf; and

(3) IJM Land acquiring 70 acres in Jawi for RM18.50psf;

EXHIBIT 53: RECENT LANDBANKING MOVES BY PROPERTY DEVELOPERS



Source: The Edge, AmResearch

❑ *Prized land in Batu Kawan*

Current developers with exposure in Batu Kawan and its surrounding areas include Ivory Properties Group, Malton, Paramount Corp, Tambun Indah Land, Eco World Development Group, Mah Sing Group and IJM Land Bhd.

Property developers within Batu Kawan area is benefiting from improved infrastructure, inflow of population and workers, and demand for property.

We expect the developments in Batu Kawan to propel real estate price and land value given its deep development potential due to its strategic location on the mainland.

The planned developments will essentially affirm Batu Kawan as the upcoming township to work and live in.

Job creation and residential amenities will be the key pull factors to Batu Kawan, we believe.

Penang-based Tambun Indah, which developed Pearl City in Simpang Ampat, is one of the largest landowner on the mainland with a remaining landbank of about 450 acres. While Pearl City is located further north and surrounded by lower-end development projects, Pearl City has done well given the affordable pricing and improved accessibility. Pearl City is seen as the beneficiary of the North-South Expressway link road.

Similarly, we expect a broadening of residential demand for Batu Kawan given the pent-up demand in the mass housing market due to escalating house prices on the Island and availability of landed homes.

The cost of land in Batu Kawan is about RM40psf compared to Penang Island's RM250psf.

Global Oriental (formerly Equine Capital) is one of the earlier developers that acquired land in Batu Kawan. Location of its remaining landbank (of approximately 250 acres left) is much better compared to that of Tambun Indah.

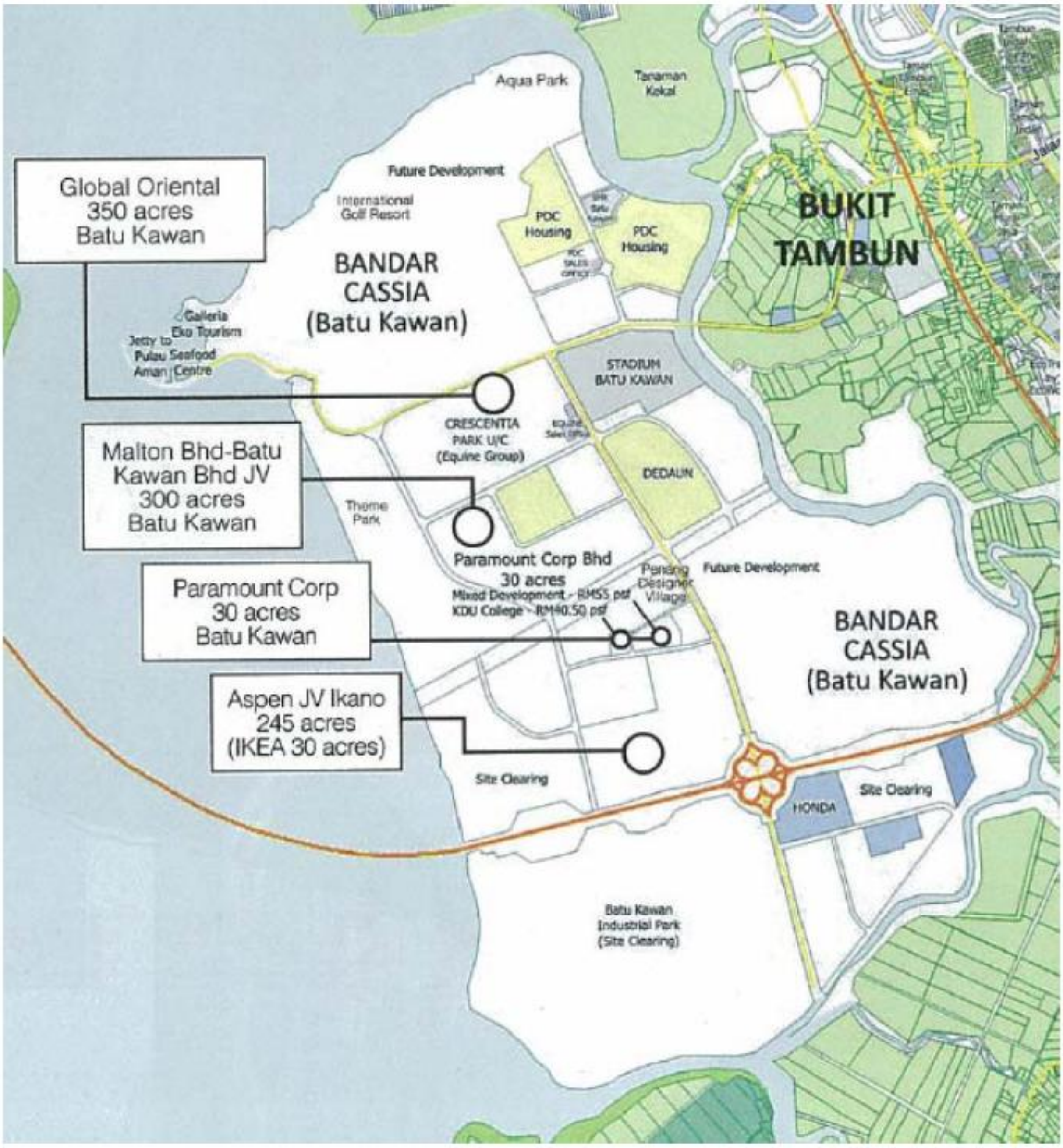
Based on our ground check, we understand that PDC is looking to land-swap Global Oriental's remaining landbank. We do not exclude this possibility given PDC's limited landbank at Batu Kawan. Furthermore, the development potential of Global Oriental's land is very high and will be further boosted by the entry of IKEA and KDU University College. This prized land could possibility be earmarked for higher value commercial developments to maximise GDV.

Malton has 300 acres of land which is slated for a mixed-use development with a GDV of RM3.8bil. This is a joint-venture with Batu Kawan Development for residential and commercial components, and is to be completed over 10 years.

Besides PDC's Dedaun bungalow project, almost all of the other property developments in Batu Kawan are low-medium cost homes with no major commercial elements.

Over at Bukit Mertajam and Bukit Minyak, DNP Land has a total landbank of 270 acres with an estimated GDV of RM1.8bil, while Sunway Bhd has 82 acres of mixed-use development.

EXHIBIT 54: DEVELOPER WITH PRESENCE IN BANDAR CASSIA



Source: The Edge, AmResearch

EXHIBIT 55: LAND TRANSACTION ON PENANG MAINLAND

Location	Acres	Value (RM mil)	Transaction price (RMpsf)
2011			
Bayan Mutiara (Coastal/Land reclamation)	102.5	1,070.0	239.6
2012			
Teluk Tempoyak (near Batu Maung)	2.1	10.4	115.3
Teluk Tempoyak (near Batu Maung)	15.8	29.6	43.0
2013			
Off Jalan Aston	3.8	18.0	108.7
Jalan Perda Utama 1	2.4	9.6	91.7
Jalan Perda Utama 1	6.6	22.4	78.4
Batu Kawan, Seberang Perai Selatan	30.7	67.0	50.1
Off Jalan Rozhan	11.6	21.2	42.0
Jalan Kebun Baru	6.0	11.0	42.2
Off Bandar Tasek Mutiara	24.1	14.7	14.0
Pearl City	24.1	14.7	14.0
Jawi, Seberang Perai Selatan	76.4	42.6	12.8
2014			
Jalan Alma Ria	1.4	3.1	52.4

Source: Various, AmResearch

EXHIBIT 56: PROPERTY VALUATION MATRIX

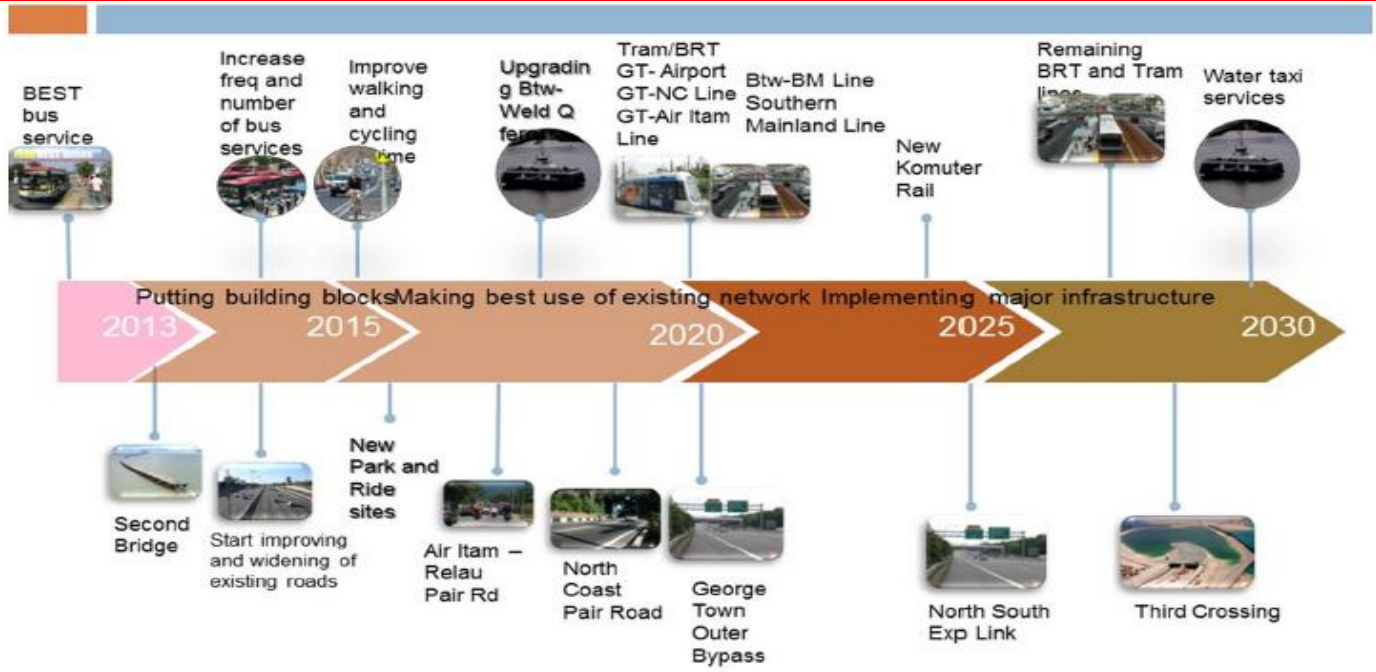
	Rating	Share Price (RM)	Fair Value (RM)	EPS (sen) FY14F	EPS (sen) FY15F	PE (x) FY14F	PE (x) FY15F	BV	P/BV (x)	ROE (%)	Div Yield (%)	RNAV (RM/share)	Discount to RNAV
Eco World	Buy	4.00	5.20	2.4	4.0	166.7	100.0	1.3	3.1	1.9	n/a	6.94	42.4
E&O*	Buy	2.43	4.73	11.6	15.0	20.9	16.2	1.4	1.8	8.4	1.4	9.47	74.3
IJM Land*	Buy	3.28	3.55	21.8	23.0	15.0	14.3	2.3	1.4	10.0	1.8	4.34	24.4
Mah Sing	Buy	2.27	3.80	19.4	21.5	11.7	10.6	1.5	1.5	15.8	4.2	4.23	46.3
MRCB	Buy	1.38	2.20	3.3	6.5	41.8	21.2	1.1	1.3	8.8	1.4	2.75	49.8
Sunway	Hold	3.25	3.60	29.9	32.3	10.9	10.1	3.3	1.0	9.1	3.1	4.25	23.5
Titijaya Land	Buy	1.94	3.30	24.2	30.3	8.0	6.4	1.4	1.4	10.0	2.8	4.40	55.9
UEM Sunrise	Buy	1.71	2.34	11.3	11.9	15.1	14.4	1.4	1.2	8.3	2.3	3.90	56.2
IJM Corp	Buy	6.52	7.95	43.5	51.0	15.0	12.8	5.0	1.3	9.1	2.3	8.80	25.9

**Represents FY15F and FY16F, respectively*

Source: Company, AmResearch *Share price as at 2 December 2014*

APPENDIX

EXHIBIT 57: PENANG TRANSPORT MASTER PLAN TIMELINE



Source: AmResearch, Penang government

AmResearch

Company report

PROPERTY

EASTERN & ORIENTAL

(EAST MK EQUITY, ENOB.KL) **03 Dec 2014**

Raising STP2 assumed land value to RM500psf

BUY

(Maintained)

Tan Ee Zhio
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03-2036 2304

Rationale for report: Company update

Price	**RM2.43**
Fair Value	**RM4.73**
52-week High/Low	RM3.21/RM1.85

Key Changes

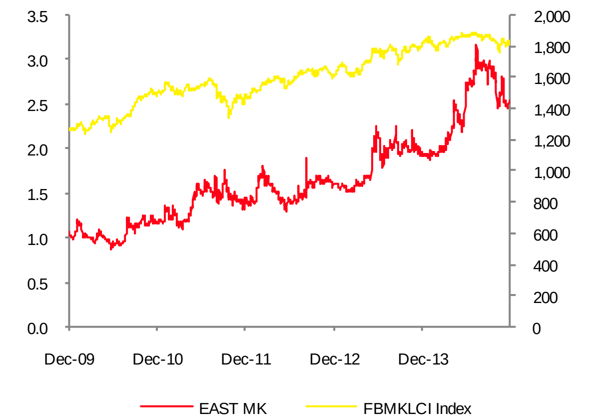
Fair value	↑
EPS	⇔

YE to Mar	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	497.1	847.7	941.4	1,250.4
Core net profit (RM mil)	80.2	131.5	179.3	251.3
FD Core EPS (sen)	7.1	11.6	15.8	22.1
FD Core EPS growth (%)	(33.6)	63.9	36.4	40.2
Consensus Net Profit (RM mil)	0.0	137.1	187.6	192.2
DPS (sen)	3.0	3.5	4.7	6.6
PE (x)	34.4	21.0	15.4	11.0
EV/EBITDA (x)	18.5	14.6	12.4	10.5
Div yield (%)	1.2	1.4	1.9	2.7
ROE (%)	5.5	8.4	10.7	13.7
Net Gearing (%)	29.7	43.4	51.2	61.2

Stock and Financial Data

Shares Outstanding (million)	1,135.6
Market Cap (RMmil)	2,861.8
Book Value (RM/share)	1.30
P/BV (x)	1.9
ROE (%)	5.5
Net Gearing (%)	29.7
Major Shareholders	Sime Darby Bhd(22.0%) Datuk Terry Tham(10.6%)
Free Float	19.0
Avg Daily Value (RMmil)	5.9

Price performance	3mth	6mth	12mth
Absolute (%)	(11.3)	0.4	31.3
Relative (%)	(6.9)	5.8	33.8



PP 12247/06/2013 (032380)

Investment Highlights

- **We reaffirm our BUY rating on Eastern and Oriental Bhd (E&O) with a higher fair value of RM4.73/share (vs. RM4.07/share previously) – based on a higher discount of 50% to our NAV of RM9.47/share.**

- **We have assumed a higher land value of RM500psf for Sri Tanjung Pinang 2 (STP2) compared to RM250psf when we initiated coverage on E&O. This is given our expectations that E&O is moving closer to the divestment of a commercial land parcel at STP2 to an established global developer. Award of reclamation tender is expected in February and reclamation works will follow suit in March 2015.**

- **Land parcel within the surrounding area of Tanjung Tokong were sold at RM600psf-RM700psf. A benchmark price of RM1,495psf was recently transacted at Northam Road. Our assumed land value of RM500psf is lower than the reported RM778psf for the STP1 land swap deal to Zenith BUCG by the Penang government.**

- **Nonetheless, we have assigned a significantly higher discount of 50% (from 15% previously) to our NAV. This is to reflect a wider net land area for development at STP2 given the revised net usable area of 68% vs. 55% previously.**

- **The net residual land for development is now estimated at 457 acres (+28%) – higher than our previous 358 acres estimate – after accounting for the 60 acres of net land area to be surrendered to the Penang government at STP2.**

- **We have also lifted our land cost for both Gurney Drive and STP2 to RM2.8bil, from RM2.4bil, given the following revision to our cost assumptions:-**

  (1) Gurney Drive: Reclamation cost at RM18psf (RM15psf previously). No infrastructure contribution is required.

  (2) STP2: Infrastructure cost at RM30psf (RM20psf previously). Our reclamation cost projection of RM50psf is maintained.

- **All in, the break-even land cost is now estimated at RM94psf (vs. RM85psf), based on the gross land equivalent of net residual land for development of 672 acres. On a net land basis (457 acres), the break-even land cost is RM138psf.**

- **The higher land value and wider discount adds RM4.65/share to our NAV.**

- **E&O is trading at a steep discount of 74% vis-a-vis its NAV. This is unjustified, given the significant accretion from STP2, underpinned by the lucrative margin between its break-even land cost and realisable land values.**

EXHIBIT 1: REVISED LAND COST (RM MIL)

Gurney Drive	
Land area to be reclaimed (acres)	131
Estimated reclamation cost (RMpsf)	18
Total reclamation cost (RM mil)	**102.7**
STP 2	
Land area to be reclaimed (acres)	760
Estimated reclamation cost (RMpsf)	50
Estimated infrastructure cost (RMpsf)	30
Total reclamation and infra cost (RM mil)	**2,648.4**
Total attributable cost (RM mil)	**2,751.2**

Source: Company, AmResearch

EXHIBIT 2: REVISED BREAK- EVEN LAND COST (RM/PSF)

	Acres
Gross land area on STP2	760
Net usable area	68%
STP2 net land area	517
Allocation to Penang state government	60
Net residual land for development for E&O	**457**
Net land cost (RMpsf)	**138.3**
Gross land equivalent at net residual land of 457 acres	672
Gross land cost, (RMpsf)	**94.0**

Source: Company, AmResearch

EXHIBIT 3: CHANGES TO OUR ASSUMPTIONS

Estimates	**Now**	**Previous**
Gurney Drive		
Estimated reclamation cost (RMpsf)	18	15
STP2		
Estimated reclamation cost (RMpsf)	50	50
Estimated infrastructure cost (RMpsf)	30	20
Estimated land value (RMpsf)	500	250
Net usable area	68%	55%
Net land area for development (acres)	457	358
Total land cost (RM mil)	2,751	2,403
Break-even land cost (RMpsf)	94	85

Source: Company, AmResearch

EXHIBIT 4: NAV MODEL

Development properties	Stake	Land size (acres)	Remaining GDV (RMmil)	NPV of development propeties @ 8%
The Peak (Jalan Teruntung Damansara Heights)	100%	3.9	120	18.6
Jalan Conlay, Kuala Lumpur	100%	1.4	820	108.8
Kemensah Heights, Ampang	88%	309.5	1,500	183.1
Jalan Liew Weng Chee (Off Jalan Yap Kwan Seng)	100%	0.9	120	17.5
Seri Tanjung Pinang (Phase I), Penang	96%	14.0	1,920	302.0
Medini Integrated Wellness Capital, Johor	50%	210.0	2,180.0	160.7
Princess House, London	100%	1.1	143.0	23.4
Elmina West	100%	135.0	1,500.0	226.6
Esca House	100%	1.0	400.0	61.5
Total for development landbank				**1,102.1**

Other landbanks		Land size (acres)	Estimated Market Value (RM/psf)	Estimated market value (RMmil)
Seri Tanjung Pinang (Phase 2) *	78.8%	671.8	500	11,529.3
Gertak Sanggul, Penang Island	100%	365.0	15	238.5
Total for other landbanks				**11,767.7**

** Gross land equivalent to E&O at net residual land value of 457 acres*

Hospitality and lifestyle		No of rooms/ restaurant	Estimated construction cost per room (RMmil)	Estimated market value (RMmil)
E&O Hotel, Penang (include Annexe)	100%	239	1,500,000.0	358.5
Lone Pine Hotel, Penang	100%	90	700,000.0	63.0
Delicious Group	100%	10	Acquired for RM10mil	10.0
Total for hospitality and lifestyle				**431.5**

Investment properties		NLA (sf)	Estimated Market Value (RM/psf)	Estimated market value (RMmil)
Straits Quay Mall (STP 1)	94%	270,000	1,000.0	253.8
Dua Annexe	100%	25,000	1,300.0	32.5
St Mary Residence retail podium	100%	35,000	1,300.0	45.5
Total for investment properties				**331.8**

NPV of unbilled sales of RM831mil as at 1HFY15	**131.5**
Gross asset value (GAV)	**13,764.6**
Net cash / (debt) as at 1HFY15	(475.7)
Assume 100% debt funding of STP2 and Gurney Drive reclamation works	(2,751.2)
Net asset value (NAV)	**10,537.8**
Existing paid-up capitall (mil)	1,140.9
(-) Treasury shares	(27.7)
Adjusted paid-up capital (mil)	**1,113.2**
NAV per share (RM)	**9.47**
Discount to NAV	50%
Fair value	**4.73**

Source: Company, AmResearch

EXHIBIT 5: PB BAND CHART

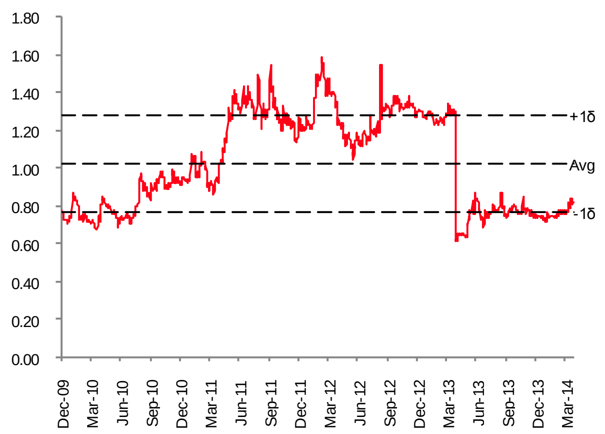


EXHIBIT 6: PE BAND CHART

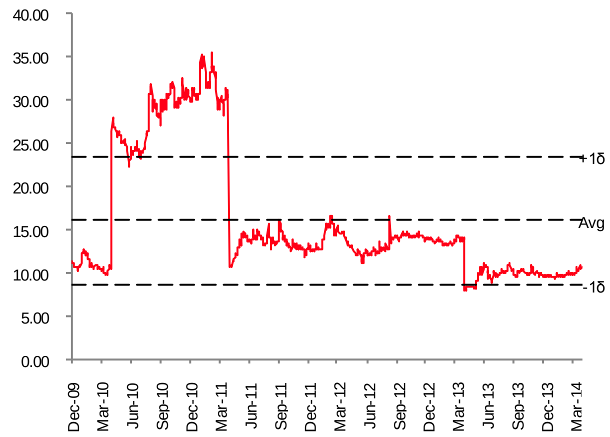


EXHIBIT 7: FINANCIAL DATA

Income Statement (RMmil, YE 31 Mar)	FY14	FY14	FY15F	FY16F	FY17F
Revenue	497.1	497.1	847.7	941.4	1,250.4
EBITDA	206.3	173.1	236.8	293.7	374.7
Depreciation/Amortisation	(23.6)	(23.6)	(22.9)	(23.0)	(22.8)
Operating income (EBIT)	182.6	149.4	213.8	270.7	351.9
Other income & associates	11.0	11.0	1.1	14.4	39.8
Net interest	(25.4)	(25.4)	(34.8)	(44.1)	(58.8)
Exceptional items	-	33.2	-	-	-
Pretax profit	**168.3**	**168.3**	**180.2**	**241.0**	**332.9**
Taxation	(48.3)	(48.3)	(44.8)	(56.6)	(73.3)
Minorities/pref dividends	(6.5)	(6.5)	(3.9)	(5.0)	(8.3)
Net profit	**113.4**	**113.4**	**131.5**	**179.3**	**251.3**
Core net profit	113.4	80.2	131.5	179.3	251.3

Balance Sheet (RMmil, YE 31 Mar)	FY14	FY14	FY15F	FY16F	FY17F
Fixed assets	957.6	957.6	958.7	955.7	952.9
Intangible assets	0.2	0.2	0.2	0.2	0.2
Other long-term assets	602.4	602.4	603.5	617.9	657.7
Total non-current assets	**1,560.2**	**1,560.2**	**1,562.4**	**1,573.8**	**1,610.8**
Cash & equivalent	277.1	277.1	277.0	334.4	493.3
Stock	86.9	86.9	148.1	164.5	218.5
Trade debtors	80.0	80.0	136.3	151.4	201.1
Other current assets	738.0	738.0	787.9	895.4	1,104.2
Total current assets	**1,181.8**	**1,181.8**	**1,349.4**	**1,545.7**	**2,017.1**
Trade creditors	104.7	104.7	178.5	198.2	263.3
Short-term borrowings	184.1	184.1	184.1	184.1	184.1
Other current liabilities	38.2	38.2	38.2	38.2	38.2
Total current liabilities	**327.0**	**327.0**	**400.8**	**420.5**	**485.6**
Long-term borrowings	544.0	544.0	794.0	1,044.0	1,488.5
Other long-term liabilities	76.3	76.3	76.3	76.3	76.3
Total long-term liabilities	**620.3**	**620.3**	**870.3**	**1,120.3**	**1,564.8**
Shareholders' funds	**1,475.2**	**1,475.2**	**1,567.2**	**1,692.8**	**1,868.7**
Minority interests	42.5	42.5	46.4	51.5	59.7
BV/share (RM)	1.30	1.30	1.38	1.49	1.65

Cash Flow (RMmil, YE 31 Mar)	FY14	FY14	FY15F	FY16F	FY17F
Pretax profit	168.3	168.3	180.2	241.0	332.9
Depreciation/Amortisation	23.6	23.6	22.9	23.0	22.8
Net change in working capital	(49.1)	(49.1)	(43.8)	(11.7)	(38.6)
Others	(54.0)	(54.0)	(95.9)	(121.1)	(163.1)
Cash flow from operations	**88.8**	**88.8**	**63.4**	**131.2**	**154.0**
Capital expenditure	-	-	-	-	-
Net investments & sale of fixed assets	-	-	-	-	-
Others	(5.5)	(5.5)	(274.0)	(270.0)	(364.2)
Cash flow from investing	**(5.5)**	**(5.5)**	**(274.0)**	**(270.0)**	**(364.2)**
Debt raised/(repaid)	(43.9)	(43.9)	250.0	250.0	444.5
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(37.3)	(37.3)	(39.4)	(53.8)	(75.4)
Others	20.8	20.8	-	-	-
Cash flow from financing	**(60.5)**	**(60.5)**	**210.6**	**196.2**	**369.1**
Net cash flow	**22.9**	**22.9**	**-**	**57.4**	**158.8**
Net cash/(debt) b/f	**255.6**	**255.6**	**276.8**	**276.8**	**334.2**
Net cash/(debt) c/f	**278.4**	**278.4**	**276.8**	**334.2**	**493.0**

Key Ratios (YE31 Mar)	FY14	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	(17.9)	(17.9)	70.5	11.1	32.8
EBITDA growth (%)	11.7	(6.3)	36.8	24.1	27.6
Pretax margin (%)	33.8	33.8	21.3	25.6	26.6
Net profit margin (%)	22.8	22.8	15.5	19.0	20.1
Interest cover (x)	7.2	5.9	6.1	6.1	6.0
Effective tax rate (%)	28.7	28.7	24.8	23.5	22.0
Dividend payout (%)	2.6	2.6	2.6	2.6	2.6
Debtors turnover (days)	72	72	47	56	51
Stock turnover (days)	72	72	51	61	56
Creditors turnover (days)	116	116	61	73	67

Source: Company, AmResearch estimates

CONSTRUCTION

AmResearch

Company report

GAMUDA

(GAM MK EQUITY, GAMU.KL)

03 Dec 2014

Strong contender for PDP role in Penang

BUY

(Maintained)

Mak Hoy Ken
mak-hoy-ken@ambankgroup.com
03-2036 2294

Rationale for report: Company update

Price	**RM5.05**
Fair Value	**RM5.80**
52-week High/Low	RM5.34/RM4.10

Key Changes

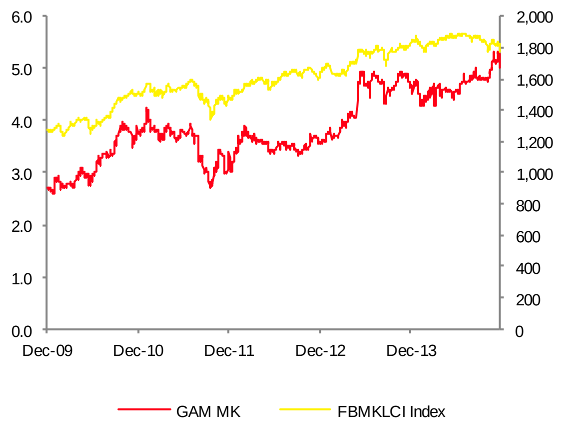
Fair value	↑
EPS	↓

YE to Jul	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	2,229.6	1,630.7	1,898.7	2,828.8
Core net profit (RM mil)	719.4	738.2	802.2	809.9
FD Core EPS (sen)	29.8	30.9	34.1	34.5
FD Core EPS growth (%)	6.8	3.5	10.7	1.0
Consensus Net Profit (RM mil)	-	772.4	826.9	852.1
DPS (sen)	12.0	15.0	16.0	17.0
PE (x)	16.9	16.4	14.8	14.6
EV/EBITDA (x)	27.9	25.0	20.4	15.9
Div yield (%)	2.3	2.8	3.0	3.2
ROE (%)	13.9	13.0	13.0	12.2
Net Gearing (%)	30.1	40.6	36.6	33.4

Stock and Financial Data

Shares Outstanding (million)	2,276.6
Market Cap (RMmil)	11,497.1
Book Value (RM/share)	2.36
P/BV (x)	2.1
ROE (%)	13.9
Net Gearing (%)	30.1
Major Shareholders	Skim Amanah Saham Bumiputera (9.8%) EPF (6.5%) KWAP (5.8%)
Free Float	77.9
Avg Daily Value (RMmil)	32.0

Price performance	3mth	6mth	12mth
Absolute (%)	5.4	12.2	7.4
Relative (%)	10.3	17.1	9.4



PP 12247/06/2013 (032380)

Investment Highlights

- **We maintain our BUY call on Gamuda with a higher fair value of RM5.80/share (previous: RM5.40/share), as we factor in the purchase of the Tg. Dua Belas land. The Penang government's move to award the RM6.3bil Third Sea Crossing to the Zenith-BUCG JV back in October 2013 has triggered renewed hopes of massive infrastructure opportunities within the state.**

- **The spotlight has since gravitated towards the balance RM20bil earmarked under the state government's Penang Transport Master Plan (PTMP). The state's preferred approach is to appoint a project delivery partner (PDP) to co-ordinate the entire supply chain, source for funding, and liaise with federal agencies to secure public transport licences.**

- **Newsflow momentum is clearly building up – the Penang government has called for tenders in August, whereby interested parties are to submit their proposals for the PDP contract by next February. We expect the PDP to be awarded within six months as construction works on the PTMP are scheduled to kick-off by 2016. To-date, we understand that the PDP tender has attracted ~50 contractors.**

- **Given the PMTP's huge financial and technical requirements, we believe the potential bidders would form PDP consortiums (and include strategic presence of reputable international contractors).**

- **Among the pack, we believe Gamuda has the upper hand over rivals due to:- (i) its track record in handling MRT jobs (the MMC-Gamuda JV is the PDP and tunnelling contractor for the Klang Valley MRT Line 1; it was also recently appointed as PDP for Line 2); (ii) relevant expertise in handling tunnelling works (i.e. Klang Valley MRT 1, Kaohsiung MRT & STORM water); and (iii) balance sheet strength (FY145F net gearing at 41%).**

- **In our base scenario, we value the PDP contract at RM5.7bil:- (i) NPV of LRT/Bus Rail Transit concessions at RM3.7bil (including state government subsidies of RM6bil); (ii) NPV of other public transport upgrading works (RM34mil); and (iii) payment-in-kind via prime land in Penang at ~RM2bil.**

- **More importantly, the PDP contract could finally pave the way for Gamuda to secure its maiden exposure to the Penang's property market. Management had recently set aside ~RM1.3bil to source for development land, including those in Penang.**

- **Assuming that Gamuda successfully secures a 50% stake in the PDP consortium with the PTMP, its stake is worth ~RM2bil. This will potentially lift Gamuda's NAV by 14% to RM6.94/share; rising further to RM7.10/share if we factor in another RM0.17/share upside from its recent appointment as PDP for the Klang Valley MRT 2.**

EXHIBIT 1: DERIVATION OF FAIR VALUE

Division	Value (RMmil)	Value (RM)	% of NAV	Stake (%)	Basis
Construction earnings	4,626.7	1.88	30.7	various	*18x FY15F net profit*
RNAV of property	5,407.6	2.19	35.9	various	*NPV of development properties@8%/market value of land*
Property investments	98.0	0.04	0.7	various	Book value as at 31 July 2014
Water earnings	415.9	0.17	2.8	80	*15x FY15F net profit*
Investment in Litrak	858.2	0.35	5.7	45	Market value
Investment in Kesas	1,343.8	0.54	8.9	70	*NPV of Kesas @ 7%*
Investment in Indian tolls	284.0	0.12	1.9	70	*NPV of Durgapur and Panagarh-Palsit highways at WACC of 7.3%*
Investment in SPLASH	994.3	0.40	6.6	40	Book value as at 30 June 2014
NPV of SMART tunnel	668.7	0.27	4.4	50	Based on IRR of 12%
Est. Net Cash/(Debt)	(41.5)	(0.02)	(0.3)		As at 31 July 2014
Cash from warrants/ESOS conversion	380.2	0.15	2.5		Warrants exercise price: RM2.66; ESOS Weighted ave price: RM2.89
Interest income from conversion of warrants	22.8	0.01	0.2		At yield of 6%
FD S-O-P	**15,058.7**	**6.11**	**100.0**		
Fully diluted shares	2,466.1				
FD S-O-P/share (RM)	**6.11**				
Fair Value (5% discount to SOP)	**5.80**				
Upside from current share price (%)	14.9				
FY15F dividend yield	3.0				
Total Return (%)	**17.8**				
Discount to S-O-P (%)	**17.3**				
Additional upside to NAV					
MRT2 PDP	407.9	0.17		50	NPV@7%
Penang Transport Master Plan PDP	2,048.6	0.83		50	NPV@8% for BRT/LRT schemes;
	2,456.6	**1.00**			Net fee of 3% under PDP contracts for new ferry/commuter line services
Enlarged NAV	**17,515.2**	**7.10**			
Enlarged FV		**6.75**			
Additional upside to FV/NAV (%)		**16.3**			

Source: Gamuda, Companies, AmResearch

EXHIBIT 2: BASE CASE SCENARIO - NPV CALCULATION FOR THE PDP

Projects	Value (RM mil)	Method	Concession/ work period (years)
NPV of public transport projects			
LRT	3,113.5	NPV@8%	70
BRT	1,233.2	NPV@8%	70
	4,346.7		
add: Subsidies	**6,000.0**	State funds	
less: Debts	(6,626.4)	80:20 D/E structure	
	3,720.3		
NPV of other public transport upgrading projects			
New ferry facilities	22.5	NPV at 8%	2015-2030
Commuter rail line	11.1	NPV at 8%	2015-2020
	33.6		
Payment-in-kind (land swap)	**2,000.0**	Market Value	
Total NPV	**5,753.9**		
Gamuda's share of NPV (50%)	**2,876.9**		
Gamuda's 50% equity requirements	828.3		
Net accrement to Gamuda's NPV	**2,048.6**		
NAV accrement/share	**0.83**		
Public Transport Project Debts			
LRT	4,504.8		
BRT	2,121.6		
Total	**6,626.4**		

Source: AmResearch

EXHIBIT 3: PB BAND CHART

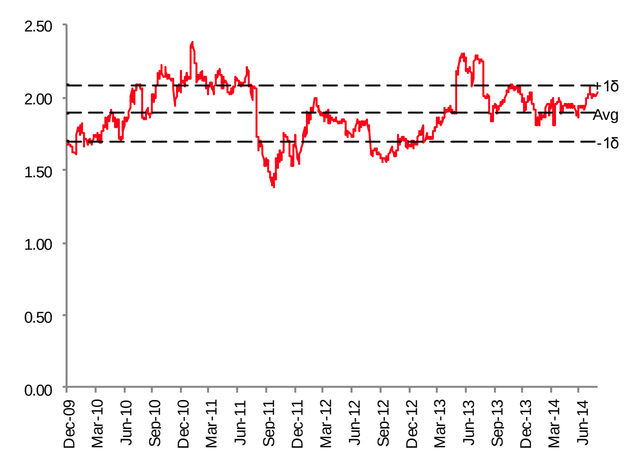


EXHIBIT 4: PE BAND CHART

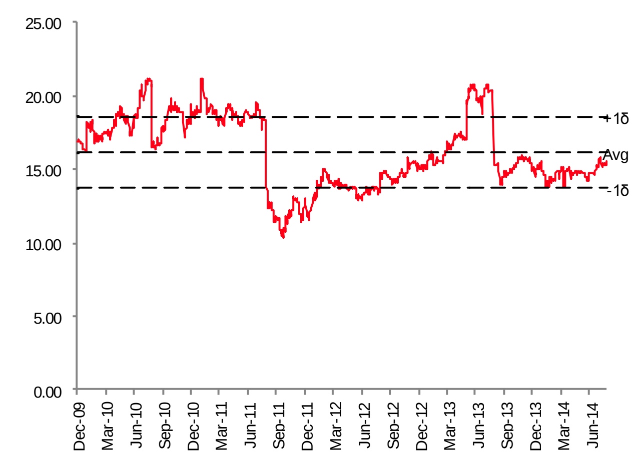


EXHIBIT 5: FINANCIAL DATA

Income Statement (RMmil, YE 31 Jul)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	2,235.4	2,229.6	1,630.7	1,898.7	2,828.8
EBITDA	445.8	471.7	556.6	678.7	864.6
Depreciation/Amortisation	(23.1)	(27.8)	(80.5)	(84.2)	(88.6)
Operating income (EBIT)	422.7	443.9	476.1	594.5	776.0
Other income & associates	362.2	429.7	514.1	495.7	332.9
Net interest	(17.8)	(29.1)	(60.7)	(71.1)	(65.5)
Exceptional items	(110.7)	7.1	-	-	-
Pretax profit	**656.4**	**851.7**	**929.5**	**1,019.2**	**1,043.5**
Taxation	(106.9)	(116.6)	(176.2)	(187.9)	(191.0)
Minorities/pref dividends	(8.7)	(15.7)	(15.1)	(29.1)	(42.6)
Net profit	**540.9**	**719.4**	**738.2**	**802.2**	**809.9**
Core net profit	540.9	719.4	738.2	802.2	809.9

Balance Sheet (RMmil, YE 31 Jul)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	299.5	284.9	312.3	355.8	395.0
Intangible assets	94.8	-	-	-	-
Other long-term assets	3,169.1	3,756.0	4,280.2	4,795.9	5,148.8
Total non-current assets	**3,563.4**	**4,040.9**	**4,592.5**	**5,151.7**	**5,543.8**
Cash & equivalent	876.6	882.0	951.7	872.0	702.3
Stock	94.9	295.1	235.4	367.7	511.2
Trade debtors	1,155.6	1,817.0	1,385.0	1,352.5	1,898.8
Other current assets	2,272.2	2,715.6	3,515.6	3,415.6	3,215.6
Total current assets	**4,399.3**	**5,709.7**	**6,087.7**	**6,007.7**	**6,327.9**
Trade creditors	1,068.0	930.2	588.6	701.9	1,130.1
Short-term borrowings	459.7	792.2	658.9	628.4	593.4
Other current liabilities	61.4	77.1	77.1	77.1	77.1
Total current liabilities	**1,589.1**	**1,799.4**	**1,324.5**	**1,407.3**	**1,800.5**
Long-term borrowings	1,513.1	1,738.6	2,691.8	2,582.3	2,397.3
Other long-term liabilities	229.8	653.1	653.1	653.1	653.1
Total long-term liabilities	**1,742.9**	**2,391.7**	**3,344.9**	**3,235.4**	**3,050.4**
Shareholders' funds	**4,878.0**	**5,474.3**	**5,910.4**	**6,387.3**	**6,848.7**
Minority interests	226.1	687.4	702.5	731.6	774.2
BV/share (RM)	2.14	2.36	2.54	2.75	2.95

Cash Flow (RMmil, YE 31 Jul)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	656.4	851.7	929.5	1,019.2	1,043.5
Depreciation/Amortisation	23.1	27.8	80.5	84.2	88.6
Net change in working capital	(118.6)	(851.8)	(650.0)	113.6	(61.7)
Others	(636.2)	(381.7)	(677.6)	(660.4)	(506.1)
Cash flow from operations	**(75.3)**	**(354.1)**	**(317.6)**	**556.6**	**564.2**
Capital expenditure	(50.0)	(50.0)	(70.0)	(100.0)	(100.0)
Net investments & sale of fixed assets	11.7	5.0	-	-	-
Others	(40.7)	202.2	-	-	-
Cash flow from investing	**(79.0)**	**157.2**	**(70.0)**	**(100.0)**	**(100.0)**
Debt raised/(repaid)	(209.6)	558.0	820.0	(140.0)	(220.0)
Equity raised/(repaid)	530.4	-	-	-	-
Dividends paid	(261.9)	(277.4)	(302.0)	(325.3)	(348.5)
Others	245.5	(29.1)	(60.7)	(71.1)	(65.5)
Cash flow from financing	**304.5**	**251.5**	**457.2**	**(536.3)**	**(634.0)**
Net cash flow	**150.2**	**54.6**	**69.7**	**(79.7)**	**(169.7)**
Net cash/(debt) b/f	**725.7**	**876.6**	**882.0**	**951.7**	**872.0**
Net cash/(debt) c/f	**876.6**	**931.8**	**951.7**	**872.0**	**702.3**

Key Ratios (YE 31 Jul)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	(27.6)	(0.3)	(26.9)	16.4	49.0
EBITDA growth (%)	(21.5)	5.8	18.0	21.9	27.4
Pretax margin (%)	29.4	38.2	57.0	53.7	36.9
Net profit margin (%)	24.2	32.3	45.3	42.2	28.6
Interest cover (x)	23.7	15.3	7.8	8.4	11.9
Effective tax rate (%)	16.3	13.7	19.0	18.4	18.3
Dividend payout (%)	50.5	38.8	40.9	40.5	43.0
Debtors turnover (days)	228	243	358	263	210
Stock turnover (days)	13	32	59	58	57
Creditors turnover (days)	228	164	170	124	118

Source: Gamuda, AmResearch

PROPERTY

AmResearch

Company report

MRCB

(MRC MK EQUITY, MYRS.KL) **03 Dec 2014**

Penang Sentral taking shape

BUY

(Maintained)

Mak Hoy Ken
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03-2036 2294

Rationale for report: Company update

Price	**RM1.38**
Fair Value	**RM2.20**
52-week High/Low	RM1.79/RM1.23

Key Changes

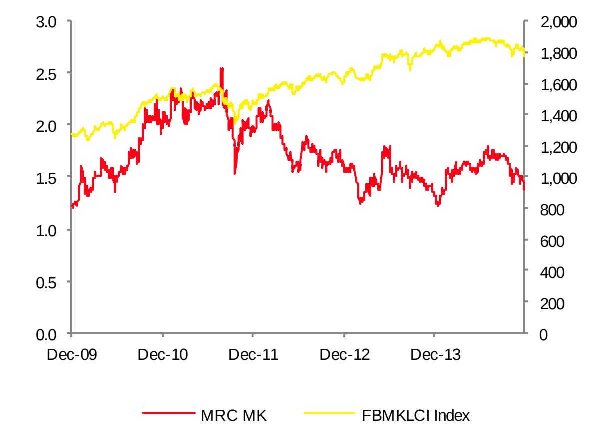
Fair value	⇔
EPS	⇔

YE to Dec	**FY13**	**FY14F**	**FY15F**	**FY16F**
Revenue (RM mil)	986.7	1,195.5	1,793.2	2,018.9
Core net profit (RM mil)	(120.9)	56.7	113.6	146.9
FD Core EPS (sen)	(6.5)	3.3	6.5	8.2
FD Core EPS growth (%)	(249.5)	(151.3)	94.9	26.7
Consensus Net Profit (RM mil)	-	60.0	110.2	171.3
DPS (sen)	1.0	2.0	2.0	2.0
PE (x)	nm	41.5	21.3	16.8
EV/EBITDA (x)	180.7	18.1	14.2	12.0
Div yield (%)	0.7	1.3	1.3	1.3
ROE (%)	nm	8.8	5.8	7.1
Net Gearing (%)	173.6	133.5	123.7	113.5

Stock and Financial Data

Shares Outstanding (million)	1,760.1
Market Cap (RMmil)	2,428.9
Book Value (RM/share)	1.01
P/BV (x)	1.4
ROE (%)	-
Net Gearing (%)	173.6
Major Shareholders	Employees Provident Fund Board (36.5%) Gapurna Sdn Bhd (15.5%) Lembaga Tabung Haji (9.3%)
Free Float	38.8
Avg Daily Value (RMmil)	1.7

Price performance	**3mth**	**6mth**	**12mth**
Absolute (%)	(18.8)	(15.3)	5.3
Relative (%)	(15.1)	(11.6)	7.2



PP 12247/06/2013 (032380)

Investment Highlights

- **We maintain our BUY call on MRCB with an unchanged fair value of RM2.20/share – pegged to a 20% discount to its revised SOP value. After nearly seven years of delays, MRCB's Penang Sentral project has finally taken off. This follows the Penang government's consent in Sept for Penang Sentral Sdn Bhd to proceed with the project.**

- **Penang Sentral started off as a 49:51 JV between MRCB and Pelaburan Hartanah Bhd (PHB). First launched in 2007, Penang Sentral was mooted as an integrated mixed-used commercial development with a transport hub.**

- **MRCB has since bought out the remaining 51% stake from PHB for RM51mil. Based on an estimated land area of ~22 acres, the transaction translates into an implied land value of ~RM104psf.**

- **More importantly, the acquisition enables MRCB to gain full control of Penang Sentral's robust prospects going forward. Here, we believe that MRCB can replicate the early success of KL Sentral in transforming Penang Sentral into a vibrant development with good transport linkages.**

- **Phase 1 of Penang Sentral will consist of a transportation hub, terminal, and retail mall. The mall will have an indicative NLA of ~500k sf, and the transport hub will have 130k sf. The indicative GDV is around RM512mil. Initial piling works on the 5-acre site had commenced. The transport terminal will be built at a cost of ~RM230mil.**

- **Although it is not formally included in the Penang Transport Master Plan (PTMP), we believe that Penang Sentral complements the state government's transport initiatives.**

- **The transport terminal, along with the completion of the northern double tracking line, will solidify Penang Sentral's status as a future transport hub serving both Penang and the northern region of Peninsula Malaysia.**

- **To be sure, new commuter rail services have been mooted under the PTMP, and could be introduced at Penang Sentral over the next few years. Also, Penang Sentral has been identified as a key station for the PMTP's new Bus Rapid Transit and ferry services.**

- **MRCB's other project in Penang (Batu Feringghi Residences) is only set for launch in 2016. Collectively, MRCB's Penang-based projects account for RM312mil (RM0.16/share) or 4% of its NAV, with more upside likely as the Penang government's transport initiatives slowly take shape.**

EXHIBIT 1: PB BAND CHART

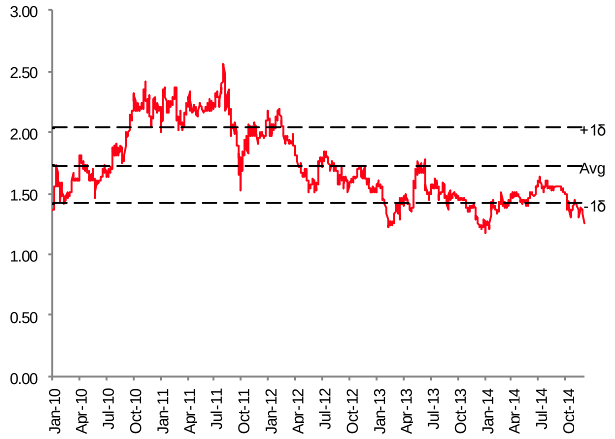


EXHIBIT 2: PE BAND CHART

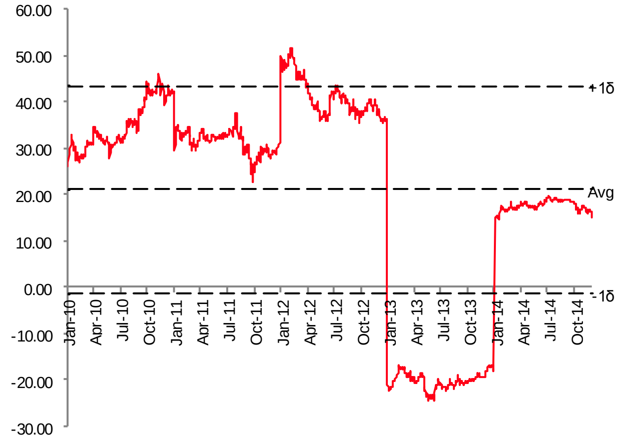
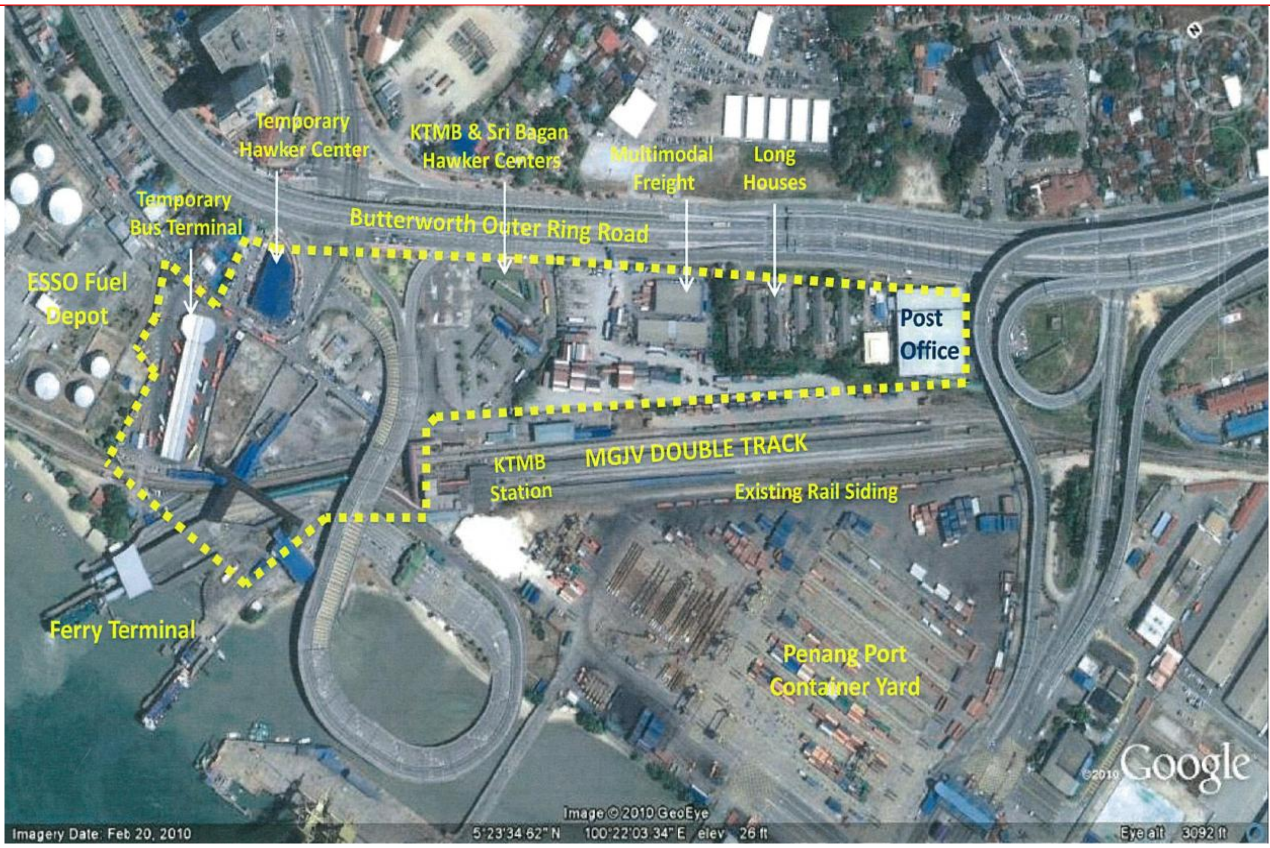


EXHIBIT 3: PENANG SENTRAL – PROPOSED DEVELOPMENT SITE



Source: MRCB, AmResearch

EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Revenue	1,283.2	986.7	1,195.5	1,793.2	2,018.9
EBITDA	240.9	29.5	276.9	345.3	403.2
Depreciation/Amortisation	(20.0)	(29.0)	(31.2)	(36.5)	(41.8)
Operating income (EBIT)	220.9	0.5	245.7	308.8	361.4
Other income & associates	1.9	5.0	25.1	39.9	37.4
Net interest	(88.8)	(127.6)	(169.6)	(163.0)	(159.9)
Exceptional items	-	-	102.2	-	-
Pretax profit	**134.0**	**(122.1)**	**203.5**	**185.7**	**238.9**
Taxation	(42.8)	(7.6)	(26.7)	(54.3)	(68.7)
Minorities/pref dividends	(31.0)	8.8	(17.9)	(17.8)	(23.3)
Net profit	**60.1**	**(120.9)**	**158.9**	**113.6**	**146.9**
Core net profit	60.1	(120.9)	56.7	113.6	146.9

Balance Sheet (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Fixed assets	38.8	37.9	38.5	38.4	37.4
Intangible assets	74.9	291.1	291.1	291.1	291.1
Other long-term assets	1,938.0	2,428.4	2,563.3	2,826.9	3,033.5
Total non-current assets	**2,051.6**	**2,757.4**	**2,892.9**	**3,156.3**	**3,362.0**
Cash & equivalent	397.8	308.5	494.2	487.3	465.5
Stock	9.7	8.4	11.1	17.5	19.5
Trade debtors	1,429.4	649.7	589.6	736.9	774.4
Other current assets	2,066.2	2,870.3	2,397.5	2,433.2	2,387.6
Total current assets	**3,903.2**	**3,837.0**	**3,492.4**	**3,674.8**	**3,647.0**
Trade creditors	893.4	1,108.7	780.3	1,229.6	1,372.2
Short-term borrowings	2,419.7	2,593.9	634.9	615.0	595.0
Other current liabilities	185.4	124.6	124.6	124.6	124.6
Total current liabilities	**3,498.5**	**3,827.2**	**1,539.8**	**1,969.3**	**2,091.9**
Long-term borrowings	905.0	909.0	2,718.2	2,638.4	2,558.6
Other long-term liabilities	63.9	121.4	121.4	121.4	121.4
Total long-term liabilities	**968.9**	**1,030.4**	**2,839.6**	**2,759.8**	**2,680.0**
Shareholders' funds	**1,418.2**	**1,675.4**	**1,926.6**	**2,005.0**	**2,116.8**
Minority interests	69.1	61.3	79.2	97.1	120.3
BV/share (RM)	1.02	1.01	1.09	1.14	1.20

Cash Flow (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Pretax profit	134.0	(122.1)	203.5	185.7	238.9
Depreciation/Amortisation	20.0	29.0	31.2	36.5	41.8
Net change in working capital	(525.1)	761.6	201.8	260.0	148.6
Others	115.0	(605.2)	(51.8)	(94.2)	(106.2)
Cash flow from operations	**(256.1)**	**63.4**	**384.7**	**388.1**	**323.2**
Capital expenditure	(211.4)	(15.9)	(210.0)	(260.0)	(210.0)
Net investments & sale of fixed assets	5.5	165.0	-	-	-
Others	(70.1)	(247.9)	177.2	-	-
Cash flow from investing	**(276.0)**	**(98.7)**	**(32.8)**	**(260.0)**	**(210.0)**
Debt raised/(repaid)	581.0	204.8	(149.8)	(99.8)	(99.8)
Equity raised/(repaid)	1.9	-	-	-	-
Dividends paid	(20.8)	(26.4)	(16.5)	(35.2)	(35.2)
Others	(3.2)	(232.4)	-	-	-
Cash flow from financing	**558.9**	**(54.0)**	**(166.3)**	**(135.0)**	**(135.0)**
Net cash flow	**26.7**	**(89.3)**	**185.7**	**(6.9)**	**(21.8)**
Net cash/(debt) b/f	**371.1**	**397.8**	**308.5**	**494.2**	**487.3**
Net cash/(debt) c/f	**397.8**	**308.5**	**494.2**	**487.3**	**465.5**

Key Ratios (YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Revenue growth (%)	4.6	(23.1)	21.2	50.0	12.6
EBITDA growth (%)	76.7	(87.7)	837.4	24.7	16.8
Pretax margin (%)	10.4	nm	17.0	10.4	11.8
Net profit margin (%)	4.7	nm	13.3	6.3	7.3
Interest cover (x)	2.5	-	1.4	1.9	2.3
Effective tax rate (%)	32.0	nm	13.1	29.2	28.8
Dividend payout (%)	43.9	nm	22.2	31.0	24.0
Debtors turnover (days)	407	240	180	150	140
Stock turnover (days)	4	4	5	5	5
Creditors turnover (days)	337	480	352	352	352

Source: MRCB, AmResearch

EXHIBIT 4: SUM-OF-PARTS

Divisions/Operations	Size (acres)	psf	Value (RM) mil	/share	Method	% of NAV	Effective stake (%)
Landbank							
Taman Kajang Utama, Selangor	8	25	9.1	0.00	MV		100
Kota Kinabalu, Sabah	3	30	3.6	0.00	MV		100
Bandar Seri Iskandar	4,000	8	945.3	0.49	MV		70
Sub-total			**957.9**	**0.50**		**12.2**	
Development properties							
Senawang Sentral			6.5	0.00	NPV @ 7%		100.0
St.Regis Service Residences (Lot C)			15.4	0.01	NPV @ 7%		30.0
Q Sentral (Lot B)			40.3	0.02	NPV @ 7%		60.0
Sentral Residences (Lot D)			61.7	0.03	NPV @ 7%		65.7
Lot F - Office Towers			256.6	0.13	NPV @ 7%		74.0
Gapurna Land - Old Klang Road			317.9	0.17	NPV @ 7%		100.0
Gapurna Builders - Subang Jaya			40.3	0.02	NPV @ 7%		100.0
Selborn 2, Shah Alam			15.6	0.01	NPV @ 7%		100.0
Lot 349, privatization agreement (Brickfields)			126.0	0.07	NPV @ 7%		70.0
Jln Kia Peng High End Residential Development			37.6	0.02	NPV @ 7%		100.0
Setepak mixed development			325.3	0.17	NPV @ 7%		100.0
Batu Ferringghi land			69.2	0.04	NPV @ 7%		100.0
Penang Sentral			242.5	0.13	NPV @ 7%		100.0
Sub-total			**1,554.8**	**0.81**		**19.9**	
		NLA/room bays	**Value (RM) mil**	**/share**	**Method**		**Effective stake (%)**
Investment properties							
Sooka Sentral, KL Sentral		77,126	68.7	0.04	NOI@6.5%		100.0
Platinum Sentral, KL Sentral (Lot E)		533,082	648.2	0.34	NOI@6%		100.0
Menera Shell (Lot 348)		542,358	624.8	0.33	NOI@6%		100.0
Nu Sentral Retail Mall (Log G)		650,000	244.6	0.13	NOI@6%		51.0
Celcom-Axiata (Lot 8)		450,908	402.6	0.21	NOI@6.25%		100.0
Plaza Alam Sentral, Shah Alam		433,349	105.7	0.06	NOI@6.5%		100.0
Komplels Sentral, Segambut Industrial Park		484,689	45.0	0.02	NOI@6.75%		100.0
Ascott Residences (ILot 348)		143 rooms	114.4	0.06	RM0.8mil/room		100.0
St. Regis Hotel (Lot C)		208 rooms	62.4	0.03	RM1mil/room		30.0
Sub-total			**2,316.4**	**1.21**		**29.6**	
Cark parks							
Sooka Sentral, KL Sentral		97 bays	4.9	0.00	RM50k/bay		100.0
Platinum Sentral, KL Sentral (Lot E)		635 bays	31.8	0.02	RM50k/bay		100.0
Menera Shell (Lot 348)		969 bays	48.5	0.03	RM50k/bay		100.0
Nu Sentral Retail Mall (Log G)		1,990 bays	50.7	0.03	RM50k/bay		51.0
Plaza Alam Sentral, Shah Alam		1,400 bays	70.0	0.04	RM50k/bay		100.0
St. Regis Hotel (Lot C)		797 bays	12.0	0.01	RM50k/bay		30.0
Sub-total			**217.8**	**0.11**		**2.8**	
Expressways							
DUKE			228.0	0.12	Take-over value		30.0
Eastern Dispersal Link (EDL)			1,913.0	1.00	DCF @ 7%		100.0
Sub-total			**2,141.0**	**1.12**		**27.4**	
Construction & Infrastructure							
Construction			46.2	0.02	9x ave.FY14F net profit		
Infra & Environmental			112.5	0.06	11x ave.FY14F net profit		
Building Services			25.2	0.01	6x FY14F net profit		
Sub-total			**183.9**	**0.10**		**2.4**	
Others			450.0	0.23	Book value	**5.8**	
Gross RNAV			**7,821.7**	**4.07**		**100.0**	
Net debt			(2,907.8)	(1.51)	As at 31 December 2013		
Proceeds from ESOS/warrant conversions			363.8	0.19	Warrants exercise price: RM2.30		
Total RNAV			**5,277.6**	**2.75**			
FD no of shares			1,919.6				
RNAV/share			**2.75**				
Fair Value (less: 20% discount)			**2.20**				
Capital gain (%)			59.4				
Yield (%)			0.7				
Total Return (%)			**62.3**				
Discount to RNAV (%)			**(49.8)**				

Source: MRCB, AmResearch

AmResearch

Company report

IJM CORP

(IJM MK EQUITY, IJMS.KL)

03 Dec 2014

Waiting for a second 'Light' to shine

BUY

(Maintained)

Mak Hoy Ken
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Rationale for report: Company update

Price	**RM6.52**
Fair Value	**RM8.00**
52-week High/Low	RM7.03/RM5.57

Key Changes

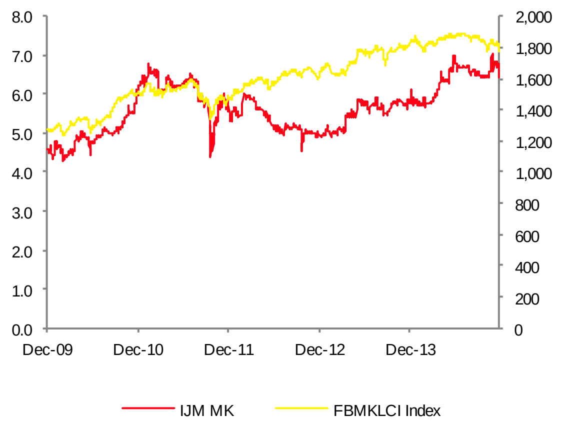
Fair value	↑
EPS	⇔

YE to Mar	FY14	FY15F	FY16F	FY17F
Revenue (RM mil)	6,006.5	5,546.4	6,464.6	6,583.1
Core net profit (RM mil)	654.4	646.7	736.4	839.8
FD Core EPS (sen)	44.1	43.5	51.0	58.1
FD Core EPS growth (%)	49.3	(1.2)	17.1	14.0
Consensus Net Profit (RM mil)	-	664.3	799.2	876.2
DPS (sen)	25.0	15.0	16.0	16.0
PE (x)	14.8	15.0	12.8	11.2
EV/EBITDA (x)	8.0	9.1	8.0	7.3
Div yield (%)	3.9	2.3	2.5	2.5
ROE (%)	13.4	9.1	9.7	10.3
Net Gearing (%)	55.0	45.1	40.2	34.0

Stock and Financial Data

Shares Outstanding (million)	1,469.7
Market Cap (RMmil)	9,582.4
Book Value (RM/share)	4.72
P/BV (x)	1.4
ROE (%)	13.4
Net Gearing (%)	55.0
Major Shareholders	EPF (11.3%) JP Morgan Chase (10.4%) Skim Amanah Saham Bumiputera (7.5%)
Free Float	65.3
Avg Daily Value (RMmil)	19.1

Price performance	3mth	6mth	12mth
Absolute (%)	0.3	(2.4)	13.9
Relative (%)	4.9	1.9	15.9



PP 12247/06/2013 (032380)

Investment Highlights

- **We maintain our BUY call on IJM Corp. Our fair value is tweaked slightly higher to RM8.00/share (from RM7.95/share previously) after applying the same 10% discount to its NAV. The slight upgrade in IJM's fair value is to update changes in the market values of its listed entities.**

- **We see IJM Corp as a key beneficiary of infrastructure projects lined up under the RM27bil Penang Transport Master Plan (PTMP).**

- **At least two of the five new highways worth RM10bil earmarked under the PTMP will cut across the Tun Dr. Lim Chong Eu Expressway in Jelutong on the eastern end of Penang Island.**

- **One is a the four-lane Air Itam Bypass that links up the Tun.Dr Lim Chong Eu Expressway to Bandar Baru Ayer Hitam/Farlim (elevated – 2km; tunnel – 2.2km). The other is a 4km underground tunnel road that connects the former with Jln. Pangkor near Gurney Drive.**

- **As The Lights is located along the Tun Dr.Lim Chong Eu Expressway, the completion of the two new highways mentioned above will enable the development to eventually link up with the proposed Penang Third Sea Crossing that connects Jln Pangkor (near Gurney Drive) to Bagan Ajam on mainland Penang.**

- **These highway improvements – to be completed by 2020 - will undoubtedly enhance accessibility to The Lights, and provide an added kick to its future development potential.**

- **Apart from The Lights, its other projects in Penang include Permatang Sanctuary (Bukit Mertajam), The Adress (Bukit Jambul) and another piece of land in Jawi.**

- **With Phase 1 near completion, IJM Land is gearing up to launch Phase 2 of The Lights (GDV: over RM6bil). The development includes shopping malls, offices, a marina, a convention centre and up to four hotels.**

- **At current market values, IJM Land (before its privatisation) accounts for RM3.2bil or roughly one-fourth of IJM's NAV. Therefore, the imminent privatisation of IJM's property arm - at the early stage of its next growth cycle - is just one of several catalysts that could underpin more upgrades to the group's NAV in the coming quarters.**

- **Others include:- (i) more opportunities from the second package of the WCE (RM2.2bil); (ii) Phase 1 of the Kuantan Port expansion & Malaysia-China Kuantan Industrial Park (MCKIP); and (iii) new construction opportunities in 2015 (e.g. Klang Valley MRT 2/LRT 3).**

EXHIBIT 1: PB BAND CHART

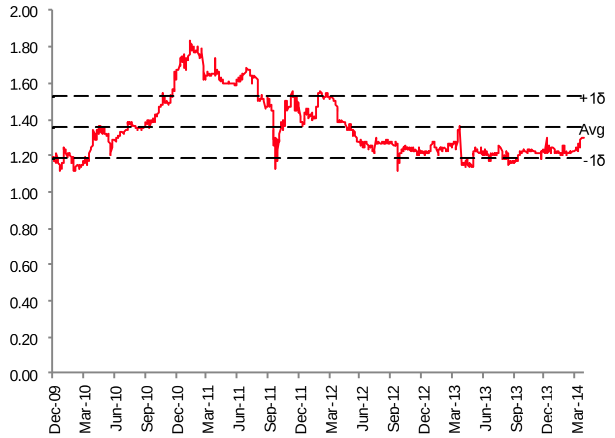


EXHIBIT 2: PE BAND CHART

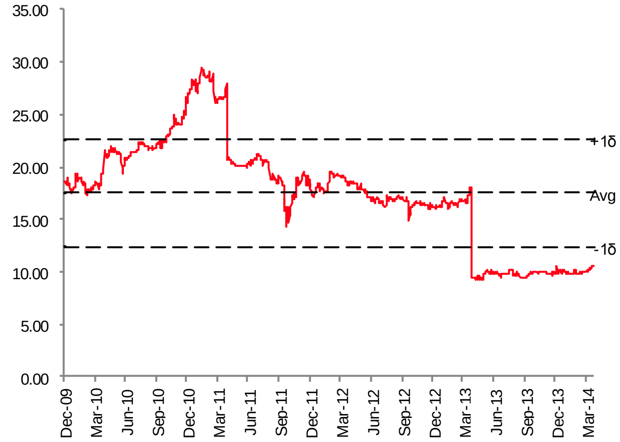


EXHIBIT 3: PENANG THIRD SEA CROSSING TIMELINE

Details	Phase	Description	Timeline
Pre-construction Stage		Feasibility studies and design	2013-2015
Construction Stage	1a	2km Elevated 4 lane expressway and 2.2km tunnel from Tun Dr. Lim Chong Eu Expressway to Air-Itam/Farlim	2015-2018
	1b	11.5km paired road from Tg.Bungah to Batu Feringhi	2015-2018
	2	4km 4-lane underground tunnel from Jln. Pangkor to Tun Dr. Lim Chong Eu Expressway	2017-2020
	3	6.5km 4-lane undersea tunnel from Jln Pangkor to Bagan Ajam (Penang-Butterworth)	2019-2023

Source: AmResearch, Zenith-BUCG

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Mar)	FY13	FY14	FY15F	FY16F	FY17F
Revenue	4,663.4	6,006.5	5,546.4	6,464.6	6,583.1
EBITDA	1,052.8	1,660.2	1,409.8	1,584.3	1,706.2
Depreciation/Amortisation	(172.1)	(206.9)	(274.6)	(302.9)	(333.7)
Operating income (EBIT)	880.7	1,453.3	1,135.2	1,281.4	1,372.5
Other income & associates	(17.6)	(140.4)	0.7	38.7	72.5
Net interest	(18.3)	(71.7)	(81.8)	(97.7)	(99.0)
Exceptional items	(9.0)	175.2	(15.0)	(15.0)	(15.0)
Pretax profit	**835.8**	**1,416.3**	**1,039.1**	**1,207.5**	**1,331.0**
Taxation	(273.6)	(340.7)	(262.6)	(305.5)	(311.5)
Minorities/pref dividends	(141.3)	(246.1)	(144.7)	(180.6)	(194.7)
Net profit	**420.9**	**829.6**	**631.7**	**721.4**	**824.8**
Core net profit	429.9	654.4	646.7	736.4	839.8

Balance Sheet (RMmil, YE 31 Mar)	FY13	FY14	FY15F	FY16F	FY17F
Fixed assets	1,614.3	1,698.1	1,901.0	2,142.0	2,468.7
Intangible assets	77.6	80.3	65.9	51.6	37.2
Other long-term assets	6,545.2	7,259.6	7,497.1	7,756.4	8,032.8
Total non-current assets	**8,237.2**	**9,037.9**	**9,464.1**	**9,949.9**	**10,538.7**
Cash & equivalent	1,638.7	1,736.2	1,484.3	1,162.1	1,034.9
Stock	481.8	592.8	544.0	641.8	614.6
Trade debtors	1,841.5	2,318.2	2,051.4	2,391.0	2,344.7
Other current assets	2,886.1	4,541.2	4,541.2	4,541.2	4,541.2
Total current assets	**6,848.1**	**9,188.4**	**8,620.9**	**8,736.1**	**8,535.4**
Trade creditors	1,996.8	2,089.1	2,096.6	2,473.6	2,471.9
Short-term borrowings	1,525.8	2,166.4	872.5	754.0	798.6
Other current liabilities	44.7	126.6	126.6	126.6	126.6
Total current liabilities	**3,567.3**	**4,382.1**	**3,095.8**	**3,354.1**	**3,397.1**
Long-term borrowings	3,481.0	3,273.9	3,842.2	3,497.0	3,051.1
Other long-term liabilities	734.3	1,620.1	1,620.1	1,620.1	1,620.1
Total long-term liabilities	**4,215.3**	**4,894.0**	**5,462.3**	**5,117.1**	**4,671.1**
Shareholders' funds	**5,607.2**	**6,738.8**	**7,170.7**	**7,678.0**	**8,274.4**
Minority interests	1,695.4	2,211.5	2,356.2	2,536.8	2,731.5
BV/share (RM)	4.06	4.72	5.02	5.38	5.80

Cash Flow (RMmil, YE 31 Mar)	FY13	FY14	FY15F	FY16F	FY17F
Pretax profit	835.8	1,416.3	1,039.1	1,207.5	1,331.0
Depreciation/Amortisation	172.1	206.9	274.6	302.9	333.7
Net change in working capital	336.8	(495.5)	323.1	(60.5)	71.8
Others	(647.4)	(811.6)	(263.3)	(344.2)	(384.0)
Cash flow from operations	**697.3**	**316.2**	**1,373.5**	**1,105.7**	**1,352.5**
Capital expenditure	(200.0)	(500.0)	(300.0)	(350.0)	(450.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(577.5)	163.9	(400.0)	(400.0)	(400.0)
Cash flow from investing	**(777.5)**	**(336.1)**	**(700.0)**	**(750.0)**	**(850.0)**
Debt raised/(repaid)	603.9	433.5	(725.5)	(463.8)	(401.3)
Equity raised/(repaid)	4.2	179.5	-	-	-
Dividends paid	(165.8)	(181.9)	(199.9)	(214.1)	(228.4)
Others	(170.4)	(294.9)	-	-	-
Cash flow from financing	**272.0**	**136.1**	**(925.4)**	**(677.9)**	**(629.7)**
Net cash flow	**191.8**	**116.3**	**(251.9)**	**(322.2)**	**(127.2)**
Net cash/(debt) b/f	**1,448.8**	**1,638.7**	**1,736.2**	**1,484.3**	**1,162.1**
Net cash/(debt) c/f	**1,638.7**	**1,736.2**	**1,484.3**	**1,162.1**	**1,034.9**

Key Ratios (YE 31 Mar)	FY13	FY14	FY15F	FY16F	FY17F
Revenue growth (%)	3.2	28.8	(7.7)	16.6	1.8
EBITDA growth (%)	0.6	57.7	(15.1)	12.4	7.7
Pretax margin (%)	17.9	23.6	18.7	18.7	20.2
Net profit margin (%)	9.0	13.8	11.4	11.2	12.5
Interest cover (x)	48.2	20.3	13.9	13.1	13.9
Effective tax rate (%)	32.7	24.1	25.3	25.3	23.4
Dividend payout (%)	42.9	42.9	33.9	31.7	29.4
Debtors turnover (days)	144	141	135	135	130
Stock turnover (days)	49	50	48	48	46
Creditors turnover (days)	202	175	185	185	185

Source: IJM, AmResearch

EXHIBIT 5: DERIVATION OF FAIR VALUE

Division	Method	Stake (%)	Value (RMmil)	Value (RM/share)	% of SOP
UNLISTED UNITS					
Construction earnings	16x CY15F net profit	100	2,173.0	1.44	16.2
Industries	16x CY15F net profit	100	1,802.6	1.20	13.4
Concessions - Indian Tollways	DCF at WACC of 8%	50-100	1,308.7	0.87	9.8
-Gautami Power	15x FY15F net profit	20	62.0	0.04	0.5
-LEKAS Highway	DCF at WACC of 7%	50	541.5	0.36	4.0
- NPE/Besraya	DCF at WACC of 7%	100	2,516.3	1.67	18.8
- West Coast Expressway	DCF at WACC of 7.6%	38	817.3	0.54	6.1
- Port businesses	12x CY15F net profit	100	926.7	0.61	6.9
Binh Anh Water	10x CY15F net profit	36	19.0	0.01	0.1
Others	Book Value	n/a	850.0	0.56	6.3
Total Unlisted Units			**11,017.1**	**7.31**	**82.2**
LISTED UNITS					
IJM Land	Market value	64	3,280.0	2.17	24.5
IJM Plantations	Market value	55	1,735.1	1.15	12.9
K.Europlus	Market value	23	239.2	0.16	1.8
Scomi Group	Market value	9	34.8	0.02	0.3
Total Listed Units			**5,289.1**	**3.5**	**39.4**
Net Debt (excluding IJM Land & IJM Plantations)	FY14 net debt		(3,238.0)	(2.15)	(24.1)
Proceeds from conversion of warrants & ESOS			332.2	0.22	2.5
Assumed interest income from conersio of warrants & ESOS			10.0	0.01	0.1
Total SOP			**13,410.5**	**8.89**	**100.0**
No of shares			1,508.1		
SOP/share			**8.89**		
Fair value/share (less 10% discount)			**8.00**		
Upside (%)			22.7		
FY15F dividend yield (%)			2.5		
Total Return (%)			**25.2**		
Discount to SOP (%)			**(26.7)**		

Source: IJM, Companies, AmResearch

EXHIBIT 6: THE LIGHTS DEVELOPMENT, JELUTONG

Source: IJM Land, AmResearch

PROPERTY

AmResearch

Company report

MAH SING GROUP

(MSGB MK EQUITY, MAHS.KL)

03 Dec 2014

Adding some Penang flavour onto its plate

BUY

(Maintained)

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Rationale for report: Company update

Price	**RM2.27**
Fair Value	**RM3.80**
52-week High/Low	RM2.60/RM1.99

Key Changes

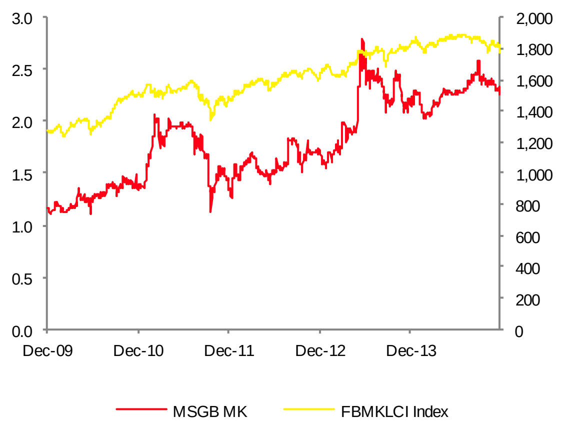
Fair value	⇔
EPS	⇔

YE to Dec	FY13	FY14F	FY15F	FY16F
Revenue (RM mil)	2,005.6	2,707.9	3,029.4	3,380.8
Core net profit (RM mil)	280.6	333.9	370.6	403.5
FD Core EPS (sen)	16.6	19.4	21.5	23.3
FD Core EPS growth (%)	(28.9)	17.3	10.3	8.4
Consensus Net Profit (RM mil)	-	335.9	396.9	463.9
DPS (sen)	8.0	9.5	11.0	12.0
PE (x)	13.7	11.7	10.6	9.8
EV/EBITDA (x)	9.4	7.8	7.0	6.1
Div yield (%)	3.5	4.1	4.8	5.2
ROE (%)	17.6	15.8	15.6	15.4
Net Gearing (%)	16.5	12.7	15.1	10.0

Stock and Financial Data

Shares Outstanding (million)	1,457.2
Market Cap (RMmil)	3,307.8
Book Value (RM/share)	1.38
P/BV (x)	1.6
ROE (%)	17.6
Net Gearing (%)	16.5
Major Shareholders	Mayang Teratai (34.1%) Landsbanki Securities UK Ltd (8.4%) EPF (8.3%)
Free Float	62.0
Avg Daily Value (RMmil)	3.4

Price performance	3mth	6mth	12mth
Absolute (%)	(8.5)	0.4	2.3
Relative (%)	(4.3)	4.8	4.1



PP 12247/06/2013 (032380)

Investment Highlights

- **Maintain BUY on Mah Sing Group with an unchanged fair value of RM3.80/share (10% discount to its NAV). Penang remains as one of Mah Sing's four key markets along with the Klang Valley, Johor, and Kota Kinabalu. At the moment, Mah Sing has four projects in Penang.**

- **Construction for three of them – i.e. Legenda@Southbay (GDV: RM109mil), Southbay City (GDV: RM1.7bil) and Feringghi Residence (GDV: RM627mil) - are ongoing. There are no immediate plans for the fourth (Icon Residence Georgetown - GDV:RM280mil) as yet.**

- **New launches in Penang include Coastal@Southbay City in October. It comprises156 professional suites, 100 residential suites and 12 shoplots. The suites have a starting price of RM582k.**

- **Some 56% of The Loft@Southbay City – launched earlier in January – were snapped up at prices of ~RM1,000psf. The Southbay Plaza –launched in 2012 – has achieved an 89% take-up rate with an average price of RM835psf. Likewise, the Feringghi resort condos achieved about 86% take-up rate (price: RM870psf-RM900psf).**

- **Collectively, Mah Sing's outstanding Penang landbank makes up RM2.7bil or only c.4% of the group's total GDV of RM65bil (inclusive of RM5bil unbilled sales and MoU for additional landbank in Puchong worth RM16bil).**

- **Mah Sing had in June, aborted plans to acquire a 76-acre land in Jawi for RM43mil after one of the land's vendors had breached obligations under the SPA. Management, nevertheless, remains keen to replenish its landbank in Penang, especially on the mainland granted that the pricing and terms are favourable.**

- **Mah Sing is raising funds ahead of its next growth cycle. The group recently unveiled a proposal to raise c.RM630mil from a rights issue with free warrants plus a 1-for-4 bonus issue. The rights issue should be completed by 1Q15 (bonus issue: 3Q15). Assuming a 3-for-10 rights issue (issue price of RM1.42/share), we calculate the stock's ex-rights fair value at RM3.06/share.**

- **This latest move allows Mah Sing to recapitalise its balance sheet to partly fund its recent landbanking activities (YTD: three land deals with GDV of RM19bil), while freeing up cash flow for other fresh value-accretive deals, including in Penang.**

- **Meanwhile, the opening of the Second Penang Bridge in March bodes well for the remaining phases of Southbay City (GDV: ~RM2.7bil), which is only 1km away from the bridge. Future transport projects, as announced under the Penang Transport Master Plan (PTMP), should provide a kicker to this integrated project.**

EXHIBIT 1: DERIVATION OF FAIR VALUE

Division	Value (RM) mil	per share	Method
Development Properties			NPV of development properties @9%
The Icon JTR	14.6	0.01	
Southgate	0.3	0.00	
StarParc Point	1.1	0.00	
Star Avenue	9.9	0.01	
i-Parc 3@Bukit Jelutong	1.0	0.00	
One Lagenda	2.5	0.00	
Hijauan Residence	24.4	0.01	
Aman Perdana	9.2	0.01	
Garden Residence	19.9	0.01	
Perdana Residence 2	1.6	0.00	
M Suites@Jalan Ampang	3.8	0.00	
Bayu Sekamat	0.7	0.00	
Icon Residence Mont' Kiara	31.4	0.02	
Garden Plaza, Cyberjaya	21.6	0.01	
Kinrara JV	0.1	0.00	
Kinrara Residence	28.7	0.02	
M City, Jalan Ampang	78.0	0.04	
M Residence 1 @ Rawang	90.4	0.05	
M Residence 2 @ Rawang	75.2	0.04	
Southville City, Bangi	820.5	0.45	
Star Residence, Subang	17.3	0.01	
Icon City, PJ	239.9	0.13	
D'sara Sentral	108.0	0.06	
Lakeville Residence (Taman Wahyu)	129.5	0.07	
M Residence 3 @ Rawang	65.5	0.04	
Puchong Land	951.6	0.52	
KGSSAAS Shah Alam	358.9	0.20	
Sri Pulai Perdana	5.7	0.00	
Austin Perdana	22.4	0.01	
Sierra Perdana	59.7	0.03	
Sri Pulai Perdana 2	9.6	0.01	
The Meridin@Medini	150.3	0.08	
Bandar Meridin East	469.1	0.26	
Mah Sing i-Parc	87.5	0.05	
Residence@Southbay	0.0	0.00	
Legenda@Southbay	24.8	0.01	
Icon Residence, Georgetown	30.5	0.02	
Ferringhi Residence @ Penang	90.8	0.05	
Southbay City	223.6	0.12	
Southbay East	51.8	0.03	
Sutera Avenue	42.2	0.02	
KK Convention City	74.1	0.04	
Unbilled sales	282.9	0.16	
Sub-total	**4,730.8**	**2.59**	
Plastics	156.9	0.09	PE of 10x 1-year FY15F net profit
Net book value	1,952.3	1.07	As at 31 December 2013
Others	180.0	0.10	
Assumed full conversion of convertibles (plus interest savings)	684.7	0.38	
NAV	**7,704.7**	**4.23**	
FD no of shares	1,823.1		
FD RNAV/share	**4.23**		
Fair Value - less 10% discount (RM)	**3.80**		
Capital gain (%)	**67.6**		
Dividend yield (%)	**3.8**		
Total Return (%)	**71.4**		
Discount to NAV (%)	**(46.3)**		

Source: Mah Sing, AmResearch

EXHIBIT 2: PB BAND CHART

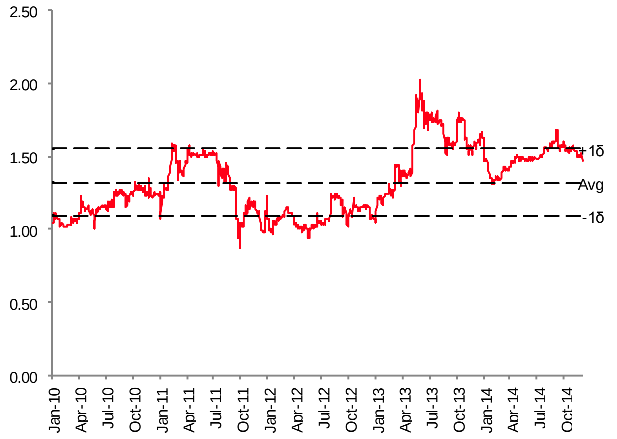


EXHIBIT 3: PE BAND CHART

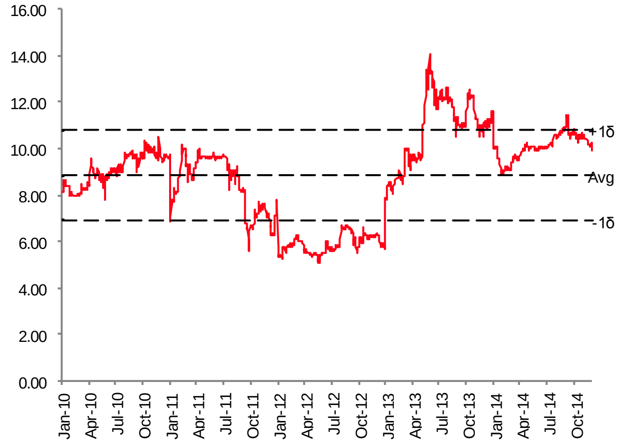


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Revenue	1,775.3	2,005.6	2,707.9	3,029.4	3,380.8
EBITDA	327.2	385.2	459.7	527.3	588.6
Depreciation/Amortisation	(13.9)	(16.4)	(18.5)	(21.3)	(25.6)
Operating income (EBIT)	313.3	368.7	441.2	506.0	562.9
Other income & associates	-	-	-	-	-
Net interest	2.2	2.8	9.3	8.1	7.4
Exceptional items	-	-	-	-	-
Pretax profit	**315.5**	**371.5**	**450.5**	**514.1**	**570.3**
Taxation	(83.8)	(92.2)	(110.5)	(129.2)	(143.3)
Minorities/pref dividends	(1.2)	1.4	(6.1)	(14.3)	(23.5)
Net profit	**230.6**	**280.6**	**333.9**	**370.6**	**403.5**
Core net profit	230.6	280.6	333.9	370.6	403.5

Balance Sheet (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Fixed assets	108.7	121.3	150.4	176.7	248.7
Intangible assets	12.5	11.5	10.9	10.2	9.6
Other long-term assets	554.9	705.5	764.5	821.1	875.4
Total non-current assets	**676.1**	**838.3**	**925.8**	**1,008.1**	**1,133.7**
Cash & equivalent	543.8	808.3	777.3	623.6	669.0
Stock	39.7	76.2	52.4	75.7	84.5
Trade debtors	398.0	581.7	593.5	581.0	648.4
Other current assets	1,936.9	2,278.8	3,056.9	3,516.2	3,726.5
Total current assets	**2,918.4**	**3,745.1**	**4,480.1**	**4,796.5**	**5,128.4**
Trade creditors	1,313.3	1,368.5	1,937.2	2,155.9	2,405.8
Short-term borrowings	41.2	85.6	95.9	98.6	101.9
Other current liabilities	39.0	21.9	21.9	21.9	21.9
Total current liabilities	**1,393.4**	**1,476.1**	**2,055.0**	**2,276.3**	**2,529.7**
Long-term borrowings	868.6	1,043.9	969.7	902.4	841.9
Other long-term liabilities	77.5	100.2	100.2	100.2	100.2
Total long-term liabilities	**946.1**	**1,144.1**	**1,069.9**	**1,002.6**	**942.1**
Shareholders' funds	**1,244.9**	**1,952.3**	**2,264.0**	**2,494.4**	**2,735.6**
Minority interests	10.1	11.0	17.0	31.3	54.8
BV/share (RM)	1.48	1.38	1.53	1.69	1.85

Cash Flow (RMmil, YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Pretax profit	315.5	371.5	450.5	514.1	570.3
Depreciation/Amortisation	13.9	16.4	18.5	21.3	25.6
Net change in working capital	190.6	(538.4)	(197.3)	(251.5)	(36.5)
Others	(303.8)	189.1	(159.0)	(175.3)	(187.1)
Cash flow from operations	**216.2**	**38.6**	**112.7**	**108.6**	**372.4**
Capital expenditure	(34.8)	(26.8)	(50.0)	(50.0)	(100.0)
Net investments & sale of fixed assets	1.7	1.3	3.0	3.0	3.0
Others	(110.4)	(398.0)	-	-	-
Cash flow from investing	**(143.4)**	**(423.5)**	**(47.0)**	**(47.0)**	**(97.0)**
Debt raised/(repaid)	(67.7)	219.7	(63.9)	(64.6)	(57.1)
Equity raised/(repaid)	13.2	524.9	90.9	-	-
Dividends paid	(69.2)	(104.1)	(113.1)	(140.2)	(162.3)
Others	(39.5)	8.8	(10.6)	(10.6)	(10.6)
Cash flow from financing	**(163.1)**	**649.4**	**(96.7)**	**(215.4)**	**(230.0)**
Net cash flow	**(90.3)**	**264.5**	**(31.0)**	**(153.8)**	**45.5**
Net cash/(debt) b/f	**634.2**	**543.8**	**808.3**	**777.3**	**623.6**
Net cash/(debt) c/f	**543.8**	**808.3**	**777.3**	**623.6**	**669.0**

Key Ratios (YE 31 Dec)	FY12	FY13	FY14F	FY15F	FY16F
Revenue growth (%)	13.0	13.0	35.0	11.9	11.6
EBITDA growth (%)	34.5	17.7	19.3	14.7	11.6
Pretax margin (%)	17.8	18.5	16.6	17.0	16.9
Net profit margin (%)	13.0	14.0	12.3	12.2	11.9
Interest cover (x)	nm	nm	nm	nm	nm
Effective tax rate (%)	26.5	24.8	24.5	25.1	25.1
Dividend payout (%)	45.1	40.3	42.0	43.8	43.9
Debtors turnover (days)	82	106	80	70	70
Stock turnover (days)	12	20	10	13	13
Creditors turnover (days)	387	362	370	370	370

Source: Mah Sing, AmResearch

EXHIBIT 5: SOUTHBAY INTEGRATED DEVELOPMENT, BATU MAUNG

Source: Mah Sing, AmResearch

AmResearch

Company report

TITIJAYA LAND

(TTJ.MK, TITIJYA.KL)

3 December 2014

Batu Maung land a harbinger of more to come

BUY

(Maintained)

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Rationale for report: Company update

Price	**RM2.56**
Fair Value	**RM3.25**
52-week High/Low	RM2.88/RM1.42

Key Changes

Fair value	⬄
EPS	⬄

YE to June	FY14	FY15F	FY16F	FY17F
Revenue (RMmil)	283.8	404.7	503.3	582.3
Core net profit (RMmil)	71.3	90.3	113.1	129.3
Core FD EPS (Sen)	19.1	24.2	30.3	34.6
Core FD EPS growth (%)	(11.2)	26.6	25.3	14.3
Consensus EPS (Sen)		n/a	n/a	n/a
DPS (Sen)	4.0	5.5	6.5	7.5
Core FD PE (x)	10.2	8.0	6.4	5.6
EV/EBITDA (x)	6.9	6.2	5.0	4.1
Div yield (%)	2.1	2.8	3.4	3.9
ROE (%)	8.8	10.0	11.2	11.3
Net Gearing (%)	8.1	25.2	19.8	12.4

Stock and Financial Data

Shares Outstanding (million)	340.0
Market Cap (RMmil)	659.6
Book value (RM/share)	1.2
P/BV (x)	1.7
ROE (%)	8.8
Net Gearing (%)	8.1
Major Shareholders	Tan Sri Dato' SP Lim & family (61.4%)
Free Float (%)	38.0
Avg Daily Value (RMmil)	0.8

Price performance	3mth	6mth	12mth
Absolute (%)	-23.2%	-6.7%	+28.5%
Relative (%)	-19.8%	-2.6%	+30.8%

Investment Highlights

- **We maintain our BUY call on Titijaya Land with an unchanged fair value of RM3.25/share – pegged at a 25% discount to its NAV. In May 2014, Titijaya announced the acquisition of a prime 20-acre land in Batu Maung, Penang from Lembaga Kemajuan Ikan Malaysia for RM126mil.**

- **The said land has a 99-year lease that expires in April 2095. The purchase consideration works out to RM126mil or ~RM142psf. We believe the implied land cost for the Batu Maung land is fair, given its deep development potential.**

- **This gives Titijaya immediate access to sea-fronting land, which is within walking distance from the Second Penang Bridge and located next to Mah Sing's Southbay integrated development.**

- **The Batu Maung land – Titijaya's first land acquisition beyond the Klang Valley – is a harbinger of more things to come, and signifies the management's ability to source value-accretive land deals.**

- **To be developed over an eight-year period (completion: 2023), the planned Batu Maung mixed development project has an indicative GDV of over RM2bil (plot ratio: ~4x). We estimate the project to contribute RM0.76/share or ~18% to its NAV.**

- **We understand that Titijaya has secured the relevant conversion approvals for development purposes. While final plans are still being ironed out, the development may include SOHOs, service apartments, shop lots and a hotel block.**

- **We expect the maiden launch of the Batu Maung development (targeted in 2H 2015) to be well-received. Note that Mah Sing's The Loft@Southbay City – launched earlier in January – are priced at ~RM1,000psf.**

- **More importantly, Titijaya's maiden foray into the Penang market is timely as major infrastructure works under the Penang Transport Master Plan (PTMP) are taking shape from 2016 onwards. Also, major road improvement works from the Second Penang Bridge should augment future accessibility.**

- **Titiiaya's core fundamentals remain intact. Hence, we view the stock's recent share price retracement – in line with a weakened broader market – as a buying opportunity.**

- **At the current level, Titijaya is trading at a steep discount of 55% to its NAV with undemanding FY15F-17F FD PEs of only 6x-8x and a robust 22% EPS CAGR.**

PP 12247/06/2013 (032380)

EXHIBIT 1: DERIVATION OF FAIR VALUE

Division	Market Value (RM) mil	Market Value (RM) /share	Method	Effective stake (%)	% of NAV
DEVELOPMENT PROPERTIES			NPV @ 9%		
Subang Parkhomes Phase 2	25.2	0.07		100.0	
Seri Alam Industrial Park Phase 1 & 2	36.4	0.10		100.0	
Zone Innovation Park @ Sg.Kapar Indah: Phase 1 & 2	30.9	0.08		100.0	
Subsequent phases of Zone Innovation Park @ Sg.Kapar Indah	16.1	0.04		100.0	
The Galleria	21.5	0.06		100.0	
3Elements	41.0	0.11		100.0	
Embun @ Kemensah Phase 1	29.3	0.08		100.0	
H20	113.6	0.30		100.0	
Subsequent Phases of Seri Alam Industrial Park	82.4	0.22		100.0	
Klang Sentral Service Apartment	113.4	0.30		100.0	
Trio	77.7	0.21		100.0	
Mutiara Residence Phase 2	8.7	0.02		100.0	
Batu Maung, Penang	284.0	0.76		100.0	
Brickfields	102.8	0.28		70.0	
Unbilled sales	87.7	0.23			
Sub-total	**1,070.9**	**2.87**			**66.2**
INVESTMENT PROPERTIES					
Trio, Shah Alam	1,300.0	3.48	Market Value	100.0	
Others	85.0	0.23	Book Value	100.0	
Sub-total	**1,385.0**	**3.71**			**85.7**
Gross NAV	**2,455.9**	**6.58**			
Net debt	(31.7)	(0.08)	As at 31 Mar 2014		**(2.0)**
Trio Shah Alam (construction/infra cost)	(807.5)	(2.16)	Est. Construction cost		**(49.9)**
Net NAV	**1,616.7**	**4.33**			**100.0**
FD No of shares	373.3				
RNAV/share	**4.33**				
Fair Value (less 25% discount)	**3.25**				
Capital gain (%)	**67.4**				
FY14F yield (%)	**2.8**				
Total Return (%)	**70.2**				
Discount to NAV	**(55.2)**				

Source: Titijaya, AmResearch

EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	2013	2014	2015F	2016F	2017F
Revenue	**186.2**	**283.8**	**404.7**	**503.3**	**582.3**
EBITDA	74.6	99.7	125.4	155.0	179.4
Depreciation	(0.4)	(3.3)	(3.5)	(3.9)	(4.4)
Operating income (EBIT)	74.3	96.4	121.9	151.0	174.9
Other income & associates	0.0	0.0	0.0	0.7	2.6
Net interest	(0.8)	0.0	0.1	(1.0)	(0.5)
Exceptional items	0.0	0.0	0.0	0.0	0.0
Pretax profit	**73.5**	**96.4**	**122.0**	**150.8**	**177.1**
Taxation	(17.9)	(25.1)	(31.7)	(37.7)	(47.8)
Minorities/pref dividends	0.0	0.0	0.0	0.0	0.0
Net profit	**55.6**	**71.3**	**90.3**	**113.1**	**129.3**
Core net profit	55.6	71.3	90.3	113.1	129.3

Balance Sheet (RMmil, YE 30 Jun)	2013	2014	2015F	2016F	2017F
Fixed assets	4.3	4.5	5.0	10.2	17.0
Intangible assets	1.6	1.6	1.6	1.6	1.6
Other long-term assets	241.7	190.7	191.3	191.9	192.5
Total non-current assets	**247.6**	**196.8**	**197.8**	**203.7**	**211.1**
Cash & equivalent	12.0	124.2	56.6	49.6	67.9
Stock	14.1	21.2	37.5	51.0	59.0
Trade debtors	61.9	95.2	149.7	151.7	175.5
Other current assets	243.8	369.6	457.5	550.0	624.1
Total current assets	**331.9**	**610.2**	**701.3**	**802.3**	**926.5**
Trade creditors	240.3	214.3	211.1	237.8	275.1
Short-term borrowings	15.1	14.6	27.1	23.9	21.3
Other current liabilities	5.8	6.0	6.0	6.0	6.0
Total current liabilities	**261.1**	**235.0**	**244.3**	**267.7**	**302.5**
Long-term borrowings	77.7	141.3	147.4	137.1	129.4
Other long-term liabilities	39.5	38.7	38.7	38.7	38.7
Total long-term liabilities	**117.2**	**179.9**	**186.1**	**175.8**	**168.1**
Shareholders' funds	**201.1**	**392.1**	**468.8**	**563.2**	**670.4**
Minority interests	0.0	0.0	0.0	0.0	0.0
BV/share (RM)	0.78	1.15	1.38	1.66	1.97

Cash Flow (RMmil, YE 30 Jun)	2013	2014	2015F	2016F	2017F
Pretax profit	73.5	96.4	122.0	150.8	177.1
Depreciation	0.4	3.3	3.5	3.9	4.4
Net change in working capital	(63.1)	(183.5)	(161.9)	(81.2)	(68.6)
Others	(21.9)	60.5	(31.7)	(38.4)	(50.4)
Cash flow from operations	**(11.1)**	**(23.2)**	**(68.1)**	**35.1**	**62.4**
Capital expenditure	(0.1)	(0.5)	(1.8)	(7.0)	(9.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	(1.9)	(20.9)	0.0	0.0	0.0
Cash flow from investing	**(2.0)**	**(21.4)**	**(1.8)**	**(7.0)**	**(9.0)**
Debt raised/(repaid)	58.7	60.3	15.9	(16.3)	(13.1)
Equity raised/(repaid)	0.0	121.5	0.0	0.0	0.0
Dividends paid	0.0	0.0	(13.6)	(18.7)	(22.1)
Others	(40.0)	(39.3)	0.0	0.0	0.0
Cash flow from financing	**18.7**	**142.4**	**2.3**	**(35.0)**	**(35.2)**
Net cash flow	**5.6**	**97.8**	**(67.6)**	**(7.0)**	**18.2**
Net cash/(debt) b/f	**6.5**	**26.4**	**124.2**	**56.6**	**49.6**
Exchange rate effects	0.0	0.0	0.0	0.0	0.0
Net cash/(debt) c/f	**12.0**	**124.2**	**56.6**	**49.6**	**67.9**

Key Ratios (YE 30 Jun)	2013	2014	2015F	2016F	2017F
Revenue growth (%)	57.5	52.4	42.6	24.4	15.7
EBITDA growth (%)	134.7	33.6	25.8	23.6	15.7
Pretax margins (%)	39.5	34.0	30.1	30.0	30.4
Net profit margins (%)	29.8	25.1	22.3	22.5	22.2
Interest cover (x)	17.7	19.2	17.7	10.5	0.0
Effective tax rate (%)	24.4	26.1	26.0	25.0	27.0
Net dividend payout (%)	0.0	19.1	20.7	19.5	19.7
Debtors turnover (days)	121	122	135	110	110
Stock turnover (days)	52	51	55	60	60
Creditors turnover (days)	887	519	310	280	280

Source: Titijaya, AmResearch

EXHIBIT 3: SEAFRONTING BATU MAUNG LAND NEAR SECOND PENANG BRIDGE

Source: Titijaya, AmResearch

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