

# Equity Beat

04 March 2010

## Company Visit

## Naim Holdings Berhad

*Brighter prospects ahead*

**Reaffirm Buy**  
**Unchanged TP: RM3.90**

- We continue to see strong jobs flow in 2010 with more Sarawak-state projects are likely to be secured, coupled with spillover effects from the development of SCORE and the impending state election.
- Naim is expected to secure additional jobs of RM400m for the remaining year on top of its current orderbook of RM2.1b and LOIs of RM1.5b.
- While we believe this will likely result in potential earnings upgrade to our numbers, we are maintaining our forecast, for now.
- We reaffirm our BUY call on Naim with a 12-month target price of RM3.90 based on sum-of-parts valuation. This translates to 12-month potential total returns of 27% including dividend yield of 2.9%.

## STOCK INFO

Price (4 Feb 2010)	RM3.15	KLCI	1,286.10
Issued shares (mil)	250	Bursa / Bloomberg	5073 / NHB MK
Par Value (RM)	1.00	Board / Sector	Main / Construction
Market cap. (RM'm)	RM787,500	Syariah Compliant	Yes
Price over NTA	1.21		
52-wk price Range	RM1.08–RM3.70	Major Shareholders	
Beta (against KLCI)	1.04	Island Harvests S/B	12.25%
3-mth Avg Daily Vol	201,203	Hasmi Hasnan	11.67%
3-mth Avg Daily Value	RM0.59m	Tapak Beringin S/B	10.96%

**Strong orderbook of RM2.1b to-date.** Both, state and federal projects added to its outstanding orderbook of RM2.1b and is targeting up to RM7b orderbook over the next five years. Amongst its notable projects are the Sarawak Flood Mitigation Phase 1 project and SPNB affordable housing project worth RM620m. Also, the group's potential to convert its LOIs into awards remained bright this year comprising the subsequent phases of the Kuching Flood Mitigation works and the Balingian road works.

**More jobs to come.** YTD, the group has secured the Bakun-Similajau overhead transmission line Package B together with its JV partner, Sinohydro, worth RM209m and actively eyeing other state projects to achieve its targeted RM800m orderbook this year. Management indicated that they are in discussion with Sarawak Timber Industry Development Corp (STIDC) to develop workers' quarters and mixed development project worth RM120m, Bintulu Development Authority to develop workers' quarters worth between RM20-25m in Bintulu area and also to develop resettlement at Bengoh Dam worth RM200m. More jobs flow are expected to accelerate in Sarawak given the upcoming state election as well as the development of SCORE. We expect Naim to be one of the main beneficiaries to secure infrastructure related jobs such as roads, bridges, ports, and railway to support the overall development objective.

FYE 31 Dec	FY08A	FY09A	FY10F	FY11F
Revenue (RM'm)	523.7	527.0	568.4	650.6
EBIT (RM'm)	66.4	86.7	85.3	96.3
Pretax Profit (RM'm)	104.2	110.2	107.3	126.1
Net Profit (RM'm)	85.8	78.9	85.3	104.1
EPS (sen)	34.3	31.6	34.1	41.6
EPS growth (%)	na	20.6	8.0	22.0
PER(x)	9.2	10.0	9.2	7.6
Net Dividend (sen)	8.0	8.0	9.0	9.0
Net Dividend Yield (%)	2.5	2.5	2.9	2.9

Source: Company, Forecasts by MIDFR

## On-going projects

KEY PROJECTS	Value (RM'm)	Completion Date
<b>Current Projects</b>		
Kuching Flood Mitigation (Phase 1)	148.8	Feb 2010
Bengoh Dam	310.6	Dec 2010
Sibu-Julau Road	176.5	Feb 2010
Sibu-Matedang Road	188.0	July 2010
SPNB Affordable Housing (3 contracts)	623.7	Mar 2014
Kompleks Islam Sarawak	90.0	Sep 2011
Transmission Line Package B	209.1	Jan 2012
Fiji Projects	103.4	Aug 2011- 2012
Schools and Hostels in Sarawak	62.1	Dec 2010
Semadang/Bau road works	73.5	July 2012
Low-cost housing	67.9	Sep 2013
<b>Total</b>	<b>2,053.6</b>	
<b>LOI stage</b>		
Kuching Flood Mitigation	250.0	
Balingian Road	100.0	
Supply of Equipment to Adtec		
<b>Total</b>	<b>1,501.0</b>	
<b>Grand Total</b>	<b>3,352.7</b>	
<b>Potential Projects</b>		
Possibly JV with Sarawak Timber Industry Dev Corp (STIDC) to develop workers' quarters and mixed development	120.0	
Discussion with Bintulu Development Authority to develop workers' quarters	20-25	
Resettlement in Bengoh Dam	200.0	

Source: Naim Holdings Berhad

**Earnings supported by property division.** In 2009, the group recorded property sales of RM152m and is targeting RM200m sales in 2010, +32%yoy, driven by new property launches from its existing development. Naim's property developments are mainly concentrated in Miri, Kota Samarahan and Kuching, mainly focusing on affordable properties worth between RM150,000-200,000. Moving forward, management plans to open new areas in the later part of 2010, given the remaining 2,600 acres of land bank, mainly centered in Miri and Bintulu, representing GDV of RM6b.

**Potential earnings upgrade, similar dividend policy.** Based on the higher replenishment orderbook of RM400m annually, higher property sales, sound management track record and higher construction margins of between 10%-12%, we reckon there are likelihood of potential earnings upgrade to our conservative numbers. We believe it is too premature to revise upward our numbers for now until further corporate announcements. With RM209m overhead transmission job already in the bag, we are confident that the group will achieve its targeted orderbook this year. Also, we like the group as it will continue a dividend payout policy of between 25%-30% annually.

## VALUATION & RECOMMENDATION

**Reaffirm BUY with target price of RM3.90.** At RM3.15 per share, Naim is trading near its historical low of 8x on average. We believe, there is still upside potential for the share price to move up given the group's track record in securing state and federal projects coupled with spillover effects from the development of SCORE. We value the company at RM3.90 per share over a 12-month period, based on sum-of-parts (SOP) relative to PER approach, suggesting potential total returns of 27% (including dividend yield of 2.9%). We have ascribed industry PER of 12.5x, 9.5x and 10x to the net earnings of its 2010 construction, property and oil and gas divisions respectively. Given positive outlook on the respective divisions, the target PERs are within the average of their respective industry peers. YTD, the stock has delivered total returns of 15% vs KLCI of 0.21%.

## Sum-of-parts valuation

Segment	Net Profit (RM'm)	Valuation (RM'm)	Basis
Construction	40.9	511.8	12.5x PER, FY10 projected earnings
Property	32.4	307.93	9.5x PER, FY10 projected earnings
Oil & Gas	11.9	119.42	10x PER, FY10 projected earnings
		<b>939.2</b>	
<b>Net cash</b>		0.6	
<b>Target price</b>		<b>3.88</b>	

Source: Company, Forecasts by MIDFR

## Valuation

	FY09	FY08	FY07	FY06
<b>PER</b>				
High	9.98	9.75	15.19	23.62
Low	9.49	3.24	4.29	11.44
<b>P/BV</b>				
High	1.21	1.32	2.15	3.19
Low	1.15	0.44	0.58	1.55
<b>P/Sales</b>				
High	1.49	1.5	1.79	2.97
Low	1.42	0.5	0.54	1.44

Source: Bloomberg

## Profit & Loss

FYE 31 Dec	FY08A	FY09A	FY10F	FY11F
Revenue (RM'm)	523.7	527.0	568.4	650.6
EBIT (RM'm)	66.4	86.7	85.3	96.3
Pretax Profit (RM'm)	104.2	110.2	107.3	126.1
Net Profit (RM'm)	85.8	78.9	85.3	104.1
EPS (sen)	523.7	527.0	568.4	650.6
<b>Margin</b>				
EBIT (%)	12.7%	16.5%	15.0%	14.8%
Pretax (%)	19.9%	20.9%	18.9%	19.4%
Net profit (%)	16.4%	15.0%	15.0%	16.0%

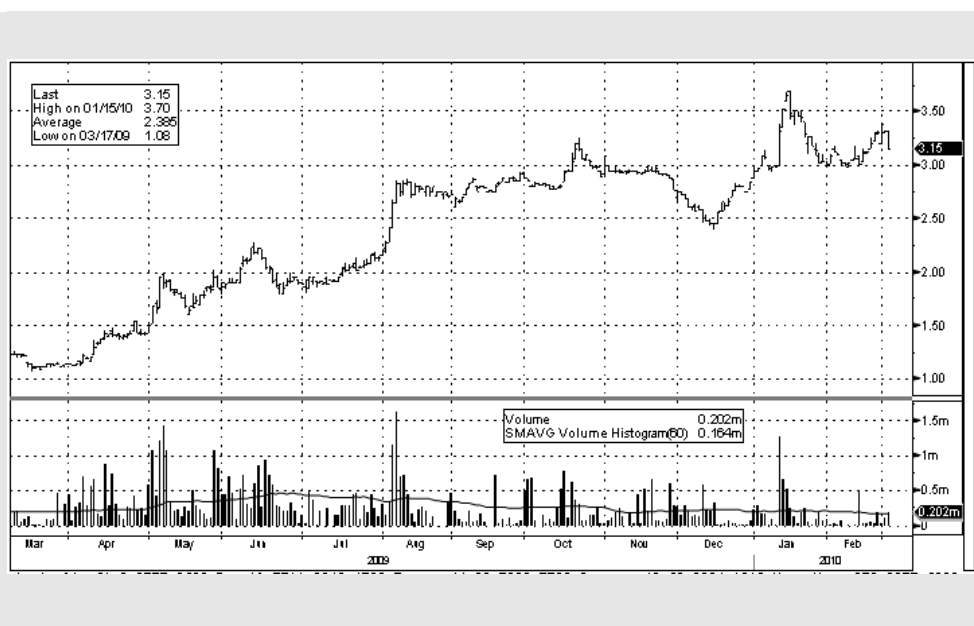
Source: Company, Forecasts by MIDFR

## Balance Sheet

FYE 31 Dec	FY08A	FY09A	FY10F	FY11F
Fixed Assets	340.3	357.9	367.7	376.5
Current Assets	615.7	695.7	636.0	650.0
Total Assets	956.0	1053.6	1003.7	1026.5
Current Liabilities	286.9	322.7	268	230.4
LT Liabilities	57.7	62.5	57.2	57.2
Shareholders' funds	587.7	630.0	655.0	714.0
Minority Interest	23.8	22.0	23.5	25.0
Total Liabilities +S/F	956.0	1037.2	1003.7	1026.6
Net gearing (%)	0.1	net cash	net cash	net cash
ROE (%)	10.6	12.5	13.0	14.6
ROA (%)	6.7	7.7	8.7	10.4

Source: Company, Forecasts by MIDFR

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.