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midf RESEARCH
Equity Beat
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2Q10 Results Review

SILK Holdings Berhad

Highway with a new focus

***Maintain* BUY**
***Unchanged* Target Price (TP): RM0.46**

- **SILK's 6MFY10 net profit of RM5.4m is lower than our forecast, accounting for 38.3% of our full year estimate as we had overestimated revenue from the highway division.**
- **The Oil and gas division are becoming the new focus for the group, with its 81% contribution to group revenue, as it continues securing new medium and long term contracts.**
- **We maintain our BUY recommendation as SHB's earnings prospects are fairly bright, with target price of RM0.46 as SHB's earnings will be driven by the expected growth in the O&G sector. Our valuation is based on Sum-of-Parts; with a DCF valuation for the highway subsidiary, using a WACC of 4.38% and at 10x PER of our projected FY11 on the oil and gas subsidiary.**

STOCK INFO

Price (23 Mar 2010)	RM0.39	KLCI	1,304.85
Issued shares (mil)	374.836	Bursa / Bloomberg	5078 / SIB MK
Par Value (RM)	0.25	Board / Sector	Main / Trading/services
Market cap. (RM'm)	RM146.18	Syariah Compliant	
Price over NTA	1.02		
52-wk price Range	RM0.15 – RM0.545	Major Shareholders	
Beta (against KLCI)	0.63	Abdul Rahman bin Ali	22.57%
3-mth Avg Daily Vol	0.93m	Infra Bumitek Sdn Bhd	21.22%
3-mth Avg Daily Value	RM0.36m	Bijak Permai Sdn Bhd	10.03%

Results came in below expectation. SILK's 6MFY10 net profit is below forecast, accounting for 38.3% of our full year estimate. The variance was due to lower than expected revenue in the highway division, where it accounts for 23.5% of our full year revenue forecast. The oil and gas division's revenue accounts to 49.8% of our full year revenue forecast. SILK's 6MFY10 net profit increased by 71.2% yoy registering RM11.2m with most of the contribution coming from oil and gas division.

Oil and gas is the new focus. Oil and gas revenue recorded 29.9% yoy higher in 2Q10 following the commissioning of three new vessels and gains from the disposal of a vessel. It now accounts to 81.4% of the group's total revenue, evident that oil and gas are becoming the new focus for the group as it continues securing new medium and long term contracts.

Highway improving as well. There were improvements in the highway division as well, as revenue increase by 16.3% yoy in 2Q10, to register RM10.7m. The 427.0% qoq increase was due to the highway contributing only 17 days of revenue. If the highway division takes into account its full 1Q10 revenue, then the improvement would be 3.3% qoq. It may be possible that the improvement was due to the school holidays in December as Kajang become a destination for its famous satay.

FYE 31 July	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	2,968.0	3,179.0	3,133.5	4,267.87
EBIT (RM'm)	2,112.4	2,245.0	2,039.8	3,000.6
Pretax Profit (RM'm)	1,515.7	1,623.6	1,439.1	2,337.6
Net Profit (RM'm)	1,079.3	1,185.1	1,163.1	2,006.8
EPS (sen)	21.6	23.7	23.3	40.1
EPS growth (%)	-12.0	9.7	0	72.5
PER(x)	15.6	14.2	14.5	8.4
Net Dividend (sen)	16.0	16.5	17.4	19.5
Net Dividend Yield (%)	4.7	4.9	5.2	5.8

Source: Company, Forecasts by MIDFR

Prospects. Since oil price is trading within the US$80 levels, we expect that the oil and gas division will see further growth. We believe most of the demand will be fuelled by China and India as continues to lead the economic recovery. Any collapse in oil price which would affect its Offshore Support Vessels is mitigated as all of its vessels are on long term contracts of 1 to 7 years. We expect the highway division would continue its steady growth, although more to a natural growth as we do not see any major new township development happening in the area. The highway division would continue to register accounting losses but will be on a declining basis as support for the highway increases.

Maintain BUY call. We maintain our BUY recommendation with a target price of RM0.46 as SHB's earnings prospects are fairly bright, driven by the expected growth in the O&G sector. Our valuation is based on Sum-of-Parts; with a DCF valuation for the highway subsidiary, using a WACC of 4.38% and at 10x PER of our projected FY11 on the oil and gas subsidiary.

SILK HOLDINGS: 6MFY10 RESULTS SUMMARY

All in RM'000 unless stated otherwise	**Quarterly Results**			**Cumulative**		**Comments**
FYE July	2Q10	%YoY	%QoQ	6MFY10	%YoY	
Toll collection	10,704	16.3%	427.0%	12,735	-39.7%	The lower 6MFY10 were due to the change in the financial year end, where the preceding cumulative was a 7 month period
Oil and Gas Division	46,900	29.9%	0.3%	93,682	38.3%	Commissioning of 3 new vessels and gains from disposal of a vessel.
Finance Costs	(20,214)	551.6%	182.1%	(27,379)	323.1%	Debt from Oil and Gas division were combined following the completion of the Regularisation Scheme on 14 October 2009
Net Profit	5,426	66.6%	-6.6%	11,237	71.2%	Higher due to contribution from Oil and Gas division.
Cash and bank balances	18,896					

Source: Company, MIDFR

DAILY PRICE CHART

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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 *fall* 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.