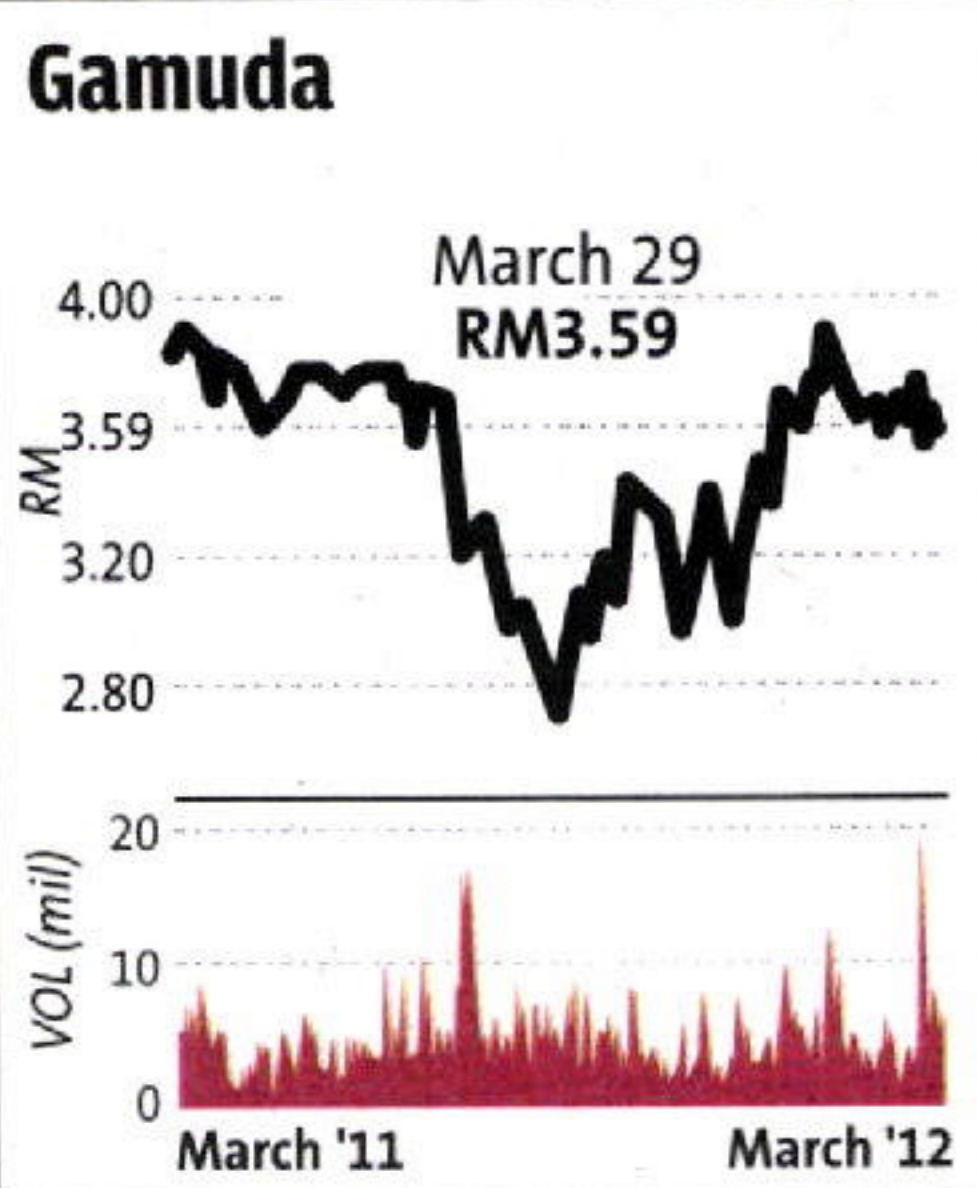


More 'rail' boost for Gamuda



GAMUDA BHD
By OSK Investment Research
Buy
Target price: RM4.57 (Fair value)

Gamuda's first half 2012 (ended Jan 31) revenue came in at a sturdy RM1.41bil, driven by its property division, which saw revenue soar 68.6% during the period to RM520.9mil.

The group's core earnings surged by a stronger 47.2% to RM268.8mil owing to margin expansion in its construction and property divisions, both of which witnessed a 620-basis point improvement in pre-tax profit margins.

We attribute these improvements to the recognition of better margins for its electrified double tracking project as it had been rather conservative for financial years 2009 and 2010 (ended July 31), as well as sales of higher-end property developments last year.

On a quarterly basis, the second quarter of its current financial year numbers improved markedly across the board on a year-on-year and quarter-on-quarter comparison.

Management said 27 work packages for the Klang Valley My Rapid Transit Sungai Buloh-Kajang (SBK) line had been awarded, while tenders and awards for the remaining 63 packages were expected to be mostly completed by the fourth quarter of this year.

We understand that works on the tunnelling portion could start as soon as the third quarter of this year and the Government is currently negotiating with landowners on vacating the affected sites.

The target date for completion is July 2017. Ten tunnel boring machines, each worth some RM150mil, will be deployed at four launch shafts in core areas such as Semantan, Maluri and Cochrane.

More interestingly, management highlighted that all packages for the elevated portion of the SBK line would be recognised in its books in view of its joint appointment with MMC Corp Bhd as the project delivery partner (PDP) for this portion.

To put it simply, Gamuda's revenue going forward would include all works relating to the elevated portion, plus the 6% management fee it is entitled to, while its operating expenses would comprise payments made to the respective contractors for the works involved.

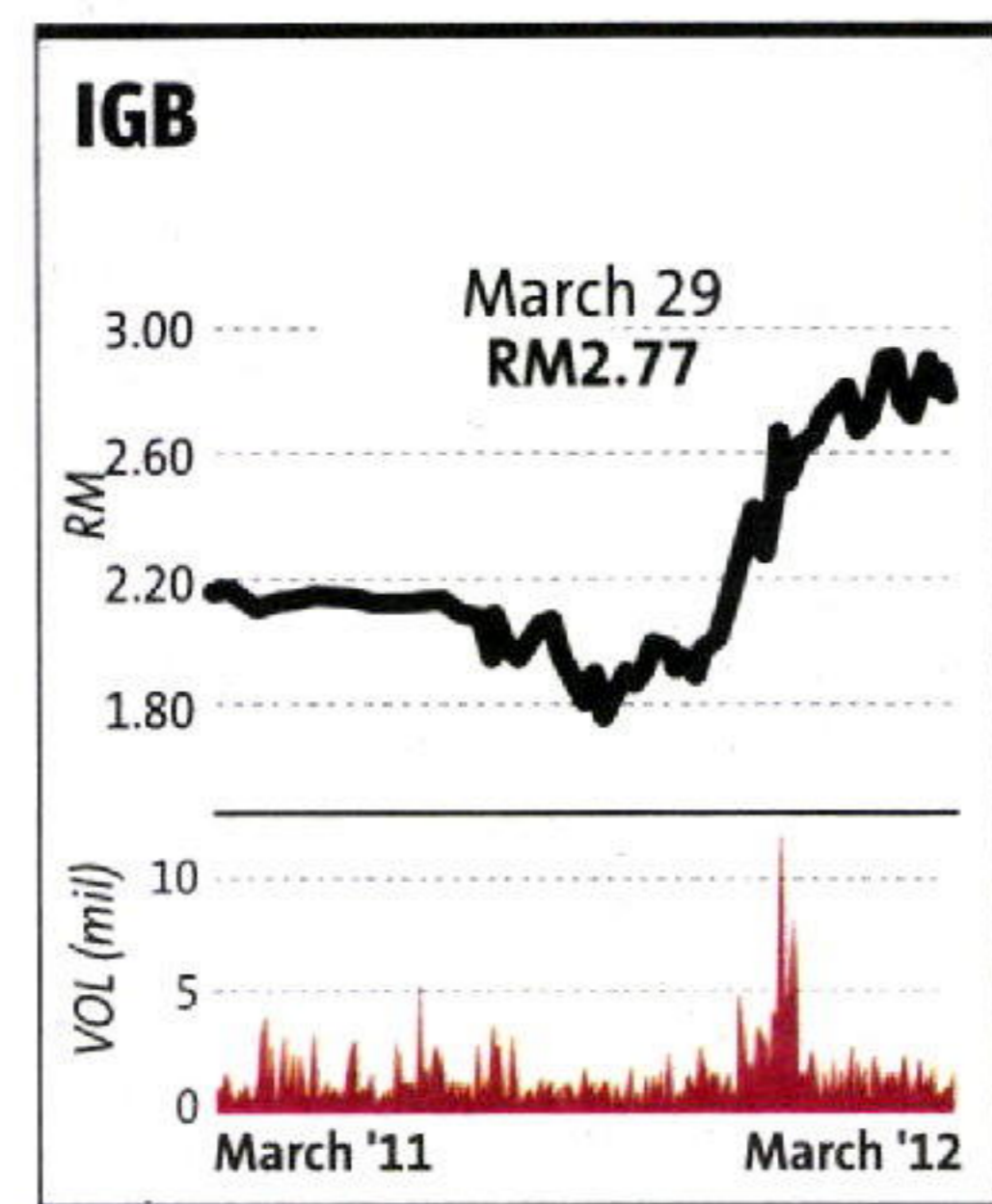
While this would no doubt distort its margins going forward, we are not overly concerned as long as there is proper execution to ensure the timely completion of the SBK line, which will in turn ensure that Gamuda pockets its 50% share of the RM720mil management fee due.

We are making no changes to our revenue and operating expenditure



The MRT info centre in Plaza TTDI, Kuala Lumpur. Gamuda's management has highlighted that all packages for the elevated portion of the SBK line of the MRT would be recognised in its books.

forecasts for now, pending more clarity on the accounting policies involved, as well as further assurance on the progress of implementation.



IGB CORP BHD
By AmResearch
Buy
Target price: RM3.50 (Fair value)

IGB and Selia Pantai – developer of SouthKey – signed on Wednesday a conditional memorandum of understanding to establish a 70:30 joint venture (JV) to co-develop three parcels of leasehold land measuring 36 acres within the SouthKey development.

This is not a surprise given that IGB has indicated it has been looking for pockets of land in Johor for development.

Selia Pantai is a public-private partnership between Selia Group and the Johor State Government via its arm, Kumpulan Prasarana Rakyat Johor (KPRJ).

The JV intends to co-develop a megamall and possibly other commercial/residential properties including hotel, serviced apartments and offices.

We note that the megamall would have a net lettable area (NLA) of around 1.5 million sq ft – almost as big as MidValley MegaMall – with close to 7,000 parking bays.

To recap, SouthKey is a mixed commercial development spanning over 300 acres within Permas Jaya which enjoys frontage of Jalan Tebrau, Jalan Bakar Batu as well as the recently-completed Eastern Dispersal Link.

It is located just five minutes away from Sultan Iskandar Customs, Immigration and Quarantine complex.

We view this positively because we believe the mall would be a success given the area's sizeable catchment population of more than 120,000 and the lack of quality malls within it.

At present, the total NLA in Johor Bahru is estimated to be at 11.6 million sq ft with an average occupancy rate in excess of 80%.

In the pipeline includes a lifestyle mall by Iskandar Investment Bhd located at Medini North and the redevelopment of Komtar retail mall in the Johor Bahru central business district.

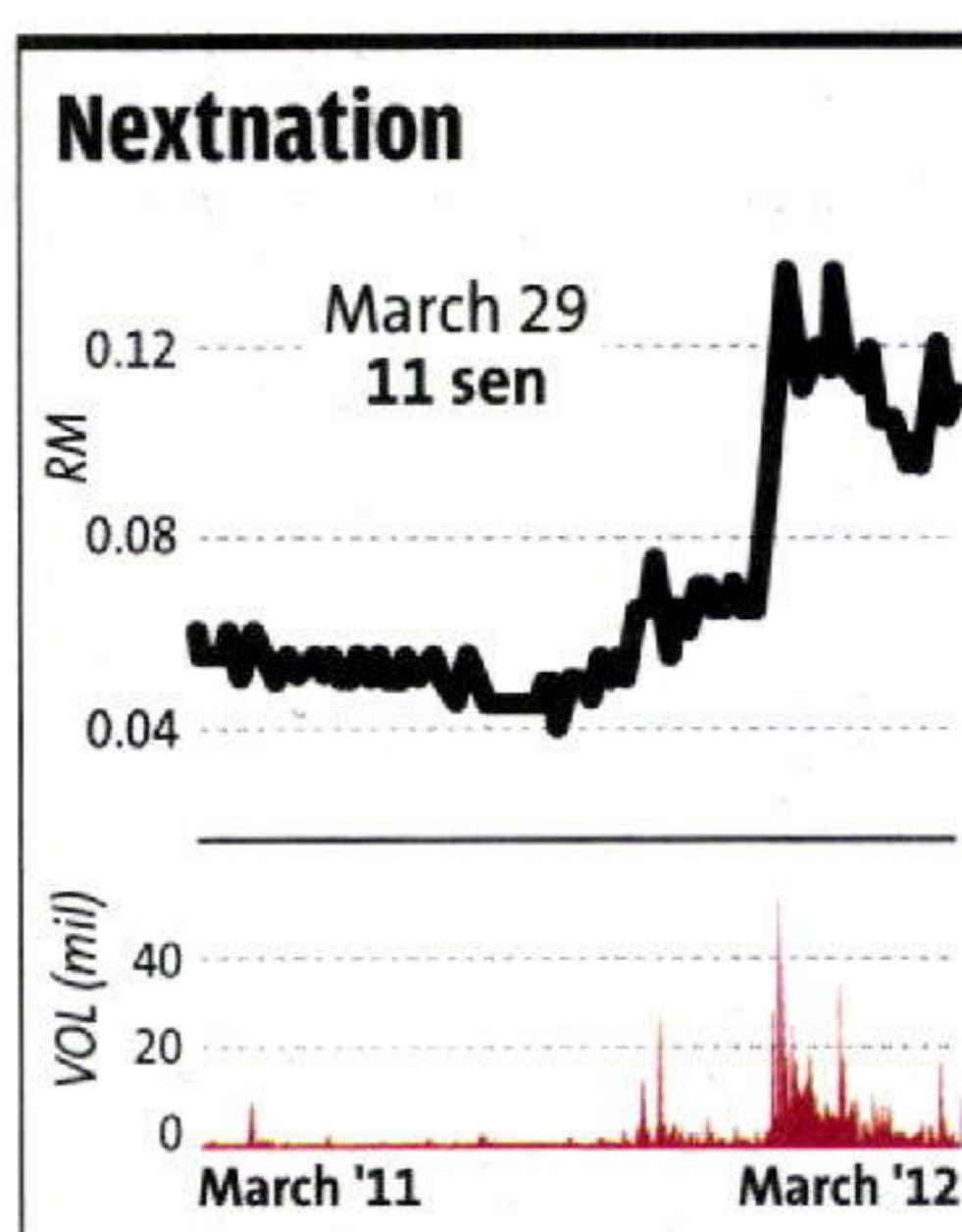
IGB is (also) rebuilding its retail mall portfolio which would provide a new stream of income and is very much in-line with its business model of developing and growing investment properties.

We continue to like IGB Corp because the group is looking at crystallising the deep value of its retail malls in Mid-Valley City – triggered by high implied capital values. The group would likely to follow up with an office and hospitality real investment trust subsequently.

NEXTNATION COMMUNICATION BHD
By TA Securities
Buy
Target price: 15 sen

Nextnation announced that it is acquiring a piece of vacant freehold enterprise lot in Cyberjaya, measuring 5.9 acres for a cash consideration of RM18.5mil.

The land is earmarked for the development of data centre,



research and development labs and incubation campus.

These facilities are for internal usage and partly for sales and / or lease. Subject to the finalisation of the project evaluation, the proposed project is estimated to yield a gross development value (GDV) of RM400mil to RM500mil.

According to management, some of its multinational company clients have shown interest in the proposed facilities.

Funding for the acquisition shall be from the proceeds of a proposed private placement, internally generated funds and/or bank borrowings.

In addition, the company is also in the midst of exploring various solutions to fund the development, including the possibility of such development being financed in phases by the off-taker/tenants.

We consider the RM72 per sq ft land cost as fair after benchmarking the RM79 per sq ft to RM90 per sq ft transacted prices in that area.

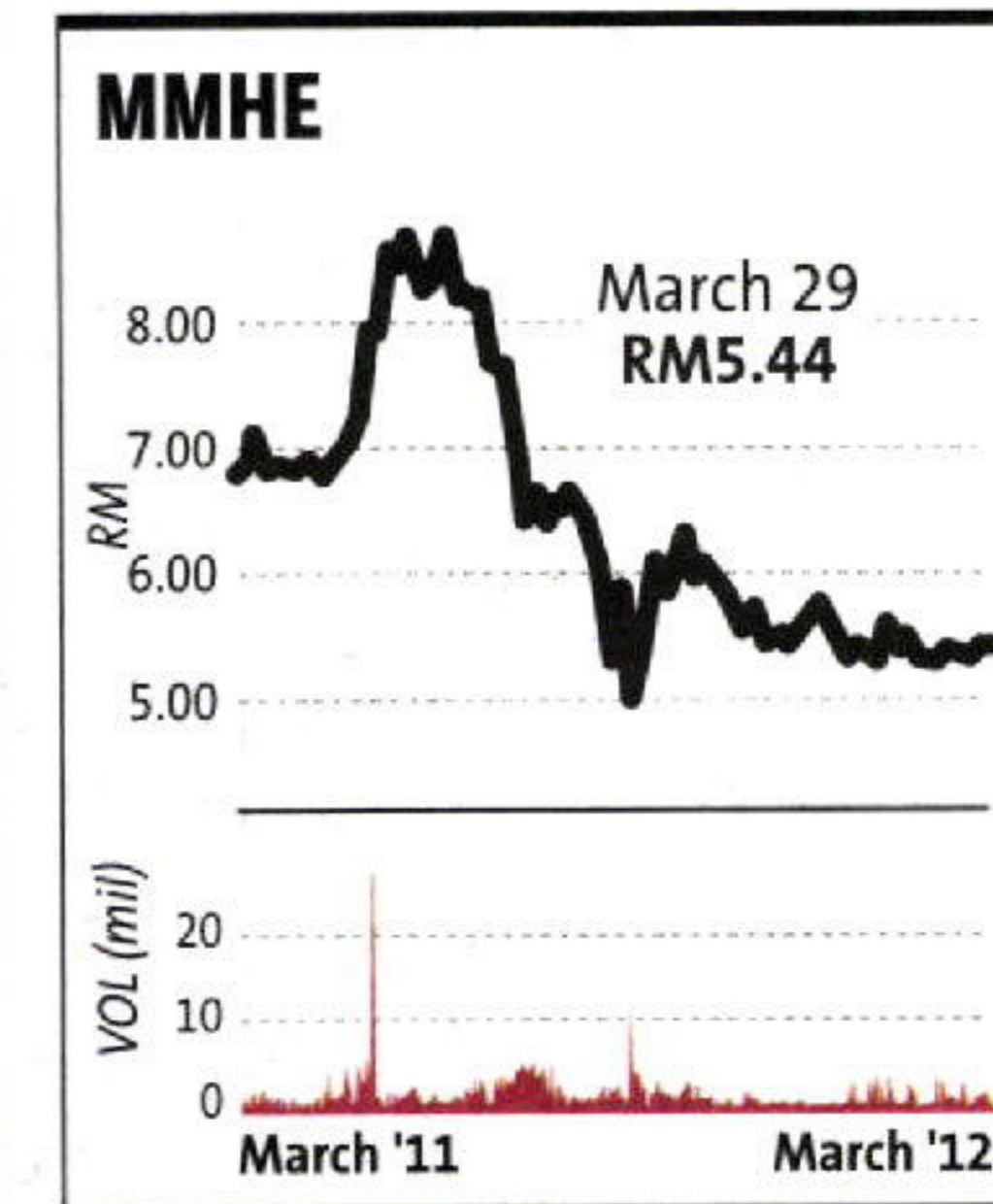
Moreover, if we compare the total land cost of

RM18.5mil against its potential GDV of RM400mil to RM500mil, the land cost would only account for 4% to 5% of total potential GDV.

Assuming the company will finance the RM14.5mil acquisition cost through borrowings (RM4mil to be funded via proposed private

placement), the group's net gearing ratio will increase to 0.36 times, which is still relatively healthy in our view.

Overall, we are "neutral" on this development as the future earnings growth is expected to offset the near-term earnings per share dilution.



MALAYSIA MARINE and HEAVY ENGINEERING HOLDINGS BHD
By HwangDBS Vickers Research
Maintain fully valued
Target price: RM4.75

We visited MMHE's fabrication yard in Pasir Gudang to witness the Gumusut-Kakap Floating Production System (FPS) Superlift.

The FPS, which boasts the second heaviest topside and sixth heaviest hull in the world, is MMHE's largest project so far.

We understand that the 6-month delay of the project's completion to end 2012 is due to technical issues.

Nevertheless, it is currently on track for completion by December before being handed over to Shell, the operator of the Gumusut-Kakap field.

The FPS will weigh more than 40,000 metric tonnes, be anchored in water depth of about 1,200 meters and estimated to be operational for 30 years.

Thanks to RM1.6bil new contracts awarded by ExxonMobil in October to November 2011, MMHE's order book swelled to RM3.1bil at end Dec 2011.

But this year, orderbook replenishment may be slower as MMHE focuses on project execution.

However, Carigali Hess Operating Company's Block A-18 gas project in the Malaysia-Thailand joint development area may award the fabrication contract for 22,000 metric tonnes of topsides and a 20,000 metric tonnes jacket and associated substructures by mid-2012, for which MMHE is one of seven bidders.

The Sime Darby yard acquisition has been delayed to the second quarter of 2012, but we have not imputed contribution from this pending more details.

We remain cautious of MMHE's future earnings, given slow orderbook replenishment as Malikai and Turkmenistan phase 2 projects may not materialise this year.

Correction

With reference to the analyst report on Time dotCom Bhd that appeared yesterday, OSK Investment Research's target price for the stock should be 87 sen and not 70 sen as reported.