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Pesona Metro Holdings Berhad

TP: RM0.64 (+23.1%)

Start Recognising Concession Earnings

Last Traded: RM0.54

BUY

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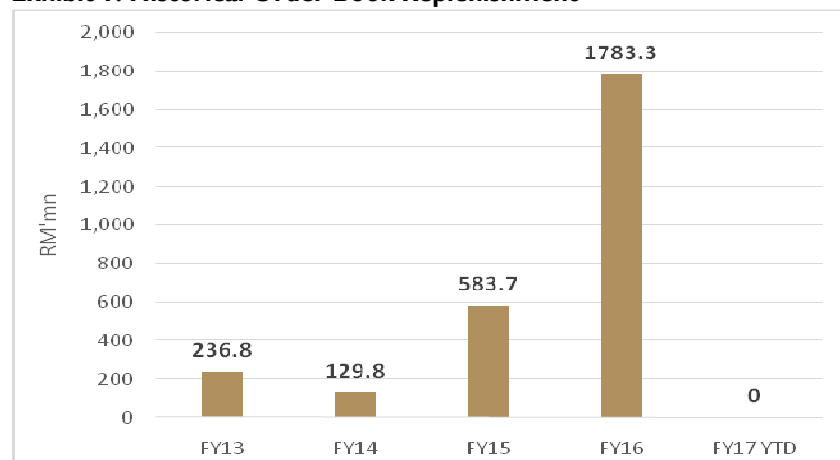
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We met with the management recently to obtain some updates, especially on the construction and concession segments. Key takeaways are as follows:

Have Yet to Secure a New Job YTD but Supported by Sizeable Order Book
YTD, Persona Metro has yet to secure any new construction job. However, we are not overly concerned as the company has sizeable outstanding order book, which overflows from an unprecedented huge job wins in 2016 (see Exhibit 1). The existing order book of RM1.8bn (see Exhibit 2) could last the company for another 2 years. As such, the company has been selective in tendering for new projects this year to sustain margins going forward.

Exhibit 1: Historical Order Book Replenishment



Source: Company announcement, TA Securities

Exhibit 2: Breakdown of Outstanding Order Book

Project	Contract Sum (RM'mn)	Outstanding Amount (RM'mn)	Expected Completion
Pantai Hospital Car Park Building, Air Keroh	26.6	0.9	Completed
Condominium (E&O)	162.6	1.4	Completed in 3Q17
Central Spine Road Package 3	147.1	40.4	2Q18
SOHO and Office Buildings, Cyberjaya (Tee International)	260.4	75.4	4Q17
KPJ, Johor	155.6	60.2	2Q17
GenKL Condominium (CapitaLand)	172.6	127.6	2Q19
Teaching Hospital at UNISZA	271.9	249.8	4Q19
West Coast Expressway (Section 6)	367.6	362.9	2Q19
Easton Residences (GSH Group)	402.0	394.4	3Q20
Central Plaza @I-city	488.0	447.1	3Q18
Outstanding order book as of end-June 17		1760.1	

Source: Company, TA Securities

Stock Return Information

KLCI	1,772.30
Expected Share Price Return (%)	6.4
Expected Dividend Return (%)	4.3
Expected Total Return (%)	10.7

Share Information

Bloomberg Code	PESONA MK
Stock Code	8311
Listing	Main Market
Issued Share (mn)	694.9
Market Cap (RMmn)	361.3
52-wk Hi/Lo (RM)	0.735/0.425
Estimated Free Float (%)	29.8
Beta (x)	0.7
3-Month Average Volume ('000)	424.3

Top 3 Shareholders (%)

Kombinasi Emas Sdn Bhd	38.21
Sincere Goldyear Sdn Bhd	16.03
Advance Harvest Sdn Bhd	3.37

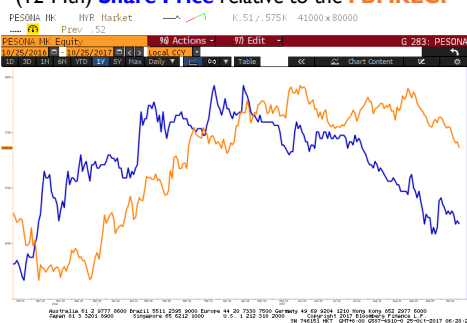
Share Performance (%)

Price Change	PESONA	FBM KLCI
1 m th	(3.7)	(1.9)
3 m th	(19.4)	(1.5)
12 m th	13.0	3.5

Financial Info

	FY17	FY18
Debt to Equity Ratio	18.1	11.5
ROA (%)	5.6	6.1
ROE (%)	18.2	22.4
NTA/Share (RM)	26.3	30.2
Price/NTA (x)	2.0	1.7

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Increased Steel Bar Price and Labour Issue Impacted 2Q17 Margin

That being said, its construction operating margin has declined from an average of 7.7% for the four immediate preceding quarters to 2.7% in 2Q17. The management attributed this to: 1) increase in steel bar price in 2Q17, 2) higher labour cost, and 3) unfavourable profit mix with higher recognition of building jobs which generally have lower margin versus infrastructure jobs. Looking forward, we expect the situation to persist in the remainder of FY17.

Start Recognising Concession Earnings

The management informed that the Certificate of Acceptance for UNIMAP Student Hostel has been received in August 2017. Following this, the acquisition of a 70% stake in SEP Resources (M) Sdn Bhd (SEP) which holds the concession, was completed in end-September 2017. Subsequently, 27.7mn consideration shares of PESONA was issued and listed on 9 October 2017. The acquisition of the remaining 30% of SEP is expected to complete by 1Q18.

PESONA has started recognising the maintenance revenue for the student hostel in 2Q17. With the partial completion of the acquisition of SEP, PESONA will start recognising availability charges starting 4Q17. This will provide stable recurring income to the company for the next 20 years.

Impact

We downgrade our FY17-19 construction earnings by 6.1% to 12.6% respectively to incorporate i) lower construction margin assumptions for various building projects from between 6% and 7% to 4.5% due to elevated steel bar price; ii) cut our FY17 order book replenishment assumption from RM500mn to RM300mn as the company has yet to secure any new contract YTD. Meanwhile, we also incorporate contribution from UNIMAP student hostel, which we forecast to contribute net profits of RM3.9mn, RM14.5mn and RM14.8mn to the group in FY17, FY18 and FY19. All in, we cut FY17 earnings estimate by 8.0% but raise FY18 and FY19 earnings forecasts by 21.1% and 23.4%.

Valuation

We adopt a new sum-of-part valuation approach to price in the new concession business. Using a DCF method with discount rate of 8%, we value the concession business at RM82.2mn. For the construction division, we attach a PE of 12x FY18 EPS, which is at peer's average, and derive a fair value of RM379.6mn. Based on enlarged share base after the issuance of share consideration, we arrive at a lower target price of RM0.64 (RM0.78 previously). Maintain **BUY** on the stock.

Exhibit 3: Sum-of-Parts Valuation

	Valuation method	Valuation (RM'mn)
Construction	12x CY18 earnings	379.6
Concession	DCF (8% discount)	82.2
		461.8
Share base		724.336
	Target Price (RM)	0.64

Earnings Summary (RMmn)

Profit & Loss (RMmn)

YE Dec 31	2015	2016	2017F	2018F	2019F
Revenue	258.8	393.0	766.1	869.2	814.1
EBITDA	24.4	40.7	68.0	102.1	94.7
Dep. & amortisation	(7.7)	(11.1)	(13.4)	(27.9)	(29.7)
Finance cost	(0.6)	(1.0)	(13.5)	(12.7)	(10.0)
PBT	16.1	28.7	41.0	61.5	55.0
Taxation	(4.4)	(8.7)	(10.7)	(15.4)	(13.2)
Net profit	11.7	20.0	30.4	46.1	41.8
GDPS (sen)	1.0	2.0	2.5	2.5	2.5
Div Yield (%)	1.9	3.8	4.8	4.8	4.8

Cash Flow (RMmn)

YE Dec 31	2015	2016	2017F	2018F	2019F
PBT	16.1	28.7	41.0	61.5	55.0
Adjustments	6.1	4.6	2.8	12.6	16.5
Changes in WC	(67.5)	(4.7)	(29.5)	(9.5)	12.2
Operational cash flow	(45.3)	28.6	14.3	64.5	83.7
Capex	(12.8)	(39.7)	(40.0)	(30.0)	(30.0)
Others	0.4	0.1	3.0	2.0	2.5
Investment cash flow	(12.4)	(39.6)	(37.0)	(28.0)	(27.5)
Debt raised/(repaid)	(1.3)	6.9	105.6	(13.4)	(45.3)
Dividend	(5.2)	(13.1)	(17.9)	(18.1)	(18.4)
Others	37.9	4.2	5.0	2.5	2.5
Financial cash flow	31.5	(2.0)	92.8	(29.0)	(61.2)
Forex effect	0.0	0.0	0.0	0.0	0.0
Desposit	(6.5)	(2.8)	(2.8)	(2.8)	(2.8)
Net cash flow	(26.2)	(13.0)	70.1	7.5	(4.9)

Balance Sheet (RMmn)

YE Dec 31	2015	2016	2017F	2018F	2019F
Fixed assets	42.5	70.8	96.1	103.1	107.9
Others	15.4	19.4	162.5	156.5	146.0
NCA	57.9	90.1	258.6	259.7	254.0
Cash	23.5	6.8	77.0	84.5	79.6
Others	202.1	251.7	396.8	432.2	387.4
CA	225.6	258.5	473.8	516.7	466.9
Total assets	283.5	348.7	732.4	776.4	720.9
ST borrowings	0.0	1.5	30.7	20.4	15.8
Other liabilities	131.9	176.9	293.9	321.2	289.6
CL	131.9	178.5	324.6	341.6	305.4
Shareholders' funds	136.4	143.5	190.2	220.7	246.7
LT borrowings	0.0	4.1	80.6	89.5	60.8
Other LT liabilities	15.3	22.6	137.1	124.6	108.1
Total capital	283.5	348.7	732.4	776.4	720.9

Ratio

YE Dec 31	2015	2016	2017F	2018F	2019F
EBITDA Margins (%)	6.3	9.4	10.4	8.9	11.7
EPS (sen)	1.8	3.1	4.3	6.4	5.7
EPS Growth (%)	11.2	70.9	39.0	49.7	(10.5)
PER (x)	29.1	17.0	12.2	8.2	9.1
GDPS (sen)	1.0	2.0	2.5	2.5	2.5
Div Yield (%)	1.9	3.8	4.8	4.8	4.8
Net cash (RMmn)	23.5	1.2	(34.3)	(25.4)	3.0
Net gearing (%)	net cash	net cash	18.1	11.5	net cash
ROE (%)	10.4	14.3	18.2	22.4	17.9
ROA (%)	4.7	6.3	5.6	6.1	5.6
NTA (sen)	20.4	21.5	26.3	30.2	33.3
P/NTA(x)	2.6	2.4	2.0	1.7	1.6

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, October 25, 2017, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

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