



Pesona Metro Holdings Berhad

An Emerging Contractor

TP: RM0.78 (+16.4%)

Last traded: RM0.675

Buy

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

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We are initiating coverage on Pesona Metro Holdings Berhad with a **BUY** recommendation. Pesona Metro is principally a construction service provider. It is supplemented by manufacturing of construction panels and polyurethane products, which are relatively small compared to its core construction business. We see Pesona Metro as an emerging contractor given its good track records and relatively small base versus other more established listed contractors. Based on a target PE multiple of 14x, we value Pesona Metro at RM0.78.

Investment Case:

- Good track records and execution capability;
- Healthy balance sheet;
- Expecting strong growth for FY17; and
- Building up recurring income portfolio.

Key Risks:

- Project execution risk;
- Escalation of prices of construction resources;
- Shortage of construction resources; and
- Delay in the acquisition of SEP Resources (M) Sdn Bhd.

Forecast:

We forecast net profit for FY17 and FY18 to jump 64.9% and 15.3% to RM33.0mn and RM38.1mn respectively, supported by the surge in job wins worth RM1.8bn in FY16. Subsequently, FY19 earnings are expected to contract by 10.9% to RM33.9mn as we assumed only RM500mn of job wins for FY17, FY18 and FY19 respectively.

Valuation

We initiate coverage on Pesona Metro with a **BUY** call and a target price of **RM0.78**/share, based on 14x CY18 EPS. This offers a potential total return of 20.1% (inclusive of 3.7% estimated dividend yield).

Earnings Summary

FYE Dec (RMmn)	2015	2016	2017F	2018F	2019F
Revenue	258.8	393.0	805.3	911.2	777.1
Gross profit	37.8	41.3	100.7	113.9	97.1
EBITDA	24.4	40.7	61.7	69.2	63.5
EBITDA margin (%)	9.4	10.4	7.7	7.6	8.2
EBIT	16.7	29.7	50.0	48.3	40.8
PBT	16.1	28.7	44.6	50.8	44.6
PAT	11.7	20.0	33.0	38.1	33.9
EPS (sen)	1.8	3.1	4.9	5.6	4.9
PER (x)	37.4	21.9	13.7	12.0	13.7
Gross dividend (sen)	1.0	2.0	2.5	2.5	2.5
Dividend yield (%)	1.5	3.0	3.7	3.7	3.7
ROE (%)	10.4	14.3	21.4	21.6	17.2

Stock Return Information

KLCI	1,771.01
Expected Share Price Return (%)	16.4
Expected Dividend Return (%)	3.7
Expected Total Return (%)	20.1

Share Information

Bloomberg Code	PESONA MK
Stock Code	8311
Listing	Main Market
Issued Share (mn)	667.1
Market Cap (RMmn)	450.3
Par Value	0.25
52-wk Hi/Lo (RM)	0.735/0.33
Estimated Free Float (%)	24.6
Beta (x)	1.03
3-Month Average Volume ('000)	1644.00

Top 3 Shareholders (%)

Kombinasi Emas Sdn Bhd	39.80
Sincere Goldyear Sdn Bhd	16.69
Advance Harvest Sdn Bhd	3.51

Share Performance (%)

Price Change	PESONA	FBM KLCI
1 mth	(2.9)	0.3
3 mth	(2.9)	4.3
12 mth	86.1	8.6

Financial Info

	FY17	FY18
Net Debt / Equity (%)	22.4	16.1
ROA (%)	6.9	6.0
ROE (%)	21.4	21.6
NTA/Share (sen)	24.0	27.0
Price/NTA (x)	2.8	2.5

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

About Pesona Metro Holdings Berhad

Pesona Metro Holdings Berhad (PMHB) was incorporated in August 2011 as a special purpose vehicle to facilitate the reverse takeover exercise and resume the listing status of Mithril Berhad. Its principal activity is construction works via its wholly-owned subsidiary Pesona Metro Sdn Bhd (PMSB), which was incorporated in 1996. From a humble beginning as a sub-contractor, it has grown into an established and reputable main contractor among the key local construction players. The group is supplemented by manufacturing of modular panels and polyurethane products (see Appendix Exhibit 9).

Pesona Metro is an award-winning construction company that specialised in i) the design-and-build of heavy civil engineering and infrastructure works that include highways, bridges, roads, drains and sub-structure works; ii) design-and-build projects as well as avant-garde residential and commercial development projects, which include green buildings; and iii) construction of public sector buildings and amenities, student hostel and laboratories for universities. To date, the company has undertaken more than RM1.5bn worth of construction projects for both the government and the private sector.

Good Track Records

Pesona Metro made a name for itself after successfully completed the remaining works of the challenging rehabilitation and beautification of Sg. Melaka Phase 1 after the previous contractor quitted in the middle of the job progress. This is not the first time Pesona Metro was roped in to be the white knight to complete the unfinished works by previous contractor. It had secured a project from Putrajaya Holdings Sdn Bhd (PHSB) for the construction and completion of the remaining and rectification works of government office building and external works for Suruhanjaya Pilihanraya in Putrajaya for a contract amount of RM87.1mn.

These are endorsements to Pesona Metro as taking over unfinished jobs and rectify and complete the jobs within a tight timeframe are usually more complex than building it from scratch. For these reasons, a more reliable, timely and resourceful contractor is often engaged.

Pesona Metro has gained reputation and recognitions in the industry. Among the notable awards it has won include:

- i)** 1st Runner-Up for The Innovative Project Management 2014 Award from the Ministry of Works Malaysia for The Central Spine Road Package 3;
- ii)** 2013 Contractor Excellence Award (Champion – Large infrastructure project exceeding RM50mn category) from JKR for the CIQ Project in Melaka;
- iii)** 2013 Silver Award of Merit from ACEM for the Sg. Melaka Rehabilitation and Beautification Project;
- iv)** 2012 Overall Champion for Best Project Management (Design and Build Category) from the Ministry of Works for the CIQ Project in Melaka;
- v)** 2011 FIABCI Award (National Contribution – Special Category Award) for the Sg. Melaka Project;
- vi)** 2010 Brandlaureate SME Chapter Award (Best Brands in Engineering and Construction);
- vii)** 2010 Golden Bull Award (Super Golden Bull 2nd Runner-up);
- viii)** 2010 & 2009 Malaysian Independence Award (Malaysia's Prominent Property Construction Company); and
- ix)** Winner of 2009 Category 8 (Special Category) Award by Pertubuhan Arkitek Malaysia for The Sg Melaka Project.

Assumed the listing status of Mithril Berhad in 2012.

Has grown from a sub-contractor to be a notable main contractor. Supplemented by manufacturing businesses

Specialised in infrastructure works, buildings works and public sector buildings and amenities

Multiple award-winning contractor

Management and Major Shareholders

The group is led by the founder of Pesona Metro Sdn Bhd, Mr. Wie Hock Beng, who has 25 years of experience in the construction industry. He has extensive experience in the construction field and has involved in various construction works which include rehabilitation and beautification of river and dam, construction of bridge and flyover, roadwork, drainage, industrial and high-rise as well as low-rise residential building projects.

Led by Mr Wie Hock Beng who has 25 years of experience in the industry

Both Sincere Goldyear Sdn Bhd and Kombinasi Emas Sdn Bhd, in which Mr. Wie Hock Beng and his brother, Mr. Wie Hock Kiong have substantial stakes, collectively own 57.6% stake in Pesona Metro.

Controlling shareholders hold 57.6% of the group

While Mr. Wie Hock Kiong is a non-executive director in Pesona Metro, we believe that his vast experience in the construction industry, and being the key person instrumental in growing Putrajaya Perdana Berhad, from an infant company into a sizeable construction and property developer conglomerate, would be valuable to the group.

Sound Balance Sheet

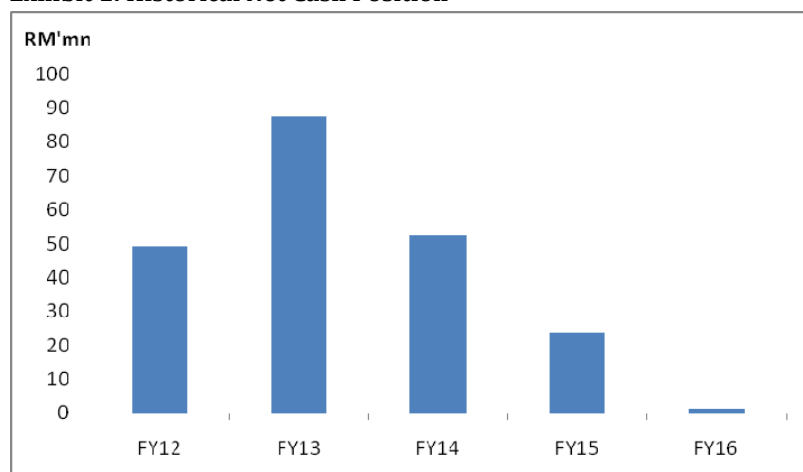
Until end-December 2016, Pesona Metro had been in net cash position since the completion of RTO exercise in FY12, albeit on a declining trend since FY14 (see Exhibit 1). The decrease in net cash amount as of end-FY14 and FY15 was due to increased working capital requirements and investment in property, plant and equipment (PPE). The net cash position continued to drop in FY16 as the company increased its investment in PPE from RM13.2mn in FY15 (RM12.8mn in FY14) to RM39.7mn in FY16 to cater for the substantial job wins of RM1.8bn in FY16 (RM129.8mn to RM583.7mn between FY13 and FY15).

Turned into a slight net debt position as of end March 17 from a net cash position

Given the high working capital and investment in PPE that are required to cope with the surge in volume of work in FY17, we forecast the company to fall into a net debt position in FY17. However, we are not overly concerned as the gearing or increase in capex is supportive of future earnings growth. Furthermore, with the investment in PPE, the company will be more equipped and ready to take on more jobs in the future.

Forecast the group to be in net debt position in FY17 due to higher working capital requirements and capex during growth phase

Exhibit 1: Historical Net Cash Position

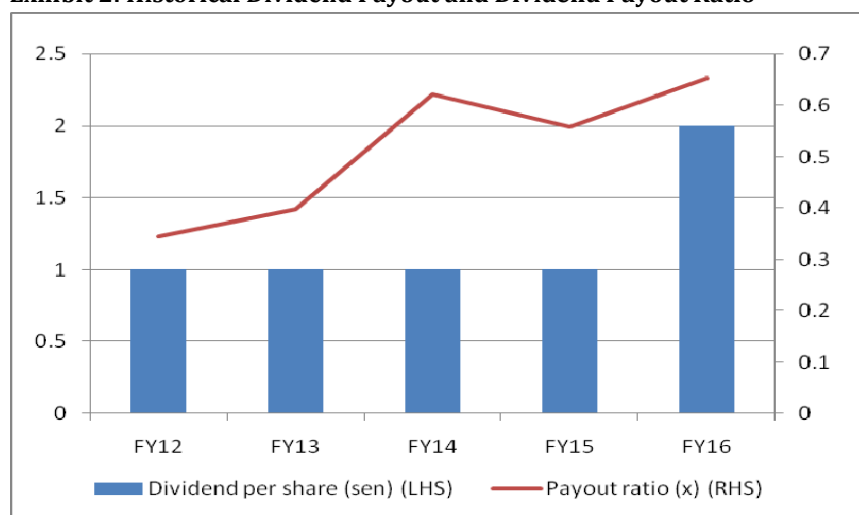


Source: Company, TA Research

The company does not have an official dividend policy at the moment but the company has been paying out between 34.4% and 65.4% of its earnings per share (EPS) as dividend (see Exhibit 2). We expect this to be maintained and forecast dividend payout ratio of between 44.3% and 50.4% for FY17, FY18 and FY19. This translates into a dividend yield of 3.7% based on the last closing price of RM0.675.

No official dividend policy but historically has been paying between 34.4% and 65.4% of net profit as dividend

Exhibit 2: Historical Dividend Payout and Dividend Payout Ratio



Source: Company, TA Research

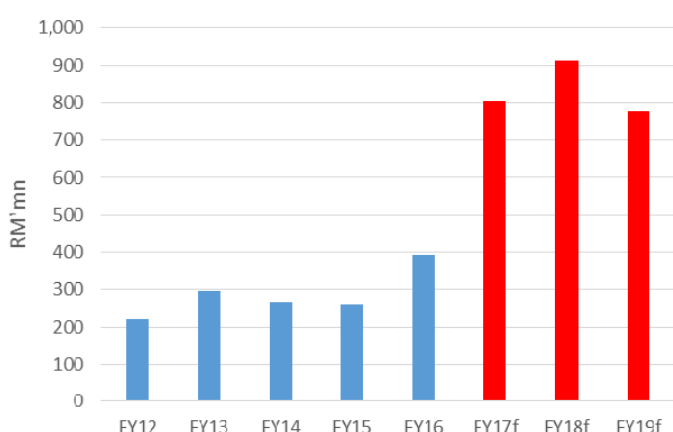
Strong Growth in FY17 Boosted by Huge Contract Wins in 2016

Post-acquisition of Mithril Berhad through a reverse takeover in 2012, Pesona’s revenue was range-bound within a band of RM200mn to RM300mn a year (see Exhibit 3) between 2012 and 2015. The revenue jumped 51.9% to RM393.0mn in 2016 on account for acceleration in construction activities derived from sizeable new job wins amounting to RM583.7mn secured in 2015 (see Exhibit 4).

However, the best is yet to come. 2016 was an extraordinary year for Pesona Metro as it managed to clinch huge amount of new jobs amounting to RM1,783.3mn. This boosted the outstanding order book from RM1.2bn as of end-2015 to RM1.9bn, translating into 5.0x FY16 construction revenue. The jobs in hand could provide earnings visibility to the group up to end-2019. Backed by the strong outstanding order book, we forecast FY17 revenue to surge 104.9% to RM805.3mn and to peak in FY18 at RM911.2mn. This is premised on the assumptions that Pesona Metro replenishes RM500mn of new construction jobs a year in FY17, FY18 and FY19.

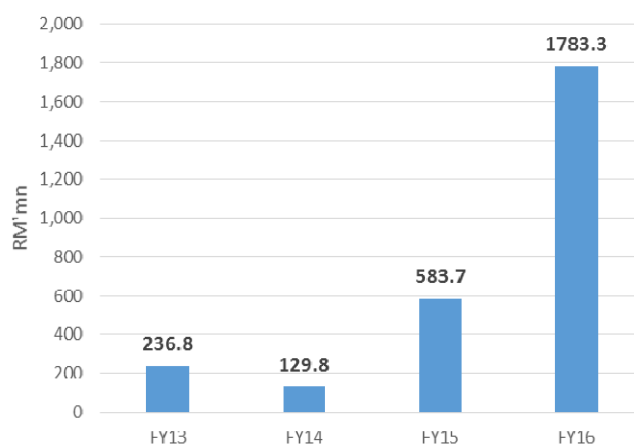
Sizeable job wins in FY16 could provide earnings visibility to the group till 2019

Exhibit 3: Historical and Projected Revenue



Source: Company, TA Research

Exhibit 4: Historical Order Book Replenishment



Financial Performance

Between FY12 and FY15, the annual revenue was quite consistent and ranged between RM220.8mn and RM296.9mn. The PBT margin and net margin were relative flat, fluctuating tightly between 5.4% and 7.8% and 3.9% and 5.3% respectively. FY14 was an exception as margins were affected by higher staff cost and depreciation charges.

The revenue surged 51.9% to RM393.0mn in FY16 as construction activities recovered substantially after securing significantly higher new jobs in FY15 (see Exhibit 4). Going forward, we expect very strong years for FY17 and FY18 as the group focusing on executing RM1.8bn of new jobs secured in FY16. We forecast financial performance to drop in FY19 as we assumed only RM500mn of order book replenishment for FY17, FY18 and FY19 respectively.

Earnings jumped in FY15 due to jump in new contracts secured in FY15. Expect strong FY17 and FY18 due to exceptional contract wins in FY16

Exhibit 5: Net Profit, PBT Margin and Net Margin

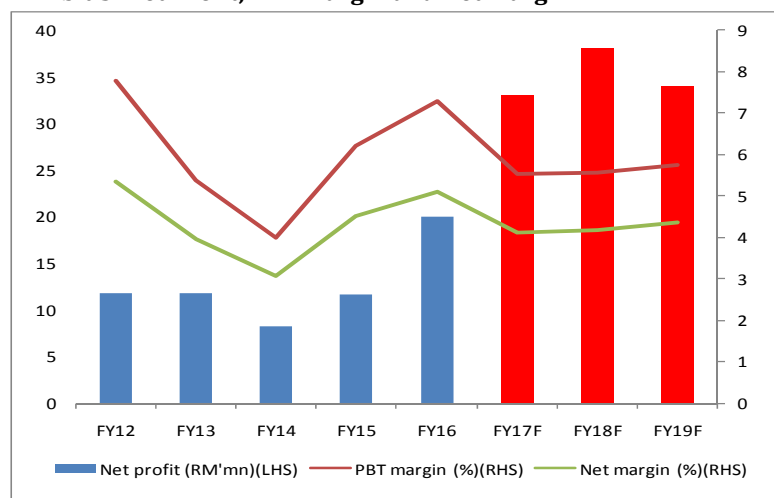


Exhibit 6: Outstanding Order Book as of 31 Mar 2017

Project	Contract Sum (RM' mn)	Outstanding Amount (RM' mn)	Expected Completion
Government Building Complex in Johor	147.0	4.9	Completed
Student Hostels for UNIMAP	123.7	7.0	Completed
Pantai Hospital Car Park Building, Air Keroh	26.7	6.3	Completed
Condominium (E&O)	160.9	64.1	Jun 2017
Central Spine Road Package 3	154.4	96.4	Mar 2018
SOHO and Office Buildings, Cyberjaya (Tee International)	260.6	154.2	Sep 2017
KPJ, Johor	148.2	104.4	Mac 2017
GenKL Condominium (CapitaLand)	181.3	145.8	May 2019
Teaching Hospital at UNISZA	271.9	257.6	Sep 2019
West Coast Expressway (Section 6)	371.4	369.8	Mar 2019
Easton Residences (GSH Group)	402.0	399.7	Jun 2020
Central Plaza @I-city	488.0	484.0	Jun 2018
Outstanding order book as of end-Dec 16		2094.2	
Revenue recognised in 1Q17		-160.0	
Outstanding order book as of end-Mar 17	TOTAL	1934.2	

Source: Company, TA Research

Of the RM1.9bn outstanding order book (see Exhibit 6), approximately 3 quarters of it are related to building works, which we estimate carrying a mid-single digit PBT margin. Meanwhile, we expect the remaining order book which is related to civil engineering, to generate better margin, which we forecast in a range of high single digit and low teen.

Contributions from Manufacturing Businesses are Insignificant

While Pesona has two manufacturing divisions. The contributions from these two manufacturing arms are relatively insignificant. The total external revenue from the manufacturing divisions accounted for merely 0.9% and 1.0% of the group's overall revenue in FY15 and FY16 respectively.

Pesona Saferay Sdn Bhd (PSSB, previously known as Mithril Saferay Sdn Bhd), inherited from its predecessor, Mithril Berhad, produces wide range of polyurethane architectural mouldings (cornices, chair rails, ceiling roses, skirting, etc.) and decorative ornaments, under the brand name of "Gaudi Décor" (see Appendix Exhibit 10). These products are mainly exported to overseas markets that include North and Central America, Middle East, Russia, Eastern Europe, Singapore, Japan and Korea. In FY15, the sales to East Europe was affected by Ukrainian crisis and the drop in Russian Ruble. To mitigate this, Pesona Metro focuses on building up its clientele base in different target markets, which include Thailand, Japan and the Middle East.

PM2 Building System Sdn Bhd is another manufacturing division within Pesona Metro group. It is involved in the manufacturing of modular panels under industrialised building system (IBS) (see Appendix Exhibits 11 & 12). The PM2 panel is a green product using 100% recyclable raw material of expanded polystyrene. Its lightweight characteristic allows lower foundation cost by approximately 20% to 30%. The construction of walls, staircases and roof involves the installation of the precast panels followed by spray of shotcrete. At the moment, the plant operates on project basis. The panels were used in its projects such as Menara Technip and hostel project at UNIMAP.

All in all, we expect the contributions from the manufacturing businesses to remain relatively small in foreseeable future.

Building Up Recurring Income

As the construction business is cyclical in nature, the group is building up a portfolio of businesses that generate recurring incomes to mitigate the fluctuation in earnings.

Concession for Student Hostel for Universiti Malaysia Perlis (UNIMAP)

On 29 August 2014, Pesona Metro had entered into a conditional share sale agreement to acquire the entire stake of SEP Resources (M) Sdn Bhd (SEP) at RM29.2mn. SEP has been granted a call option to purchase the entire stake in a special purpose vehicle, Budaya Positif Sdn Bhd, the concessionaire for the design, development and maintenance of student's residential building blocks for UNIMAP in Perlis, for a concession period of 22.5 years (construction period 2.5 years, followed by maintenance of the project for a period of 20 years) from the date of commencement of construction project. SEP is entitled for availability charges (sub-lease rentals) and asset management services charges from UNIMAP.

Manufacturing businesses relatively small compared with core construction business

Concession for student hostel for UNIMAP lasts 22.5 years, entitled for availability charges and asset management services charges.

Exhibit 7: Student Hostel at UNIMAP

Source: Company

The purchase consideration shall be satisfied by RM1.5mn cash consideration and issuance of PESONA shares in two tranches (70% of consideration shares in the first tranche and the remaining 30% in the second tranche), at 70sen/share for the balance purchase consideration. To acquire the second tranche of 30% stake in SEP, the 30% Bumiputera requirement, it requires a waiver from UKAS.

The construction cost was estimated at RM129.8mn of which RM110mn was financed by loan facilities. It was reported by the media that the remaining RM20mn was owed to PESONA, which carried out the construction works, and will be converted into equity in Budaya Positif.

We understand that the certificate of completion and compliance (CCC) had been issued in August 2016 and the hostel is currently up and running. Subsequently, Budaya Positif has submitted the application for certificate of acceptance (COA) to UNIMAP. The COA would be issued after a joint inspection has been carried out to verify all the construction works defects for the student hostel have been rectified. Upon the issuance of COA, Budaya Positif shall be entitled to the availability charges and asset management services charges. We expect the certificate of acceptance and acquisition of first tranche of SEP shares to be completed in 2Q17, and the acquisition of the second tranche of SEP shares to be completed by 2H17.

Certificate of Acceptance and acquisition of SEP shares are pending

We estimate the entire stake in SEP to generate an annual net profit of RM10mn. It is expected to generate a total net cash flow of approximately RM200mn throughout the concession period, which is equivalent to present value of RM82.2mn, based on a discount rate of 8%. Pending the completion of the acquisition, we have not factored in the earnings contribution from this concessionaire into our earnings model.

Eyeing Expressway Concession

Pesona Metro's indirect 30% associate, Saluran Arena Sdn Bhd had submitted a proposal to the government for an expressway concession. It is believed the proposal was for Serdang-Kinrara-Putrajaya Expressway (SKIP). The 17.5km expressway will improve the connectivity between Serdang, Kinrara, Putrajaya, Cyberjaya, KLIA and Puchong areas. It was reported by the media that the RM2.1bn highway carries a concession period of 55 years.

Eyeing SKIP Expressway

Exhibit 8: Proposed Alignment of SKIP Expressway



Source: Internet

If the concession project materialises, it will be a re-rating catalyst for the stock as Pesona Metro may secure some construction works for the expressway, and after the completion of the expressway construction, it stands to benefit from the recurring toll collections.

Outlook

The local construction sector is vibrant with some listed construction companies having enough on their plates and their outstanding construction order book stand near all-time high. This is a result of the rollout of mega infrastructure projects by the government, especially the rail-related construction projects, and several tolled expressway being constructed. In the foreseeable future, we expect the construction activities to continue to grow, boosted by big ticket projects that are being implemented. These include MRT line 2, LRT line 3, Southern Double Track, East Coast Rail Line as well as KL-Singapore High Speed Rail. This is further boosted by various catalytic developments such as TRX, Bukit Bintang City Centre, Bandar Malaysia and Kwasa Damansara.

While Pesona Metro has yet to involve in any rail-related projects, we expect Pesona Metro to benefit from the buoyant industry outlook as we think the pie is big enough for most of the contractors in the market. Given high-rise building construction is Pesona Metro's forte, the group may benefit from the implementation of above catalytic developments. Furthermore, Pesona Metro is backed by strong outstanding order book of RM1.9bn, which translates into 5.0x FY16 construction revenue.

In a nutshell, we see Pesona Metro as a strong contender for infrastructure works such as in the Central Spine Road, and SKIP Expressway if the concession

Outlooks for both the local construction industry and Pesona Metro are positive, supported implementation of various mega projects and catalytic developments

if approved. Also, its forte in building construction as well as public building and amenities construction. In view of the concerted efforts by the government to provide the people with affordable housing, we understand from the management that Pesona Metro is exploring opportunity in affordable housing projects too.

Key Risks

Risks to our recommendation include:

i) Project execution risk

Project execution risk is an uncertain event which if happens, will affect the timely completion of a project and/or causing overrun in project cost. This includes unexpected soil condition, improper/ insufficient implementation of safety and health management plans that lead to occurrence of untoward incidents, lack of technical know-how in a specialised project, inadequate public safety controls, negligence, lack of quality control etc.. This may incur additional cost to rectify the site issues. And if this leads to delay in completion of project beyond contractual deadline, late ascertained damages could be imposed.

ii) Escalation in prices of construction resources

Escalation in prices of construction materials, direct or indirect cost associated with workers, selling price or rental rate of construction plant and machinery may negatively impact the bottom line of a project. Unexpected and unfavourable changes in government policies such as foreign worker levy, minimum wage policy, safeguard duties on certain construction materials and import duties on imported plant and machinery could be detrimental to the profitability of a project;

iii) Shortages of construction resources

Shortages of construction resources such as construction materials, construction management staff, workers and plant and machinery may cause delay in project completion. When resources are scarce, contractors may have to pay higher-than-budgeted cost to secure the resources to complete the project. Severe shortage of resources may cause delay in completion of project and subject the contractor to late ascertained damages.

iv) Delay in the acquisition of SEP Resources (M) Sdn Bhd

There is a delay in the acquisition of SEP Resources which holds the concession for student hostel at UNIMAP. Even though we have yet to factor in the earnings contribution from SEP Resources, we have priced in a premium in our target PE multiple in view of the potential of long-term recurring income from concession.

Valuation

We initiate coverage on Pesona Metro with a **BUY** call and a target price of **RM0.78**/share, based on 14x CY18 EPS. This offers a potential total return of 20.1%. The target PE multiple for the group is on par with the target PE multiple we assign for WCT and Gadang's construction division. We think this is justifiable on the back of i) scalability given its relatively small base. This is supported by sizeable outstanding order book of RM1.9bn, which translates into 5.0x FY16 construction revenue; ii) strong track records and execution capability; iii) healthy balance sheet; iv) potential recurring income from concession for students hotels for UNIMAP, which we have not factored into our earnings model, pending completion of the share transaction; v) a potential strong re-rating catalyst, if the SKIP expressway is given the greenlight.

In our earnings model, we have assumed construction order replenishment of RM500mn a year for FY17, FY18 and FY19 respectively. This is slightly conservative than the 4-year average order book replenishment of RM683.4mn a year.

Peer Comparison

Company	Price	TP	Recomm.	Earnings growth (%)		PER (x)		ROE (%)		Div Yield (%)	
				CY17	CY18	CY17	CY18	FY17	FY18	FY17	FY18
GAMUDA	5.36	5.49	Sell	19.1	9.3	15.5	14.9	10.7	11.3	2.2	2.2
IJM	3.49	3.27	Sell	24.2	1.2	17.5	17.3	6.6	7.9	2.7	2.7
WCT	2.14	1.49	Sell	57.8	(1.2)	16.9	17.3	5.7	5.4	1.4	1.4
SUNCON	2.07	1.90	Hold	24.7	(0.8)	16.4	16.6	29.0	24.7	2.7	2.7
GADANG	1.29	1.62	Buy	(4.3)	8.6	9.2	8.4	16.7	13.4	2.2	2.2
PESONA	0.67	0.84	Buy	64.9	15.3	13.5	11.9	21.6	21.8	3.7	3.7
SENDAI	0.96	0.68	Under Review	na	9.7	9.3	8.4	8.8	9.0	1.0	1.0
BPURI	0.43	0.49	Hold	15.0	0.5	7.0	7.0	6.5	6.1	0.0	2.3
Simple average				28.8	5.3	13.2	12.7	13.2	12.5	2.0	2.3
Market cap weighted				23.6	4.6	16.1	15.8	10.4	10.7	2.4	2.4
Big cap - Gamuda, IJM, WCT, SUNCON				25.3	4.2	16.5	16.2	10.1	10.5	2.4	2.4

Financial Statements

Profit & Loss (RMmn)

YE Dec 31	2015	2016	2017F	2018F	2019F
Revenue	258.8	393.0	805.3	911.2	777.1
EBITDA	24.4	40.7	61.7	69.2	63.5
Dep. & amortisation	(7.7)	(11.1)	(11.7)	(20.9)	(22.7)
Finance cost	(0.6)	(1.0)	(6.9)	(6.8)	(4.8)
PBT	16.1	28.7	44.6	50.8	44.6
Taxation	(4.4)	(8.7)	(11.6)	(12.7)	(10.7)
Net profit	11.7	20.0	33.0	38.1	33.9
GDPS (sen)	1.0	2.0	2.5	2.5	2.5
Div Yield (%)	1.5	3.0	3.7	3.7	3.7

Cash Flow (RMmn)

YE Dec 31	2015	2016	2017F	2018F	2019F
PBT	16.1	28.7	44.6	50.8	44.6
Adjustments	6.1	4.6	0.1	8.3	12.0
Changes in WC	(67.5)	(4.7)	(34.0)	(9.8)	21.2
Operational cash flow	(45.3)	28.6	10.8	49.2	77.8
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	(1.4)	(33.3)
Dividend	(5.2)	(13.1)	(16.9)	(17.1)	(17.4)
Others	37.9	4.2	5.0	2.5	2.5
Financial cash flow	31.5	(2.0)	93.8	(16.0)	(48.2)
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)	67.5	5.2	2.2
Beginning cash	43.2	17.0	4.1	71.6	76.8
Ending cash	17.0	4.1	71.6	76.8	78.9

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	25.1	26.1	22.6
NCA	57.9	90.1	121.2	129.3	130.6
Cash	23.5	6.8	74.4	79.6	81.7
Others	202.1	251.7	412.5	449.0	372.6
CA	225.6	258.5	486.9	528.6	454.3
Total assets	283.5	348.7	608.1	657.8	584.9
ST borrowings	0.0	1.5	30.7	20.4	15.8
Other liabilities	131.9	176.9	305.1	333.2	279.0
CL	131.9	178.5	335.8	353.6	294.8
Shareholders' funds	136.4	143.5	164.7	188.1	207.2
LT borrowings	0.0	4.1	80.6	89.5	60.8
Other LT liabilities	15.3	22.6	27.1	26.6	22.1
Total capital	283.5	348.7	608.1	657.8	584.9

Ratio

YE Dec 31	2015	2016	2017F	2018F	2019F
EBITDA Margins (%)	6.3	9.4	10.4	7.7	7.6
EPS (sen)	1.8	3.1	4.9	5.6	4.9
EPS Growth (%)	11.2	70.9	60.0	13.6	(12.2)
PER (x)	37.4	21.9	13.7	12.0	13.7
GDPS (sen)	1.0	2.0	2.5	2.5	2.5
Div Yield (%)	1.5	3.0	3.7	3.7	3.7
Net cash (RMmn)	23.5	1.2	(36.9)	(30.3)	5.1
Net gearing (%)	net cash	net cash	22.4	16.1	net cash
ROE (%)	10.4	14.3	21.4	21.6	17.2
ROA (%)	4.7	6.3	6.9	6.0	5.5
NTA (sen)	20.4	21.5	24.0	27.0	29.4
P/NTA(x)	3.3	3.1	2.8	2.5	2.3

APPENDIX

Exhibit 9: Corporate Structure

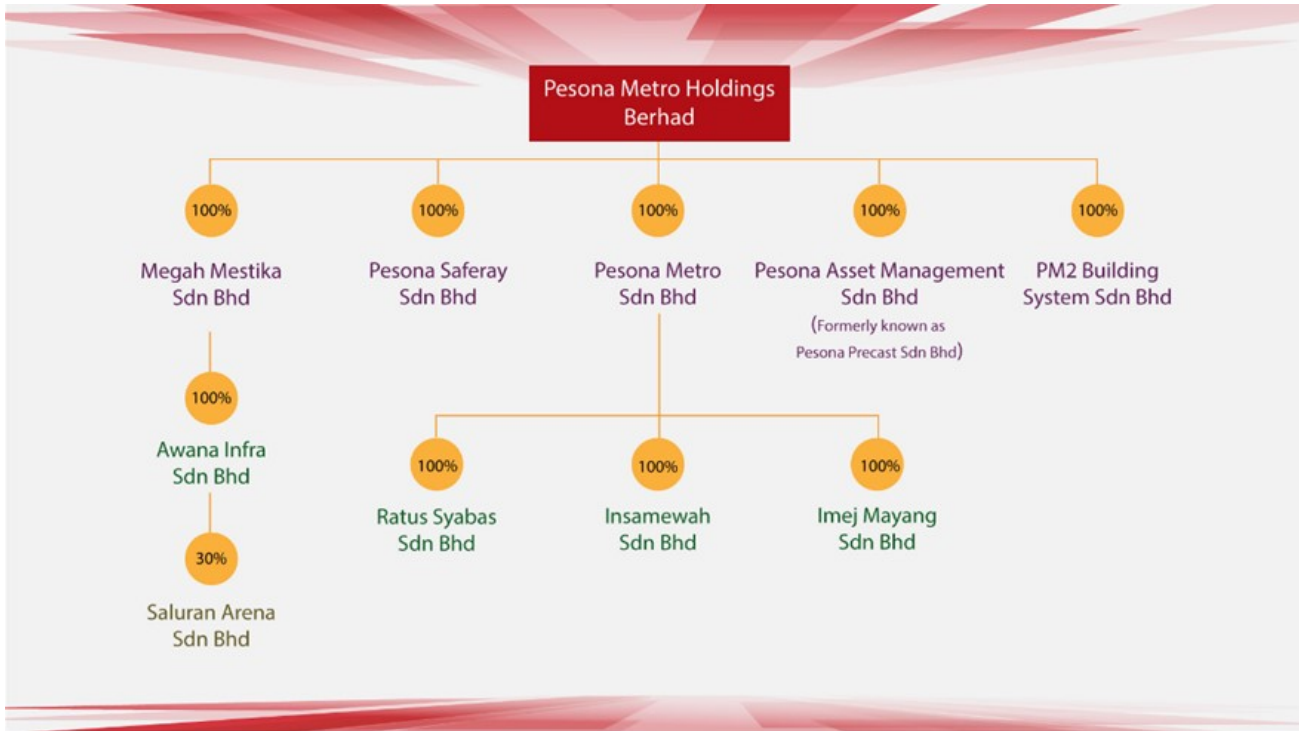
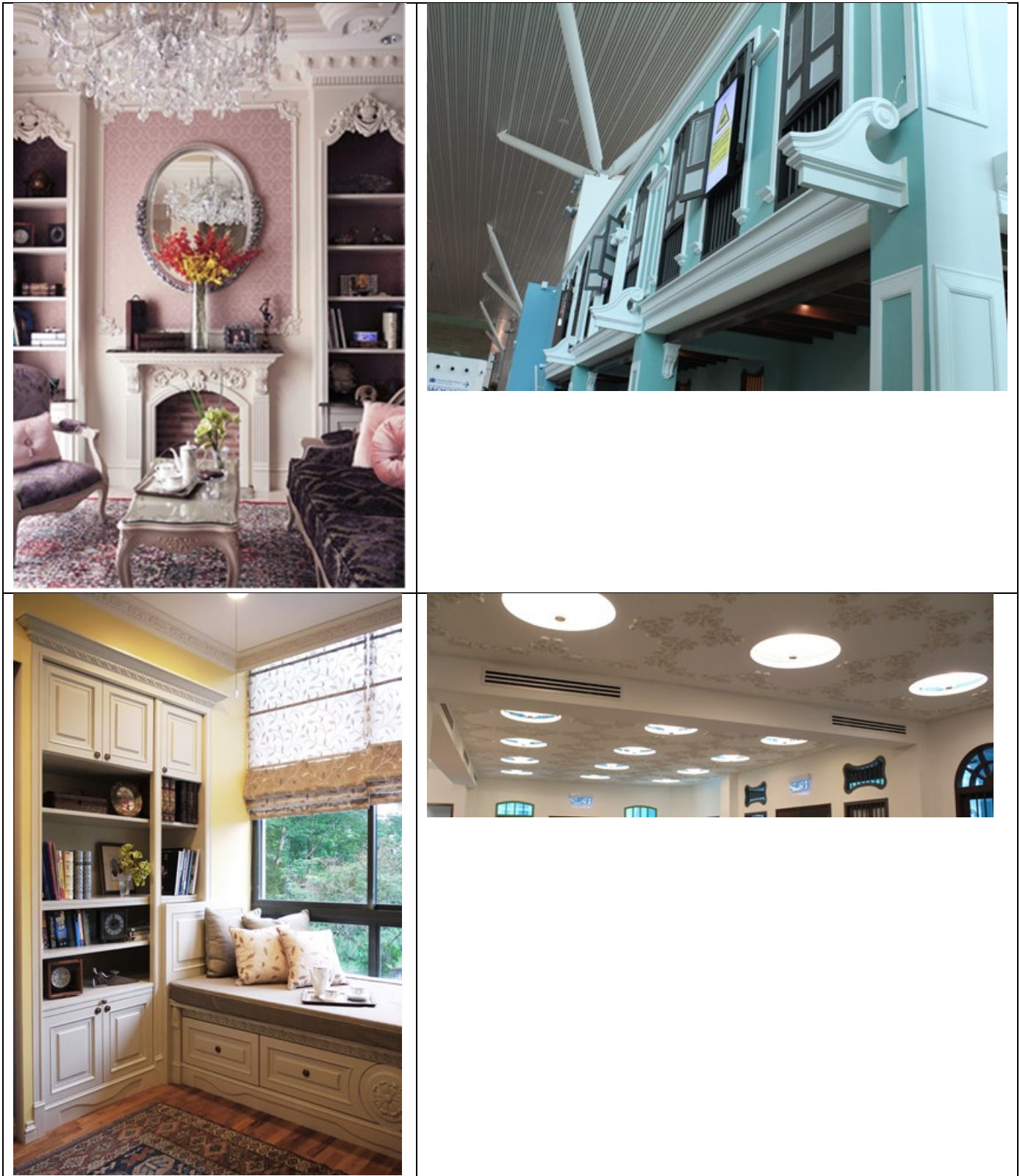


Exhibit 10: Polyurethane Products by PSSB



Source: Company website

Exhibit 11: Usage of PM2 Panel

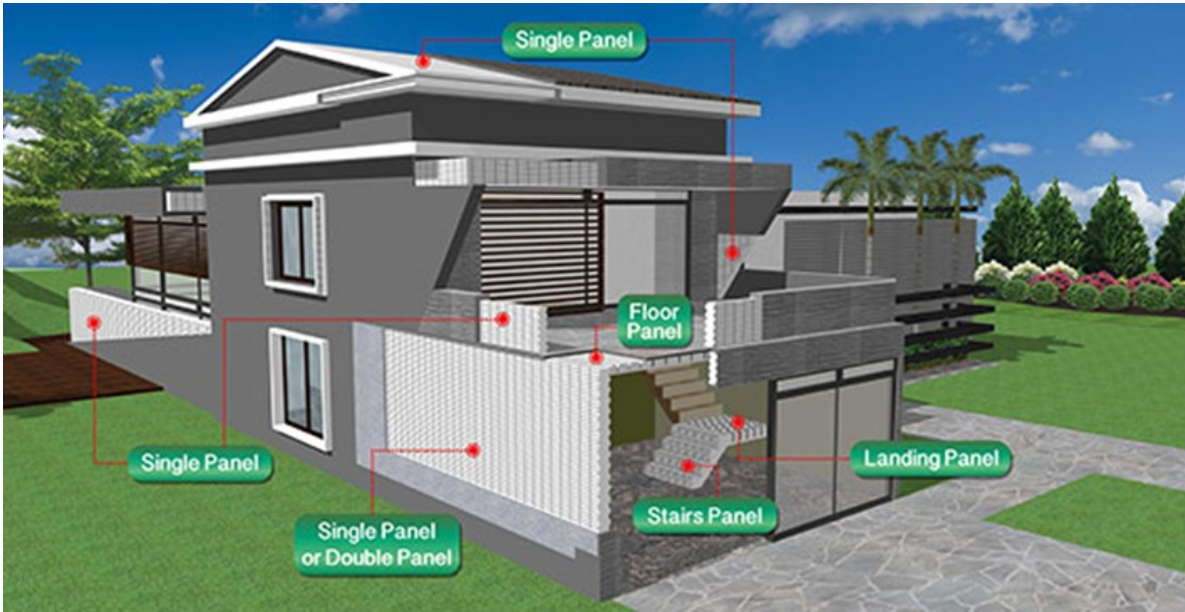


Exhibit 12: Various PM2 Panels



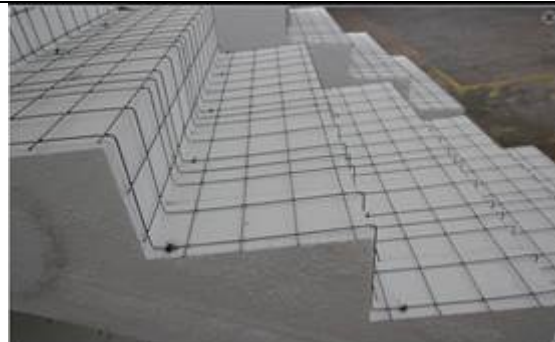
Single Panel



Double Panel



Floor Panel



Stairs Panel

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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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