

Ekovest -----NOT COVERED
High growth, high yield and potential beneficiary of China FDIs

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- Ekovest is principally involved in construction, property development and toll road operations. It has a sizable orderbook of RM5.5 bn. Management aims to clinch another RM1.2 bn in new jobs by end 2016.
- Ekovest's major shareholder is Tan Sri Lim Kang Hoo (owns 39% of the group), who also controls Iskandar Waterfront City Bhd and has teamed up with China Railway Engineering Corp for the development of the RM160bn Bandar Malaysia.
- It recently sold a 40% stake in DUKE Highway to the EPF for RM1.13 bn, valuing the concession at RM2.8 bn (= RM3.30 per Ekovest sh). The sale is expected to generate a RM764 mn gain and propel its book value/sh to RM2.43 (from RM1.54).
- Ekovest trades on consensus FY17 and FY 18 P/E of 24.6x and 13.0x, respectively, and market cap-to-orderbook of 0.4x. The group has announced that it plans to declare a special dividend of RM244.4 mn or RM0.29/share following completion of its sale of 40% of DUKE to EPF, translating into a dividend yield of 12%.

construction jobs could range up to 15-20%. According to management, the group is also in talks with the government on another infrastructure concession with a RM3.5-4 bn estimated project cost. Per management, other potential order book enhancement opportunities include: (1) additional beautification work for the River of Life that could amount to RM1 bn; and (2) job opportunities in Bandar Malaysia. Management aims to clinch another RM1.2 bn in new jobs by end-2016.

DUKE Highway concession value of RM2.8 bn or RM3.30/sh

Ekovest is the concession holder and main contractor of the DUKE Highway (DUKE 1, 2 & 3), which collectively costs RM6.25 bn. It recently entered into a conditional share sale agreement with the EPF for disposal of a 40% stake in DUKE 1 and 2 for RM1.13 bn. This values the concession (DUKE 1 & 2 only) at RM2.8 bn (= RM3.30/sh) versus Ekovest's market cap of RM2.1 bn and well above the RM228 mn it paid for the 30% it did not already own back in June 2014. The deal is expected to achieve financial close by early 2017. The sale is expected to generate a RM764 mn gain and propel its book value/sh to RM2.43 (from RM1.54). While DUKE 1 is already operational, and DUKE 2 is expected to be fully operational by 1H17, construction work recently begun (Sep-16) on DUKE 3 with a construction period of 3.5 years. Going forward, Ekovest has plans to list its toll operations in 2018 with the aim of raising >US\$500 mn.

Large landbank in KL/Klang Valley with high unbilled sales

Ekovest has a total of 76 acres of landbank located in KL/Klang Valley (39 acres), Danga Bay (25 acres) and Kuantan (12 acres). Current development plans for its Klang Valley landbank carry a GDV of RM7.78 bn over a development period of seven years. A key project that management believes will be a major driver of future property earnings is the KL River City, which stretches 3km along the Gombak River in KL and forms part of the River of Life project. KL River City is a mixed development with offices, hotels, retail shops, as well as residential units and has easy access to its DUKE 1 and 2 highways. Ekovest has unbilled sales of RM641 mn, which translates into 12.7x FY16 property revenue. Property development contributed 6% to Ekovest's revenue in FY16.

Earnings visibility insight with potential for deleveraging

Ekovest's core net profit jumped 129% YoY to RM42.4 mn in FY16, driven mainly by a 90% YoY surge in its construction operating profit (mainly driven by profit contribution from DUKE 2). Management expects construction work on DUKE 2-3 and increased toll collection to drive earnings growth. Ekovest trades on consensus FY17 and FY 18 P/E of 24.6x and 13.0x, respectively. The group has announced that it plans to declare a special dividend of RM244.4 mn or RM0.29/share following completion of its sale of 40% of DUKE to EPF, translating into a dividend yield of 12%. The sale is expected to generate a RM764 mn gain and propel Ekovest's book value/sh to RM2.43 (from RM1.54 as at end FYE Jun-16). Management expects the net proceeds from the sale of the DUKE stake to EPF amounting to RM886 mn (after paying dividends) should help to reduce the group's net debt (RM1.6 bn or 1.2x net gearing as at the end of FYE Jun-16).

Figure 1: Financial summary

(EKO MK/ EKO.V.KL)

YE June	FY15A	FY16A	FY17E	FY18E
Company name	Ekovest Berhad			
Current price (RM)	2.46			
Mkt cap (US\$ mn)	486.01			
3M ADV (US\$ mn)	1.47			
Revenue (RM mn)	438	794	1,227	1,866
EBITDA (RM mn)	123	286	290	427
PAT (RM mn)	19	42	87	161
EBITDA margin (%)	28%	36%	24%	23%
Net margin (%)	4%	5%	7%	9%
EPS (RM)	0.02	0.05	0.10	0.19
P/E (x)	113.7	49.6	24.6	13.0
P/B (x)	1.8	1.6		
ROE (%)	1.6%	3.4%		
Net debt (cash)/equity (x)	0.80	1.20		

Source: Company data, Bloomberg

Brief background

Ekovest was listed in 1993 and started operations as a contractor in 1987. Today, the group is principally involved in construction, property development and toll road businesses. The major shareholder of Ekovest is Tan Sri Lim Kang Hoo and family, who collectively own some 39% of the group. Apart from Ekovest, Lim is also a major shareholder of listed property developer Iskandar Waterfront City Bhd (IWB, owns 43%) and also teamed up with CREC (China Railway Engineering Corp.) as well as 1MDB to develop the RM160 bn + Bandar Malaysia.

Large construction order book, strong order flow pipeline

Ekovest has a sizeable construction orderbook backlog of RM5.5 bn. Construction work on its DUKE toll roads Phase 2-3 amount to RM4.26 bn and forms the biggest portion of Ekovest's construction order book. Building construction work for its property project and river beautification work for the River of Life project account for the rest of its orderbook. We understand that the gross profit margins for its

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Companies Mentioned (Price as of 15-Nov-2016)

Ekovest (EKOV.KL, RM2.46)
IWCity (IWCI.KL, RM0.86)

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