



Ekovest Berhad

A Cash Cow in the Making

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TP: RM3.43 (+20.4%)

Last traded: RM2.85

Not Rated

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Despite a sharp rally in share price of 166.4% since early-2015, we still think the stock is undervalued and see long term value in this rising star. We like the company for its i) sizeable outstanding construction order book; ii) likelihood of sustaining its construction order book for another 5 to 10 years; iii) potential unlocking of asset value through IPO for its expressways; iv) potential REITing of its shopping malls in long term; and v) potential transformation into a prominent cash cow in long run. We arrive at a fair value of RM3.43/share. NOT RATED

Listed on the Second Board of Bursa Malaysia in 1993 and promoted to the Main Board in 2000, Ekovest Berhad is involved in construction, property development and highway toll operation.

Building its highway empire

It is currently operating 18km Duta-Ulu Klang Expressway (DUKE)-Phase 1, forming part of the main artery of road system in Klang Valley that links New Klang Valley Expressway, North-South Expressway, Kuala Lumpur-Karak Expressway and Middle Ring Road. Construction of this dual-three carriageway expressway started in October 2005. The expressway was opened to traffic in April 2009.

Currently, the group is at its tail-end of construction of DUKE-Phase 2 that would complement DUKE-Phase 1. DUKE-Phase 2 comprises 2 additional links, known as the Sri Damansara Link and the Tun Razak Link. The construction of DUKE-Phase 2 started in December 2013 and the expressway is expected to be operational in mid-2017. Upon completion of DUKE-Phase 2, the total length of DUKE will extend to 34km. The completion of DUKE-Phase 2 is expected to boost the traffic volume plying DUKE substantially.

The concession period for DUKE commenced from 11 August 2005 and lasts for 54 years. It could be extended for a period of 10 years, subject to terms and conditions of the concession agreements.

Recently, the group proposed to dispose of 40% stake in Konsortium Lebuh raya Utara-Timur (KL) Sdn Bhd (KESTURI), the toll concessionaire for DUKE-Phase 1 and DUKE-Phase 2, to the Employees Provident Fund Board (EPF) for a cash consideration of RM1.13bn. This values the entire stake in KESTURI at RM2.83bn. The proposed disposal was completed on 13 February 2017.

The disposal is to monetize the matured asset to reduce its gearing level, and to free up its financial resource for expansion in its construction, property and infrastructure businesses. The group also takes this opportunity to reward shareholders with a proposed distribution of 25sen/share special dividend which will go ex on 23 February 2017. Through this exercise, the group hopes to establish a long term working relationship with EPF, with the prospects of leveraging on the strengths of respective party to pursue collaboration in future projects.

Share Information

Bloomberg Code	EKO MK
Stock Code	8877
Listing	Main Market
Share Cap (mn)	855.5
Market Cap (RMmn)	2438.0
Par Value	0.50
52-wk Hi/Lo (RM)	1.01/2.88
12-mth Avg Daily Vol ('000 shrs)	1,603.7
Estimated Free Float (%)	40.8
Beta	0.36

Major Shareholders (%)

Lim Kang Hoo	- 20.19
Ekovest Holdings Sdn Bhd	- 12.19
Lim Seong Hai Holdings	- 9.49
Kota Jayasama Sdn Bhd	- 8.90
Khoo Nang Seng	- 5.62

Forecast Revision

	FY17	FY18
Forecast Revision (%)	-	-
Net profit (RMm)	105.8	125.8
Consensus	103.0	157.0
TA's / Consensus (%)	102.7	80.1
Previous Rating		Not rated

Financial Indicators

	FY17	FY18
Net Debt / Equity (x)	0.5	0.8
CFPS (sen)	74.2	(2.3)
Price / CFPS (x)	3.8	na
ROA (%)	1.3	1.2
NTA/Share (RM)	1.37	1.48
Price/NTA (x)	2.1	1.9

Share Performance (%)

Price Change	Ekovest	FBM KLCI
1 mth	17.8	2.3
3 mth	15.9	5.8
6 mth	78.1	1.5
12 mth	166.4	4.0

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



Source: Bloomberg

Besides DUKE-Phase 1 and 2, the group is currently developing Setiawangsa-Pantai Expressway, which is also known as DUKE-Phase 3. It is a 50km elevated dual carriageway that will traverse North to South of Kuala Lumpur. It will serve areas such as University Tunku Abdul Rahman, Wangsa Maju, Setiawangsa, Ampang, Tun Razak Exchange, Bandar Malaysia and Kerinchi. The construction cost of the expressway is estimated at RM3.9bn. In return, Ekovest holds the concession for 53.5 years, inclusive of 3.5 years construction period. The construction works have commenced in 2016 and the expressway is targeted to be ready in 2020.

The above are just part of a big picture. There are more expressways in the pipeline. Last month, Ekovest has received a principle approval from the government to further extend DUKE, known as DUKE-Phase 2A. It is a 75.2km of roads with an estimated capex of RM6.3bn. It consists of Kampung Baru Link, Istana Link and Kapar Link. All the above are part of DUKE Master Plan which consists of 10 expressways, to be completed by 2030. It serves mainly as highway connectors to link 13 highways in Klang Valley.

Ekovest has indicated that it plans to list its expressway concession business. It is currently working towards the listing for DUKE. According to media, the listing could come as early as 2018. When these expressways mature, the concession asset will transform into a goose that lays golden eggs.

Sizeable Construction Order Book in Hand

Started as a contractor, the construction business is still the group's largest revenue contributor. It is estimated that the construction division is carrying an outstanding order book of RM5.5bn, which could last for another 3 years (see Exhibit 3). This has yet to include the construction of DUKE-Phase 2A expected to be carried out by its construction division. If the DUKE master plan is executed as planned, the construction of subsequent expressways under DUKE master plan could potentially provide construction earnings visibility for another 5 to 10 years.

We understand that the group is selective in tendering for construction projects. It focuses on projects of which the clients are good paymasters. Currently, its construction revenue derived mainly from government contracts and DUKE concessionaires whereby the project financing has been secured. This would substantially reduce the risk of non-payment by clients.

Ekovest is also a potential beneficiary of massive infrastructure spending by the government. Some of the projects could be award to the company include MRT, LRT, East Coast Rail Line, KL-Singapore High Speed Rail and Southern Double Track.

Developing Prime Land in KL

Ekovest has 76 acres undeveloped landbank located at prime areas in the Klang Valley (39 acres), Danga Bay, Johor (25 acres) and Kuantan (12 acres). It has been developing lands in Cheras (12.0 acres) and Titiwangsa (27 acres) with a combined GDV of RM7.8bn (see Exhibit 4) over 10-years development period.

The Cheras project is a mixed development with an estimated GDV of RM2.1bn. It is located at a matured area with a dedicated link to Mutiara MRT station. The project was well-received with non-bumi residential units being substantially taken up. The group will retain the neighbourhood mall within the development, scheduled for completion by end-2017, for recurring income.

At Gombak, it has development projects along river corridor and sitting next to

DUKE and DUKE-Phase 2. First block of Eko Titiwangsa was launched in mid-2015. It is launching the second block of Eko Titiwangsa in mid-2017.

The group has an intention to retain the shopping malls in Cheras and Titiwangsa developments for recurring income. In longer term, the group is exploring the option of REITing the shopping malls to unlock the value of the property.

Further room for upside in share price?

The share price of EKOVEST has surged sharply by 166.4% from RM1.07 at the beginning of 2015 to close at RM2.85 on 13 February 2017. Despite this, we still see long term value in the stock.

The disposal of 40% stake in KESTURI values the entire stake in KESTURI at RM2.8bn. The value of KESTURI alone has exceeded the market cap of EKOVEST at RM2.4bn. On top of that, Ekovest has very sizeable construction order book in hand, plus property development projects at prime locations of Klang Valley.

Also, the current valuation has yet to factor in the potential from DUKE-Phase 3 and remaining expressways under DUKE master plan. If the plans could materialise, Ekovest could progress from a rising star to be a prominent cash cow when the portfolio of expressways are completed, and the values of its expressways and shopping malls are unlocked through REITs. It was recently quoted by media that Ekovest targets to be a RM10bn market cap company by 2022.

Valuation

To be conservative, we have not ascribed any value to its DUKE-Phase 3 and DUKE-Phase 2A concession assets. We value **EKOVEST** at RM3.43/share, based on sum-of-parts valuation, as depicted in Exhibit 1. **Not Rated.**

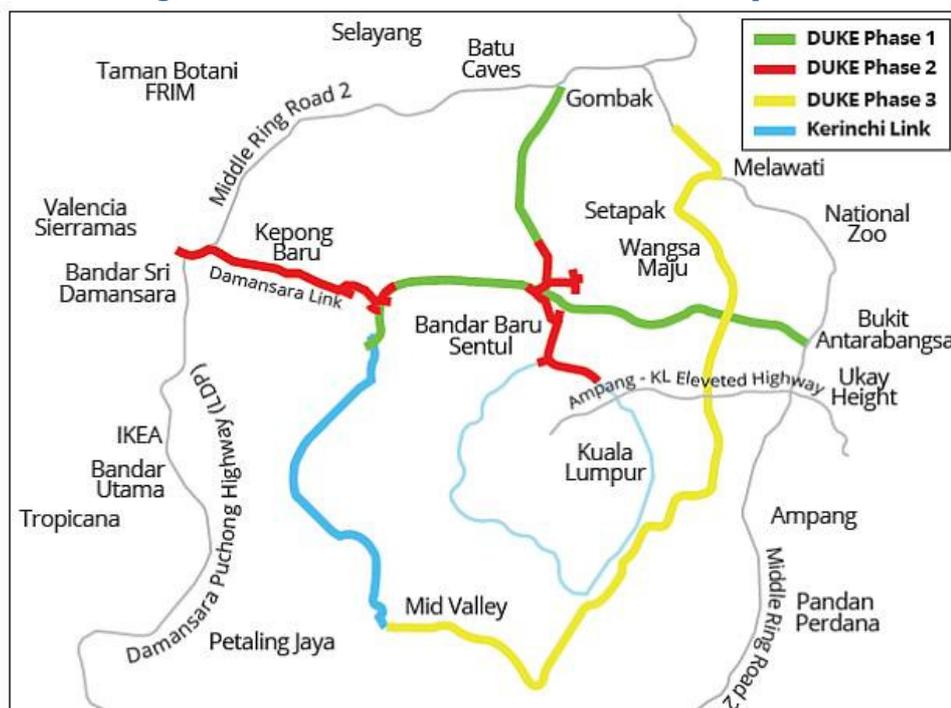
Exhibit 1: Sum-of-Parts Valuation

	Valuation (RM'mn)	Remark
DUKE-Phase 1 & 2	2260.0	20% discount to the valuation of KESTURI based on proposed 40% disposal to EPF
Construction	798.7	10X CY17 construction profit
Property	296.1	8x CY17 property profit
	3354.8	
Enlarged share base	977.7	
Target Price	3.43	

Earnings Summary

FYE 30 June (RMmn)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	438.0	793.6	1079.8	1586.9	1765.3
EBITDA	126.4	177.7	257.0	314.2	330.1
EBITDA margin	28.9	22.4	23.8	19.8	18.7
Pretax profit	27.1	67.9	163.4	184.3	196.5
Core Net profit	13.9	32.4	105.8	125.8	136.8
Core EPS (sen)	1.6	3.8	12.3	14.6	15.9
EPS Growth (Core)	na	133.8	224.8	18.9	8.7
PER (x)	176.0	75.2	23.2	19.5	17.9
GDPS (sen)	2.0	3.0	28.0	4.0	5.0
Div Yield	0.7	1.1	9.8	1.4	1.8
ROE	1.2	2.6	8.5	10.2	10.4

Exhibit 2: Alignment of DUKE-Phase 1, DUKE-Phase 2 and Proposed DUKE-Phase-3



Source: Media

Exhibit 3: Outstanding Construction Order Book

Project	Contract Amount (RMmn)	Outstanding Amount (RMmn)
DUKE-Phase 3	3738	3738
DUKE-Phase 2	1183	519.4
Improvement and beautification works at Precinct 7	164	109
UTHM Engineering & Electronic Faculty	42.2	42.2
Improvement and beautification works of the Klang and Gombak rivers	255.49	255.49
Improvement and beautification works of the Klang and Gombak rivers	157.25	157.25
Pan Borneo Highway	633.84	633.84
TOTAL		5455.18

Source: Company, TA Research

Exhibit 4: Property Development Projects in Klang Valley

Project	Location	Area	Type	GDV (RM)	GFA (sq.ft)
EkoCheras	Cheras	11.98 acres	Office, hotel, retail lots & serviced apartments	2.11 billion	3,211,711
EkoTitiwangsa @ KL River City	Jalan Pahang	2.91 acres	Retail shops & serviced apartments	610 million	898,396
EkoRiverCenter @ KL River City	Jalan Pahang	6.60 acres	Office/ residential / hotel tower & shopping mall	2.11 billion	478,634
EkoGateway @ KL River City	Setapak	14.50 acres	Serviced apartments, shopping mall & hotel	2.58 billion	3,789,720
EkoQuay @ KL River City	Jalan Pahang	2.13 acres	Retail lots, serviced apartments & hotel	211 million	371,131
EkoAvenue @ KL River City	Jalan Pahang	1.10 acres	Retail shops & serviced apartments	160 million	383,328

Source: Company

Exhibit 5: Proposed Development at KL River City



- EkoRiver Centre: Shopping mall & riverfront promenade
- Ekovest Tower: Office and hotel tower
- EkoAvenue: Freehold serviced apartments
- EkoTitiwangsa: The heart of KL River City
- Water Taxi: Recreational cruise ride
- DUKE Expressway: Elevated highway network



Source: Company

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.

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

Disclaimer

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