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MALAYSIA

Friday, 23 September 2016

MONEY TALK

Ekovest (EKO MK)

Rise Of The DUKE

Ekovest is a deeply undervalued contractor and concessionaire. Its recent announcement of the 40% sale of DUKE 1 & 2 to EPF implicitly values just one of its many assets at RM2.8b, significantly below its RM1.7b market cap. Aside from that, the group was also recently granted a 53.5-year concession to build and operate a new 50km urban expressway, which would support the construction arm's medium-term profit growth and provide a longer-term boost to valuations and earnings. Initiate with BUY and an SOTP-based target price of RM3.00, implying FY18F PE of 18.2x, supported by a three-year earnings CAGR of 68%.

INVESTMENT HIGHLIGHTS

- **Value unlocking of a vital urban traffic dispersal system.** Ekovest recently announced that it has entered into a binding term sheet that would see it disposing of a 40% equity stake in Konsortium Lebuhraya Utara-Timur (KL), the holding company of the Duta-Ulu Kelang Expressway (DUKE) 1 and 2, to the Employees Provident Fund (EPF) for RM1.13b. This sum implicitly values the expressways at RM2.82b vs Ekovest's market cap of RM1.69b. While the group has made no official commitments, we do not discount the possibility that part of the cash proceeds would be declared as special dividends in the near term.
- **DUKE 3 – The next big boost.** Ekovest's longer-term outlook was given a boost with the recent announcement that it has been granted a 53.5-year concession to build, operate and transfer the new 50km Setiawangsa-Pantai Expressway (SPE) (formerly known as DUKE Phase 3) that links MRR2 at Taman Melati to Kerinchi Link at Federal Highway. Alongside the benefit of obtaining a concession, the new expressway would enhance the medium-term orderbook visibility, as the group would snap up much of the construction jobs worth over RM3.7b. We expect the construction jobs to contribute RM139m-212m p.a. to Ekovest's financials for the next three years.
- **Construction orderbook at all-time-high.** Ekovest's RM4.5b external outstanding orderbook represents a superior orderbook cover of 5.6x, significantly above that of other construction companies under our coverage (1.7x-3.8x). About 84% of the outstanding orderbook is from the SPE. We gather that the group is aiming to secure another RM1b worth of infrastructure-related construction jobs in FY17.
- **Initiate coverage with BUY and target price of RM3.00,** based on a 40% discount to its fully-diluted SOTP of RM5.00/share. We ascribe a huge discount to the valuation to reflect risk factors that cannot be accurately modelled, particularly for the DUKE 1 & 2 highway concessions due to their long concession periods. We like Ekovest for its: a) undervalued concession asset whose value has yet to be appreciated, b) its huge construction orderbook backlog that is significantly above that of other construction companies under our coverage, and c) the good locations of its landbanks. Our target price implies FY18F PE of 18.2x, which is also supported by a strong three-year (FY16-19F) earnings CAGR of 68.6%.

KEY FINANCIALS

Year to 30 Jun (RMm)	2015	2016	2017F	2018F	2019F
Net Turnover	439	794	1,227	1,866	2,341
EBITDA	124	297	290	427	532
Operating Profit	118	282	272	393	477
Net Profit (Reported/Actual)	18	156	87	161	208
Net Profit (Adjusted)	18	43	87	161	208
EPS (sen)	2.1	5.1	10.1	18.8	24.4
PE (x)	105.4	43.2	22.2	12.0	9.2
P/B (x)	1.6	1.4	1.4	1.3	1.1
Net Dividend Yield (%)	1.0	1.0	1.0	1.0	1.0
Net Margin (%)	4.1	5.5	7.1	8.6	8.9
Net Debt/(Cash) to Equity (x)	166.7	150.8	208.1	218.1	230.9
ROE (%)	1.5	3.3	6.2	10.5	12.1
Consensus Net Profit	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Ekovest, Bloomberg, UOB Kay Hian

BUY

(Initiation)

Share Price	RM1.92
Target Price	RM3.00
Upside	+56.3%

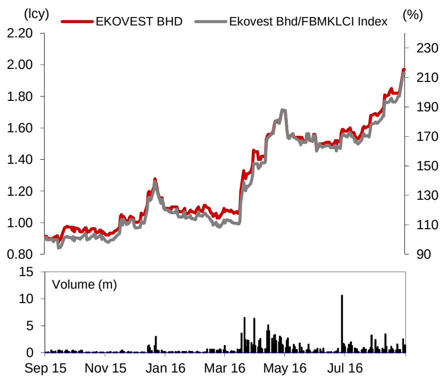
COMPANY DESCRIPTION

A construction company that owns the highly coveted Duta-Ulu Kelang Expressways. It also has exposure in construction and property developments.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker	EKO MK
Shares issued (m)	855.4
Market cap (RMm)	1,642.5
Market cap (US$m)	399.9
3-mth avg turnover (US$m)	0.5

PRICE CHART



Source: Bloomberg

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INVESTMENT HIGHLIGHTS

INFRASTRUCTURE – DUKE OF HIGHWAYS

- **DUKE to be a significant business venture of Ekovest.** Ekovest's management envisions the infrastructure business playing a significant role in Ekovest's future growth. The anticipated boom in the DUKE 1 & 2 highways' profits after 2020 would further enhance the company's longer-term outlook. There is much more value to be created in this business segment, particularly after receiving EPF's "rubber stamp" on the actual value of DUKE 1 & 2.

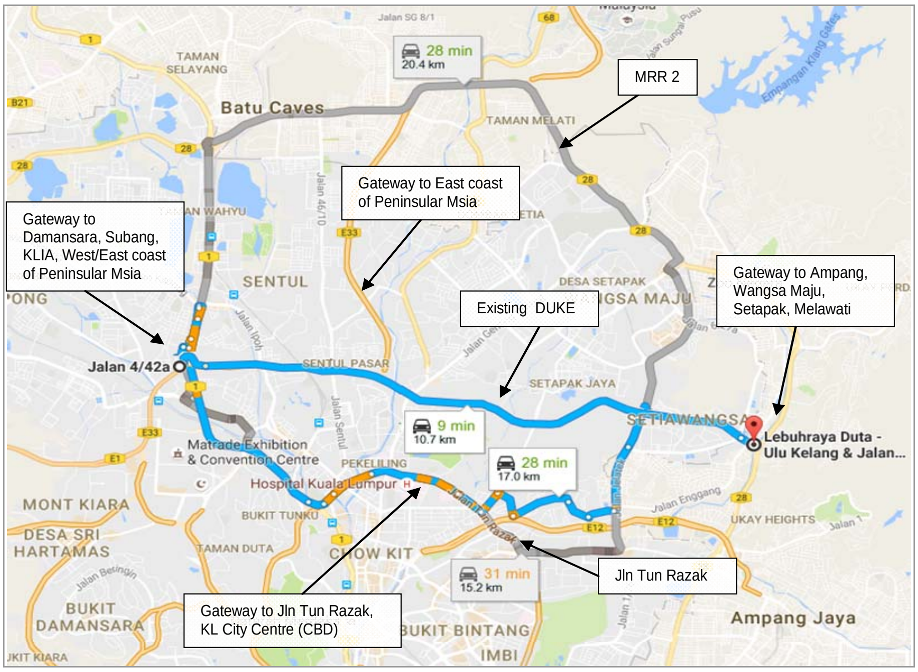
- **Preparing for future economic boom.** The Prime Minister's Department's Performance Management and Delivery Unit (PEMANDU) Economic Transformation Programme (ETP) Annual Report 2013 stated that the population of the Greater Kuala Lumpur will need to grow from 6m to 10m by 2020 to meet employment and Gross National Income (GNI) growth demands. To support this plan, Ekovest's MD expects the greater Kuala Lumpur to need at least 10 new highways in the near future.

- **Highway vision is to connect destinations.** Ekovest's long-term infrastructure vision is to bring the general population closer to its destinations. This would help the population to cut travelling time, save fuel and be more environmentally friendly. To achieve its aim, it has planned, built and delivered expressways like DUKE 1 and the soon-to-be-completed DUKE 2.

- **Longer-term bigger picture.** Ekovest's long-term vision is to be a prominent urban highway concessionaire within the Klang Valley. Presently it: a) owns and operates the DUKE 1 expressway, b) aims to complete the construction of DUKE 2 in 2017, and c) has just begun the construction of the SPE. However, in the longer term, we think there would be more to come, as the population of the Greater Kuala Lumpur grows. Eventually, the group aims to ease traffic jams in densely-populated areas, a lot of which are underserved in terms of road connectivity, in Kuala Lumpur.

- **Vision started with DUKE 1, followed by DUKE 2,** as both provide access to other major areas of the Klang Valley. Both expressways provide access to other major districts in the Klang Valley. At the western end of Kuala Lumpur, the highway would provide access to the New Klang Valley Expressway (from the Jalan Duta interchange), which would be the fastest gateway to other matured areas within the Klang Valley like Damansara, Subang Jaya and Shah Alam. On the eastern side of DUKE 1, the highway would give users access to other matured townships like Ampang, Melawati, Setiawangsa and Wangsa Maju. According to Google Maps (Figure 1), using the DUKE Expressways to travel within these two areas would reduce travelling time by about 75% compared with using toll-free roads such as Middle Ring Road 2 (MRRT2) and Jalan Genting Klang.

FIGURE 1: TRAVEL TIME ON DUKE 1 VS ALTERNATE ROUTES



Source: Google Maps, UOB Kay Hian

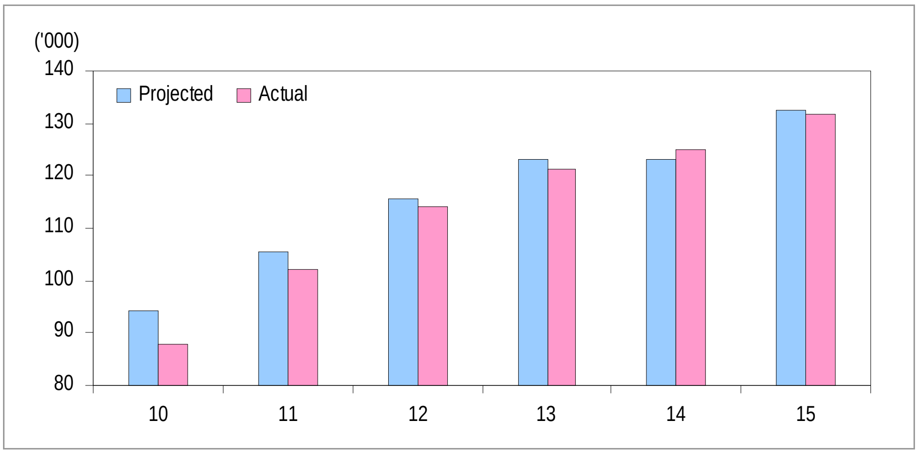
- **A vital component in easing CBD traffic congestion.** The DUKE 2 expressway would be a vital component in dispersing traffic out of the Kuala Lumpur City Centre via the Jalan Tun Razak ramp. When completed, the Jalan Tun Razak ramp would allow users to connect to DUKE 1, and thereafter proceed to the eastern or western side of the Klang Valley. We believe users would opt to use this route given the significant reduction in travelling time at a minimal toll fee of RM2.50. As for traffic numbers, we believe the opening of the new gateway would immediately benefit the concessionaire as traffic numbers for DUKE 2 are expected be decent and would also complement the DUKE 1 traffic numbers and vice versa.
- **DUKE 1 – Urban highway operating at above traffic estimates.** In 2015, DUKE 1 reported an actual traffic volume of about 48.1m vehicles each year (about 131,800 vehicles per day (vpd)), which is just 0.5% below its projected traffic volume. Although there was a negative variance between actual traffic and projected traffic volumes, the expressway still reported a 5.4% yoy growth in traffic in spite of tolls being increased from RM2.00 to RM2.50 in Oct 15. Since 2010, the highway has seen very strong traffic growth, with a six-year traffic CAGR of 7%.

FIGURE 2: ACTUAL VS PROJECTED TRAFFIC VOLUME

Year	Actual (vpd)	yoy Growth (%)	Projected (vpd)	Difference (vpd)	Difference (%)
2010	87,983	83.9	94,085	(6,102)	(6.5)
2011	102,204	16.2	105,334	(3,130)	(3.0)
2012	114,000	11.5	115,534	(1,533)	(1.3)
2013	121,397	6.5	123,203	(1,806)	(1.5)
2014	125,070	3.0	123,203	1,867	1.5
2015	131,880	5.4	132,566	(686)	(0.5)

Source: Ekovest

FIGURE 3: ACTUAL VS PROJECTED TRAFFIC VOLUME



Source: Ekovest, UOB Kay Hian

- **Our equity DCF valuation for DUKE 1 & 2 at RM3.16b.** As both DUKE 1 & 2 are concessions that deliver a stable cash flow, we believe the DCF method would be appropriate for valuing the two expressways. In our valuation methodology, we have assumed a discount rate of 7.1%. Our valuations for DUKE 1 & 2 are at a slight premium to EPF's implied purchase price of RM2.825b for the expressways.

- **EPF's 40% acquisition of DUKE 1 & 2 at RM1.13b.** Ekovest also recently announced that it entered into a binding term sheet for EPF to potentially acquire a 40% stake in Konsortium Lebuhraya Utara-Timur (KL) (Kesturi), the holding company for DUKE 1 & 2 for a total cash consideration of RM1.13b, which is payable in the following manner.

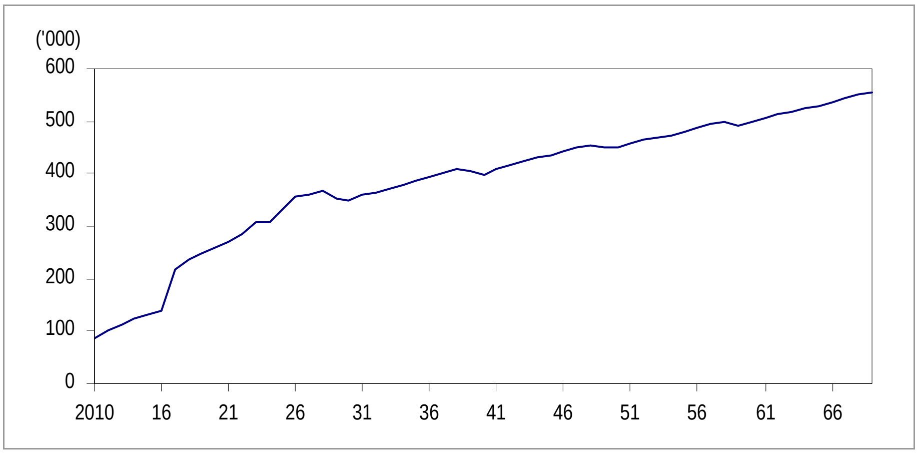
  a) RM921m in cash upon completion of the proposed disposal as contemplated under the sale and purchase agreement

  b) RM60m to be paid upon the certification of practical completion (CPC) for DUKE 2

  c) Balance of RM149m to be paid subject to Ekovest's fulfilment of the post-completion conditions as stipulated in an agreement to be entered which is subject to the achievement of pre-agreed targeted returns in the event of certain exit scenarios.

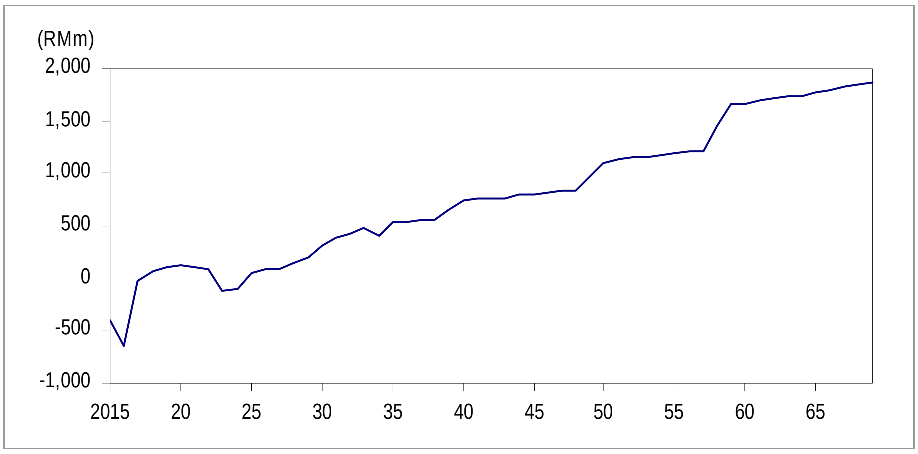
- **Next toll rate hikes for DUKE 1 & 2 in 2019.** When DUKE came into operations, Class 1 vehicles were charged a toll rate of RM2.00. However, in Oct 15, the rate was raised to RM2.50. The next scheduled toll rate hike is expected to take place in 2019. In 2019, we project flat traffic growth for the expressway given the toll rate hike. However, we expect users to accept the new rates and move on as alternative routes are expected to remain congested compared with DUKE 1 & 2. Based on the concession agreement, the toll rates are expected to be increased every five years.

FIGURE 4: PROJECTED TRAFFIC GROWTH AT DUKE 1 & 2



Source: Ekovest, UOB Kay Hian

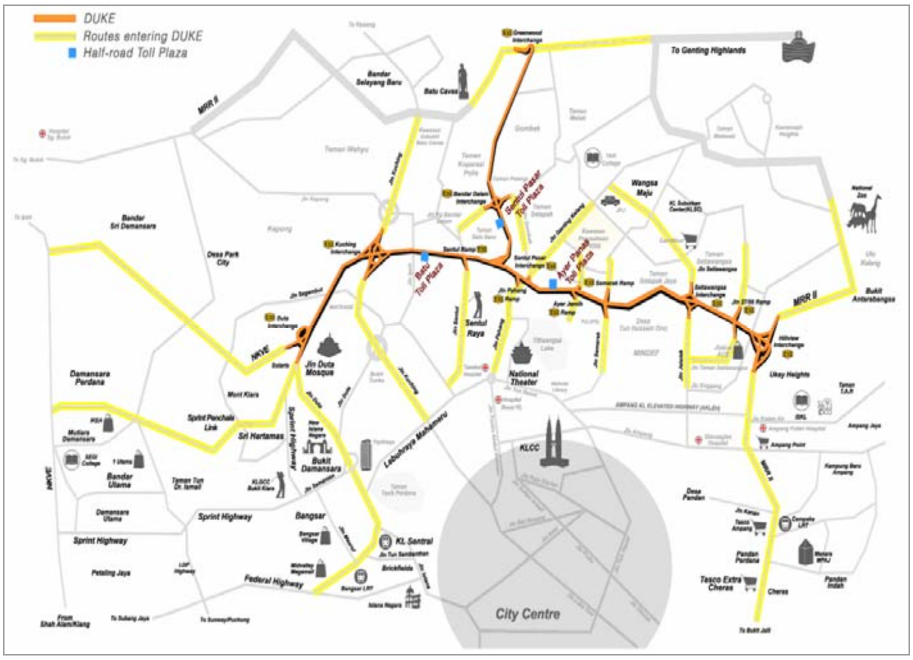
FIGURE 5: FREE CASH FLOW PROJECTIONS FOR DUKE 1 & 2



Source: Ekovest, UOB Kay Hian

- **History of DUKE 1.** Back in 2004, Ekovest was granted a 34-year concession to build, operate and transfer DUKE 1. One of the primary reasons for the construction of the 18km urban expressway is to provide a link between the New Klang Valley Expressway (NKVE) and the Kuala Lumpur-Karak Expressway, which are the key connectivity points to the South, West and East Coast of Peninsular Malaysia. Besides improving connectivity, the expressway also serves as a reliable urban traffic dispersal scheme that provides connectivity to several parts of Kuala Lumpur, thereby bypassing the highly-congested Middle Ring Road 1 (MRR1) and the Kuala Lumpur Inner Ring Road. Phase 1 of DUKE 1 construction was completed in 2009 at a total construction cost of about RM900m.

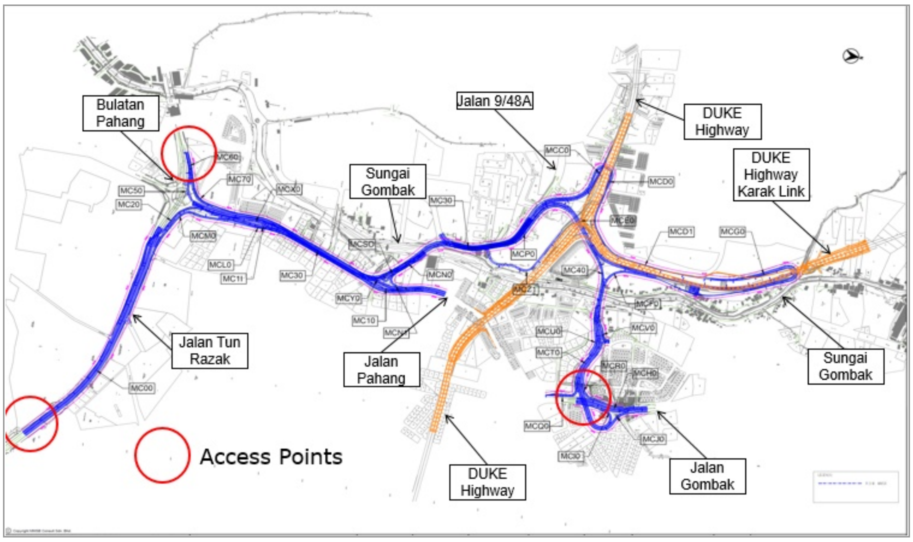
FIGURE 6: DUKE 1 ALIGNMENT



Source: Ekovest

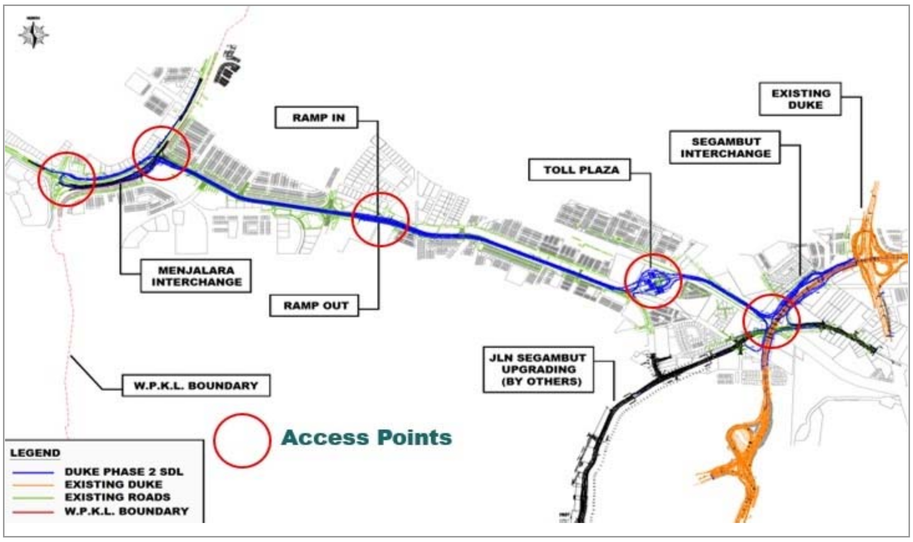
- **DUKE 2 given the green light in 2012.** In 2012, Ekovest obtained the concession to extend the existing DUKE 1 highway. The extension was named DUKE 2. The construction of DUKE 2 commenced in Dec 13 and was meant to complement the existing DUKE 1 expressway. Phase 2 of the DUKE is divided into two major links: a) from Bandar Manjalara to Segambut (7km), and b) from Jalan Tun Razak to DUKE 1 Jalan Gombak interchange (9km). The total 16 km extension is expected to be completed in 1H17 at a total budgeted construction cost of RM1,182m, and to begin tolling from 2H17 onwards.

FIGURE 7: DUKE 2 (TUN RAZAK LINK)



Source: Ekovest

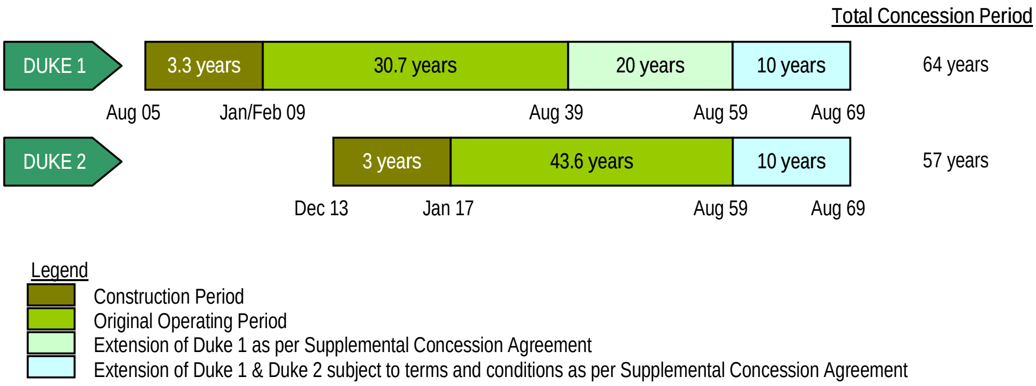
FIGURE 8: DUKE 2 (TUN RAZAK LINK)



Source: Ekovest

- **DUKE 1 concession extended to include DUKE 2.** When the concession of DUKE 1 was granted, the government allowed Ekovest to hold the concession for 34 years (including construction period). However, after the approval of the DUKE 2 concession, instead of awarding a completely new concession, the government moved to extend the existing concession period of DUKE 1 by another 20 plus 10 years, which includes DUKE 2.

FIGURE 9: KEY MILESTONES FOR DUKE



Key Information	DUKE 1	DUKE 2 - Sri Damansara Link	DUKE 2 - Tun Razak Link	Total
Date of Concession Agreement (CA)/ Supplement CA	12 Aug 04	3 Dec 12	3 Dec 12	
Length (km)	18	7	9	34
Description	Commences from Jln Duta Interchange to Hill View Interchange and the Karak Link from Sentul Pasar Interchange to Greenwood Interchange	Commences at Menjalara Interchange at Bandar Menjalara on the west and transversing eastward to the Segambut Interchange at Jln Segambut	Commence from Jln Tun Razak near the National Heart Institute and connect to the existing Duke 1 at Jln Gombak	
Concession Period	54 + 10 (option) years 11 Aug 05 - 10 Aug 69			
Remaining Concession Period	4+ 10 (option) years			
Construction Period	Oct 05 - Dec 08	Dec 13 (upon appointment of Ekovest as main contractor) - Dec 16		
Commencement of Operation	Feb 09	Yet to commence. Expected by early 2017.		
Estimated Construction Cost (RMb)	0.9	1.183		2.083
Est. Remaining Toll Revenue (incl. 10 years extension up to Aug 2069)	Appr. RM35b	Appr. RM26b		Appr. RM61b

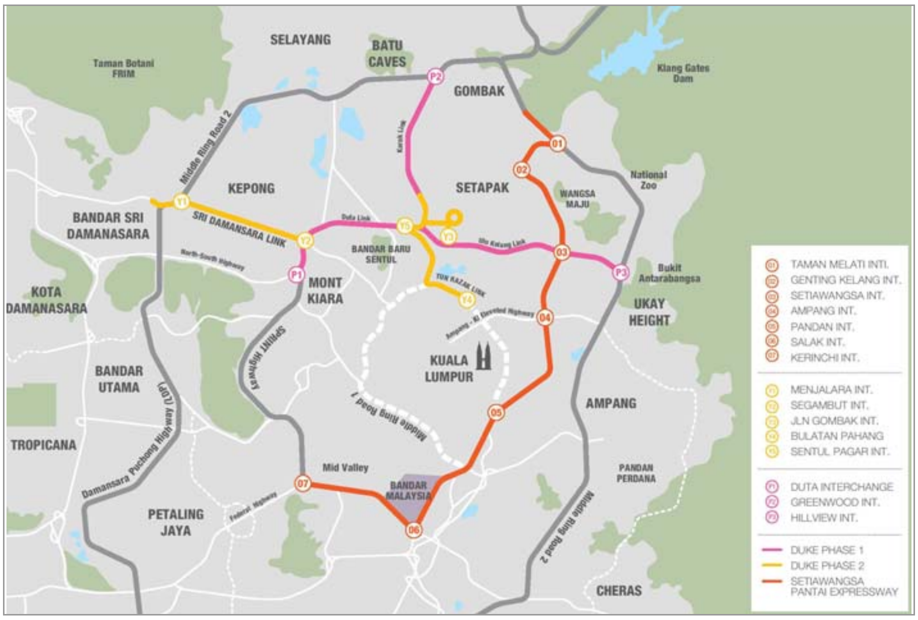
Source: Ekovest

- **An open toll system highway.** Like other major urban highways, including Lebuhraya Damansara Puchong (LDP), SPRINT and Penchala Link, DUKE operates as an open toll system where users are charged a flat toll rate regardless of the distance travelled. For example, a user that enters DUKE from the Duta Interchange and travels to the Hillview interchange would pay the same toll rate as a user that enters from the Duta Interchange and travels to the Greenwood interchange, with the latter being a shorter distance.

INFRASTRUCTURE – SPE THE NEXT GROWTH CATALYST

- **Upcoming SPE expressway to begin tolling in 2020.** The construction of the SPE, formerly known as Duke Phase 3, has commenced and is expected to take about 42 months; the SPE is expected to begin tolling from Jan 20 onwards. The total development cost of the expressway is about RM5b, with construction costs of RM3.96b accounting for the bulk of the development cost. Funds to be used for the development of the expressway have been raised.
- **Provides substantial connectivity in Klang Valley.** The expressway will greatly enhance road connectivity in Kuala Lumpur. It will be linked to other major highways, including Kerinchi Link, MRR2, DUKE, Ampang-Kuala Lumpur Elevated Highway (AKLEH), KL-Seremban Highway, East-West Link, Maju Expressway (MEX), New-Pantai Expressway (NPE), Besraya Expressway (BESRAYA) and the Federal Highway. These highways have established operating track records in relieving traffic congestion in the Klang Valley and will offer significant support to the traffic demand for SPE.

FIGURE 10: DUKE 1 & 2 AND SPE ALIGNMENT



Source: Ekovest, UOB Kay Hian

- **To serve major upcoming developments in Kuala Lumpur.** Based on a traffic study conducted by consultants Perunding Trafik Klasik (PTK), several new mega developments will benefit from the expressway, including the Tun Razak Exchange and Bandar Malaysia, but these developments are assumed to take 2-3 years before contributing stable traffic volume to the SPE. PTK also takes the view that the SPE will complement the use of public transportation as the expressway intersects the Klang Valley rail networks.

CONSTRUCTION – SUPPORT FOR SHORT-MID TERM EARNINGS GROWTH

- **An experienced contractor with construction experience since 1985.** Since its inception, Ekovest has completed more than RM5b worth of construction projects, ranging from universities and office buildings to highways and train stations. It also played a role in the construction of the iconic Petronas Twin Towers, where Ekovest and a foreign partner completed the fitting out works.

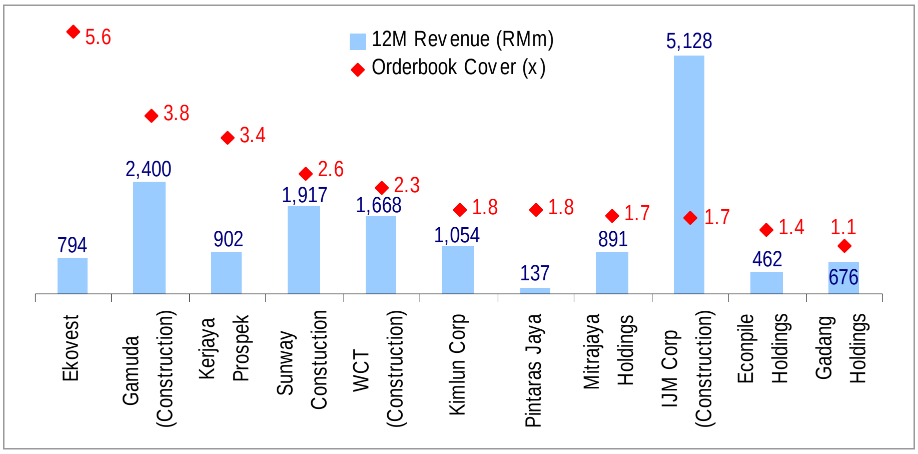
FIGURE 11: LIST OF COMPLETED CONSTRUCTION JOBS

Project	Contract Value (RMm)
Construction and completion of DUKE	891.7
Shop offices in Johor	126.5
Universiti Tun Hussein Onn Malaysia	963.2
University Malaysia Sabah	1,490.7
Federal building job, Putrajaya	257.6
Station and related infrastructure for KL Sentral	713.7
Fitting out of Petronas Twin Towers, Podium and Grade Spaces	471.5
KLIA1 - Terminal areas roads and structures	113.8
Labuan International Financial Centre	318.8
Total	5,347.5

Source: Ekovest

- **Healthy outstanding orderbook with superior orderbook cover.** As of Sep 16, Ekovest's external outstanding construction orderbook stands at about RM4.5b, representing a superior orderbook cover of over 5.6x, one of the highest under our sector coverage. The bulk of its orderbook is from the ongoing construction of the SPE that is set to be completed in 2019. Other remaining jobs include the final billing stages of DUKE Phase 2 and environment-related works for the KL City Council.

FIGURE 12: PEER COMPARISON OF ORDERBOOK COVER



** Based on 2016F revenue*
Source: Respective Companies, UOB Kay Hian

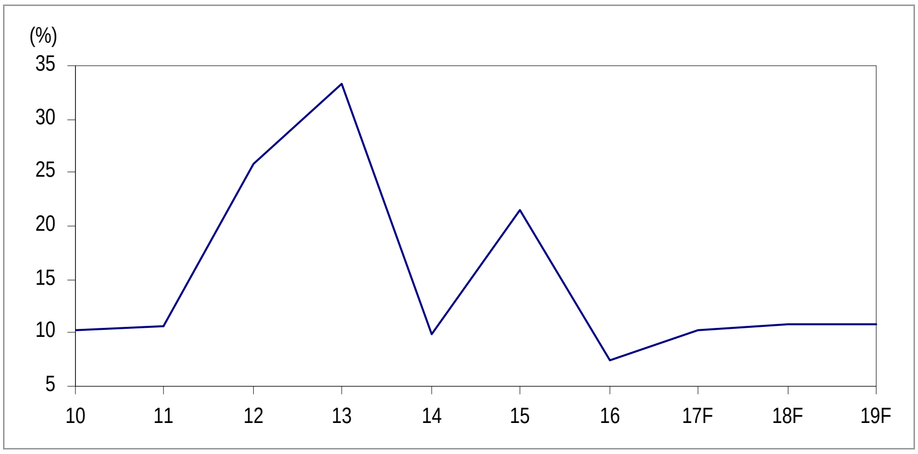
FIGURE 13: OUTSTANDING ORDERBOOK

Project	Contract Value (RMm)	Outstanding Orderbook (RMm)
Improvement and beautification works at Precint 7	164.0	109.0
Construction of 3-storey shop office	3.1	2.7
DUKE Phase 2	1,183.0	519.4
UTHM Engineering & Faculty	42.2	42.2
SPE (formerly known as DUKE Phase 3)	3,738.0	3,738.0
Others	256.1	61.0
Total	5,386.4	4,472.3

Source: Ekovest, UOB Kay Hian

- **Targets RM1b worth of new jobs in FY17.** In FY17, Ekovest is targeting to secure an additional RM1b worth of new construction jobs, which will be mainly related to infrastructure. We understand that some of the jobs that it is eyeing for are environment-related jobs in the Klang Valley, which will most likely come from a government-related entity. We have assumed a RM1b orderbook win for FY17-19 in our financial projections.
- **Margins volatile, but still at sector average.** Historically, Ekovest's construction arm's EBIT margins have been volatile due to the timing of billings. Nevertheless, going forward, we have assumed a lower-than-historical-average construction EBIT margin of 10.3-10.7% for FY17-19F, driven by the ongoing works for DUKE 2 construction and the SPE construction works.

FIGURE 14: HISTORICAL MARGIN TREND



Source: Ekovest, UOB Kay Hian

PROPERTY DEVELOPMENT – BOOSTER TO EARNINGS

- **Concentration of landbank still in matured areas**. Ekovest owns several plots of land extending over a total of 71 acres that are expected to generate GDVs of over RM7.8b for the next 7-10 years. Its landbank is in the matured areas of Kuala Lumpur, including the areas of Cheras, Jalan Pahang and Setapak. The group also owns plots of land in Danga Bay.

FIGURE 15: SUMMARY OF LANDBANKS

Development	Location	Land Size (acres)	GDV (RMm)
EkoCheras	Cheras	12.0	2,110
EkoTitiwangsa	Jalan Pahang	2.9	610
EkoQuay	Jalan Pahang	2.1	211
EkoRiverCenter	Jalan Pahang	6.6	2,110
EkoGateway	Setapak	14.5	2,580
EkoAvenue	Jalan Pahang	1.1	160
Total		39.2	7,781

Source: Ekovest, UOB Kay Hian

- **About RM1.4b worth of developments launched.** To-date, the group has launched about RM1.8b worth of properties, which includes the EkoCheras development and the EkoTitiwangsa development. The property development business will complement both the infrastructure and construction divisions as: a) its property developments will be located near its highway interchanges, and b) the construction division will also participate in the construction jobs of the developments.

- **Neighbourhood mall to complement EkoCheras.** The EkoCheras development is expected to generate about RM2.1b in GDV, which includes a 620,000sf NLA shopping mall. So far, 60% of the residential properties launched have been taken up. We gather that the remaining unsold units are only bumiputra reserved units, which will most likely be released during the later stages of the development. Aside from that, the shopping mall at EkoCheras has also been somewhat successful, having received 50% committed leases which include Village Grocer, Starbucks and Golden Screen Cinemas, among others.

- **EkoTitiwangsa about 33% taken up since launch.** The EkoTitiwangsa development is expected to generate a total GDV of RM623m on a 2.91-acre parcel of land in Setapak, Jalan Pahang. It recently undertook the maiden launch of the development, comprising a residential tower with a total GDV of RM213m (ASP: RM750psf). So far, about 33% of the units offered have been taken up. Looking ahead, the group plans to launch the remaining RM410m worth of properties which will comprise both residential and commercial components.

- **Unbilled sales of RM641m to sustain property development earnings.** The group's unbilled sales for its property development stand at about RM641m, representing a revenue cover of 3.5x (based on our forecasted RM182m property development revenue for FY17). We expect the unbilled sales to help sustain earnings for the division for the next 2-3 years. Most of the unbilled sales are from the EkoCheras and EkoTitiwangsa developments. We expect these developments to progressively deliver about 22% of EBIT margins within the next three financial years.

FIGURE 16: PROPERTY DEVELOPMENT LAUNCHES AND TAKE-UPS

Development	GDV Launched (RMm)	Sales (RMm)	Take-up (%)	Remarks
EkoCheras				
A - Office	135	32.0	24	Strata offices
N - Hotel	68	13.4	20	Sale-leaseback properties
Tower E, H, J	952	571.2	60	Non-bumi units fully sold
EkoTitiwangsa	213	70	33	

Source: Ekovest, UOB Kay Hian

VALUATION

- **Valuation methodology.** We value Ekovest on a sum-of-the-parts valuation given its diverse business ventures.
  - **Construction:** We value this division using the PE multiple method. We ascribe a PE of 9x for this division, below the industry average for infrastructure contractors as the bulk of its orderbook is "one-off" in nature, as it is engaged in the construction of the SPE, an expressway for which Ekovest holds the concession.
  - **Concessions:** For DUKE 1 & DUKE 2, given their concessionary nature, we see the discounted cash flow method as an appropriate method of valuation. We utilise a 7.1% for the discount of its cash flows. Its current debt is excluded in the valuations as the repayments are modelled in the free cash flow computation. Our valuations for DUKE 1 & 2 are 12% higher than EPF's implied acquisition price.
  - **Property:** We value the division based on a 30% discount to expected future development profits within the respective development periods. Nevertheless, there could be upside for this division should the GDV of the respective developments be revised upwards as selling prices increase over time.
- **Initiate coverage with BUY and target price of RM3.00,** based on a 40% discount to its fully-diluted SOTP of RM5.00/share. We ascribe a high discount to the valuation to reflect risk factors that cannot be accurately modelled, particularly for the DUKE 1 & 2 highway concessions due to the long concession period. We like Ekovest for its: a) undervalued concession asset whose value has yet to be appreciated, b) its huge construction orderbook backlog that is significantly above that of other construction companies under our coverage, and c) the good locations of its landbanks. Our target price implies a fully-diluted FY18F PE of 18.2x, which is also supported by a strong three-year (FY16-FY19F) earnings CAGR of 68.6%.

FIGURE 17: SOTP CALCULATION

	RMm	Remarks
DUKE 1 & DUKE 2	1,898	DCF valuation for the 64-year DUKE 1 & DUKE 2 concession based on a 60% stake
Proceeds of DUKE 1 & 2 Sale to EPF	1,130	EPF's acquisition price for 40% of DUKE 1 & 2
SPE (Formerly known as DUKE 3)	850	Equity injected for DUKE3
Construction	618	9x FY17F PE for construction profits of RM68.6m
Property Development	678	RNAV of landbanks
Less: Debt	(450)	Excludes DUKE 1, 2 & 3 debts
Warants Conversion Proceeds	165	Conversion price at RM1.35
SOTP	4,888	
Existing Sharebase (m)	855.5	
Warrants (m)	122.2	
Enlarged Sharebase (m)	977.7	
SOTP/share (RM)	5.00	
Discount (%)	40	
Target Price (RM)	3.00	
Implied fully-diluted PE	(x)	
FY17F	33.9	
FY18F	18.2	
FY19F	14.1	

Source: UOB Kay Hian

FIGURE 18: PEER COMPARISON

Stock	Ticker	Rating	Share Price 22 Sep 16 (RM)	Market Cap (RMm)	PE 2015 (x)	PE 2016F (x)	PE 2017F (x)	P/BV 2016F (x)	P/BV 2017F (x)	Yield 2016F (%)
IJM Corp	IJM MK	BUY	3.39	12,208.9	25.1	19.5	17.1	1.3	1.2	2.1
Gamuda Bhd*	GAM MK	BUY	4.87	11,789.8	21.1	18.7	16.0	2.0	1.9	3.1
WCT Holdings	WCTHG MK	BUY	1.62	2,023.9	20.8	15.3	13.4	0.8	0.8	1.5
Kerjaya Prospek	KPG MK	BUY	2.37	1,201.9	13.5	13.3	10.7	1.7	1.5	1.7
Sunway Construction	SCGB MK	HOLD	1.62	2,094.5	16.3	15.5	13.6	3.6	3.1	2.3
Mitrajaya Holdings	MHB MK	NOT RATED	1.40	936.4	8.7	9.8	9.0	1.8	1.6	3.4
Econpile Holdings	ECON MK	NOT RATED	1.67	893.5	11.6	12.6	11.9	3.0	2.5	2.1
Gadang Holdings	GADG MK	NOT RATED	2.86	739.7	5.3	8.6	8.2	1.3	1.1	2.3
Kimlun Corp	KICB MK	NOT RATED	2.14	664.0	5.9	9.2	9.1	1.3	1.1	2.7
Pintaras Jaya	PINT MK	NOT RATED	3.36	549.5	11.7	11.6	9.9	1.5	1.4	5.7
Average					14.0	13.4	11.9	1.8	1.6	2.7
Ekovest*	EKO MK	BUY	1.92	1,643	105.4	43.2	22.2	1.4	1.4	1.0

**FY already expired; data reflects actual reported number.*

Source: Bloomberg, UOB Kay Hian

FINANCIAL HIGHLIGHTS

FIGURE 19: HEADLINE NUMBERS

	2015	2016	2017F	2018F	2019F
Revenue (RMm)	438.8	793.6	1,227.4	1,866.1	2,340.5
Construction (RMm)	368.9	618.9	877.5	1,311.7	1,721.4
Property Development	58.2	50.3	182.4	341.9	361.6
Toll Operations	93.4	123.0	167.6	212.6	257.5
EBIT	118.2	282.1	271.0	392.1	475.8
Construction (RMm)	79.6	46.4	90.3	141.2	184.6
Property Development	14.9	10.7	42.8	75.2	79.6
Toll Operations	75.2	104.4	138.8	176.8	212.9
PBT	31.9	190.6	115.5	211.5	274.1
Core PATMI	17.8	43.4	86.6	160.8	208.3
Margins (%):					
PBT	7.3	24.0*	9.4	11.3	11.7
Core PATMI	4.1	5.5*	7.1	8.6	8.9

** Includes one-off revaluation gain of RM113m.*
Source: Ekovest, UOB Kay Hian

- **Expecting 3-year earnings CAGR of 68.6%.** We expect Ekovest to deliver a three-year earnings CAGR of 68.6% for FY17-19, primarily being driven by the construction division, which is undertaking the RM3.7b SPE job. We also expect the property division to perform strongly in FY19, as the progress billings for its EkoCheras development and EkoTitiwangsa development pick up pace. As for DUKE 1 & 2, we expect them to begin contributing positively from FY19 onwards, adding to about RM12m in PBT after finance costs.
- **Margins to improve over time.** In FY16, the group recognised a one-off revaluation gain of RM113m for its Danga Bay landbank, hence boosting its margins on a one off basis. However, going forward, we expect PAT margins to surge from 5.5% to 7.1% in FY16-17 due to: a) progress in the construction of the SPE, b) increasing billings of its property developments, and c) narrowing losses for DUKE 1 & 2.
- **Construction and property to be key margin boosters in FY17F-19.** On a divisional basis, the construction division's margin for FY16 was lower than the average of 10-12%, as the group had to incur additional costs to prepare for the construction of the SPE. Nevertheless, we expect margins for the division to improve on a staggered basis, as billings for the division intensifies. As for the property development division, margins are expected to trend down in FY17 as it kick starts new property development projects, and thereafter improve over time as billings improve and delivery of units are made in FY18-19.

FIGURE 20: EBIT MARGINS

EBIT Margins (%)	2015	2016	2017F	2018F	2019F
Construction	21.6	7.5	10.3	10.8	10.7
Property Development	0.0	29.6	5.9	12.5	20.8
Toll Operations (before financing costs)	80.5	84.9	82.9	83.2	82.7

Source: Ekovest, UOB Kay Hian

COMPANY BACKGROUND

- **Founded in Jan 1985** as Ekovest Bina, Ekovest assumed its new name after converting into a public listed company in Aug 1992 and was promoted to the Main Board of Bursa in Mar 2000. The company is mainly involved in building construction and civil engineering works, with its most notable project being the DUKE highway.

FIGURE 21: KEY MANAGEMENT

Name	Position	Details
Tan Sri Dato' Lim Kang Hoo	Executive Chairman	• Founder of Ekovest and appointed Executive Chairman on 22 Nov 10. • He has more than 38 years of experience in the construction industry and machinery-related industry. • He is also a Non-Executive Director of PLS Plantations and Executive Vice Chairman of Iskandar Waterfront City.
Datuk Seri Lim Keng Cheng	Managing Director	• Appointed Managing Director on 16 May 11. • He has more than 32 years of experience in a diverse range of industries, including building, civil, design and build turnkey construction projects, machinery trading and property development. • He also holds directorship in several private limited companies which includes, among others, Iskandar Waterfront Holdings.
Mr. Khoo Nang Seng @ Khoo Nam Seng	Executive Director	• Co-founder of Ekovest and an Executive Director of Ekovest since its incorporation on 2 Jan 85. • At present, he is also a Director of several other private limited companies.
Madam Lim Hoe	Executive Director	• Appointed Executive Director on 16 May 11. • She has more than 40 years of experience in various industries, gaining exposure in the field of finance, management, human resource and corporate matters.
Mr. Lim Chen Herng	Alternate Director to Tan Sri Dato' Lim Kang Hoo	• Appointed to the Board of Directors of Ekovest on 27 Feb 14. • He is an Executive Director of Knusford and an alternate director of Iskandar Waterfront City. He also sits on the board of several private limited companies, most notably the master developer Iskandar Waterfront Holdings.
Mr. Wong Khai Shiang	Alternate Director to Madam Lim Hoe	• Appointed to the Board of Directors of Ekovest on 27 Feb 14. • He has 14 years of experience in the construction and property development industries. • He is currently the Head of Sales and Marketing of Ekovest Group's property division.
Mr. Lim Ding Shyong	Alternate Director to Datuk Lim Keng Cheng	• Appointed to the Board of Directors of Ekovest on 27 Feb 14. • He has been a Project Engineer in Ekovest since 1 Feb 12. He is involved in the planning, design and construction of the extension of DUKE 2 and in Ekovest – MRCB Construction, which has been appointed the Swiss Challenge Contractor for the proposed improvement and beautification works at Precinct 7 under the River of Life project.

Source: Ekovest, UOB Kay Hian

FINANCIAL STATEMENTS

PROFIT & LOSS

Year to 30 Jun (RMm)	2016	2017F	2018F	2019F
Net Turnover	794	1,227	1,866	2,341
EBITDA	297	290	427	532
Depreciation & Amortisation	(15)	(18)	(33)	(55)
EBIT	282	272	393	477
Associate Contributions	(0)	(0)	(0)	(0)
Net Interest Income/(Expense)	(95)	(250)	(256)	(262)
Pre-tax Profit	191	116	212	274
Tax	(34)	(29)	(51)	(66)
Minorities	0	0	0	0
Net Profit	156	87	161	208
Net Profit (Adjusted)	43	87	161	208

BALANCE SHEET

Year to 30 Jun (RMm)	2016	2017F	2018F	2019F
Fixed Assets	67	377	993	1,907
Other LT Assets	2,058	2,548	2,503	2,191
Cash/ST Investment	190	2,928	2,477	1,839
Other Current Assets	873	2,085	2,347	2,542
Total Assets	3,989	8,509	8,922	9,377
ST Debt	289	289	289	289
Other Current Liabilities	277	775	1,045	1,308
LT Debt	1,739	5,379	5,379	5,379
Other LT Liabilities	365	677	677	677
Shareholders' Equity	1,318	1,388	1,531	1,723
Minority Interest	0	0	0	0
Total Liabilities & Equity	3,989	8,509	8,922	9,377

CASH FLOW

Year to 30 Jun (RMm)	2016	2017F	2018F	2019F
Operating	72	241	201	332
Pre-tax Profit	191	116	212	274
Tax	(15)	(29)	(51)	(66)
Depreciation & Amortisation	15	18	33	55
Working Capital Changes	(46)	137	7	69
Other Operating Cashflows	(72)	0	0	0
Investing	25	(1,168)	(635)	(953)
Capex (Growth)	(595)	(318)	(635)	(953)
Investments	0	0	1	2
Proceeds from Sale of Assets	1	0	0	0
Others	619	(850)	(1)	(2)
Financing	(25)	3,623	(17)	(17)
Dividend Payments	(17)	(17)	(17)	(17)
Issue of Shares	0	0	0	0
Proceeds from Borrowings	0	3,640	0	0
Loan Repayment	(1)	0	0	0
Others/Interest Paid	(7)	0	0	0
Net Cash Inflow (Outflow)	72	2,696	(451)	(638)
Beginning Cash & Cash Equivalent	160	232	2,928	2,477
Changes Due to Forex Impact	0	0	0	0
Ending Cash & Cash Equivalent	190	2,929	2,477	1,839

KEY METRICS

Year to 30 Jun (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA Margin	37.4	23.6	22.9	22.7
Pre-tax Margin	24.0	9.4	11.3	11.7
Net Margin	5.5	7.1	8.6	8.9
ROA	1.1	1.0	1.8	2.2
ROE	3.3	6.2	10.5	12.1
Growth				
Turnover	80.9	54.7	52.0	25.4
EBITDA	140.6	(2.5)	47.3	24.7
Pre-tax Profit	497.9	(39.4)	83.1	29.6
Net Profit	778.5	(44.6)	85.6	29.6
Net Profit (Adj)	778.5	(44.6)	85.6	29.6
EPS	143.9	99.4	85.6	29.6
Leverage				
Debt to Total Capital	54.6	68.4	65.2	62.0
Debt to Equity	165.1	419.2	379.8	337.7
Net (Debt)/Cash to Equity	150.8	208.1	218.1	230.9
Interest Cover (x)	3	1	2	2

Bloomberg Consensus

Recommendation		Buy	Sell	Hold
6/3/2015		0%	0%	0%
Target Price				n.a
Upside				n.a
Income Statement	**6/16**	**6/17E**	**6/18E**	**6/19E**
Revenue	794	-	-	-
Gross Income	198	-	-	-
Operating Income	282	-	-	-
Pretax Income	191	-	-	-
Net Income Adjusted	156	-	-	-
EPS Adjusted	0.18	-	-	-
Dividends Per Share	0.02	-	-	-
Payout Ratio (%)	11	-	-	-
EBITDA	297	-	-	-

Valuation Ratios	6/16	6/17E	6/18E	6/19E
PE	8.2	-	-	-
EV/EBIT	11.7	-	-	-
EV/EBITDA	11.1	-	-	-
P/S	1.6	-	-	-
P/B	1.0	-	-	-
Div Yield	1.3%	-	-	-
Profitability Ratios %				
Gross Margin	25.0	-	-	-
EBITDA Margin	37.4	-	-	-
Operating Margin	35.5	-	-	-
Profit Margin	19.7	-	-	-
Return on Assets	4.1	-	-	-
Return on Equity	12.5	-	-	-

Peer Comparison	Ticker	Share Price 22 Sep 16 (RM)	Market Cap (RMm)	-----PE----- FY15 (x)	FY16 (x)	-----P/B----- FY15 (x)	FY16 (x)	Yield FY16 (%)
IJM Corp	IJM MK	3.39	12,208.9	25.1	19.5	1.3	1.3	2.0
Gamuda Bhd	GAM MK	4.87	11,789.8	21.0	18.7	2.1	2.0	3.1
WCT Holdings	WCTHG MK	1.62	2,023.9	20.8	15.3	0.9	0.8	1.5
Kerjaya Prospek	KPG MK	2.37	1,201.9	13.5	13.3	2.0	1.7	1.7
Sunway Construction	SCGB MK	1.62	2,094.5	16.3	15.5	4.3	3.6	2.3
Mitrajaya Holdings	MHB MK	1.4	936	10.1	9.8	1.8	1.8	3.4
Econpile Holdings	ECON MK	1.67	893	18.6	13.5	4.5	3.6	2.1
Gadang Holdings	GADG MK	2.86	740	10.3	7.0	1.5	1.4	2.4
Kimlun Corp	KICB MK	2.14	664	9.1	9.0	1.4	1.3	2.7
Pintaras Jaya	PINT MK	3.36	549	10.4	30.8	1.6	1.7	6.0
Average				15.5	15.2	2.1	1.9	2.7
Ekovest		1.92	1,643	105.4	43.2	1.6	1.4	1.0

Technical View

Source: Bursa Station Professional

Ekovest (EKO MK)

Technical BUY with +26.4% potential upside

Last price : RM1.92

Target price : RM2.29, RM2.49

Support : RM1.80

Stop-loss : RM1.79

BUY with a target price of RM0.795 and a stop-loss at below RM0.615. Based on the daily chart, EKO formed a strong based at RM1.80 before surging up to RM1.97 on the last few days' movement. A buying signal is seen as the stock is trading above the cloud. This is supported by the Heat Wave indicators – the Tenkan-sen line, Kinjun-sen line and Chikao span line - which are bullish too. The positive reading from the MACD suggests the overall bullish bias is intact. This is also supported by a bullish crossover in the DMI. We expect the stock to continue to form higher highs and higher lows towards our targets at RM2.29 and RM2.49.

Expected Timeframe: 2 weeks to 3 months

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