UPDATE REPORT

CIMB

CIMB Research Report

7 May 2012

Mudajaya

Cheapest exposure to highway and power plant jobs

RECOM	Buy
PRICE	RM2.80
MKT CAPITALISATION	RM1,535.2m
BOARD	Main
SECTOR	Construction
INDEX COMPONENT	FTSE Emas

MDJ MK / MJYA.KL

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Investment highlights

- **Maintain Buy and RM3.45 target price.** The group's ability to secure large scale jobs beyond KVMRT should not be overlooked. Visibility of highway and power plant jobs in the medium term should anchor its prospects for job wins. Prospect of new recurring income stream other than its Indian IPP is an added spice. Our RM3.45 target price is still pegged to 40% RNAV discount. Newsflow is likely to be better in 2H12, which should drive renewed interest on the stock. We maintain our trading oriented Buy recommendation. Project wins are key catalysts.
- **Positive surprises from meeting management.** We hosted a group meeting with management for six fund managers. Positive surprises were (i) The outlook for local project flows is more bullish than we thought. (ii) Contract awards could exceed RM1.5bn in 2012 if new power plant works are awarded. (iii) The group is gunning for more local highway jobs and is exploring a potential highway concession. (iv) It could clinch a new IPP in Vietnam. (v) It has been shortlisted for Petronas's solar farm project.
- **Attractive power plant and highway story.** Mudajaya is an attractive power plant and highway story, backed by a new stream of recurring income flows from FY13. We forecast the Indian IPP to contribute 8-28% of pretax profit in FY13-14 based on the group's 26% stake. Growth in order book is driven by local jobs. The group could exceed our RM1.5bn target for new jobs for this year if the 1,000MW new coal-fired power plant project and civil works for the Prai gas-fired project come through in 2H12. If not, 2013 should be a good year for project flows.
- **Cheapest in our construction universe.** Accumulate the stock. Worries over the FSA for the India IPP should subside and there could be renewed interest in Mudajaya due to potential highway contracts other than the RM400m-500m targeted from WCE and power plant jobs. At 5-6x CY12-13 P/E, the stock is the cheapest in our construction coverage.

Key stock statistics

FYE Dec	2011	2012F
EPS (sen)	42.1	49.0
P/E (x)	6.6	5.7
Dividend/Share (sen)	10.8	11.5
NTA/Share (RM)	1.73	2.18
Book Value/Share (RM)	1.74	2.18
Issued Capital (m shares)	548.3	548.3
52-weeks Share Price Range (RM)	RM2.4 / RM4.57	
Major Shareholders:		**%**
Dataran Sentral (M) Sdn Bhd		24.3
Mulpha Infrastructure Holdings Sdn Bhd		22.0
Brahmal Vasudevan		5.8

Per share data

FYE Dec	2009	2010	2011	2012F
Book Value (RM)	0.68	1.32	1.73	2.18
Cash Flow (sen)	22.0	39.7	43.2	49.8
Earnings (sen)	21.3	39.3	42.1	49.0
Dividend (sen)	3.7	5.6	10.8	11.5
Payout Ratio (%)	13%	10%	19%	17%
P/E (x)	13.1	7.1	6.6	5.7
P/Cash Flow (x)	12.7	7.1	6.5	5.6
P/Book Value (x)	4.1	2.1	1.6	1.3
Dividend Yield (%)	1.3	2.0	3.9	4.1
ROE (%)	14.0	21.3	25.8	25.1
Net Gearing (%)	net cash	net cash	net cash	net cash

Source: Company, CIMB estimates, Bloomberg

Recent developments

Meeting with management. Last Friday we hosted a meeting with management for seven fund managers. The group was represented by MD Anto Joseph and CFO Kenny Loi. The purpose of the meeting was to get updates on the status of the fuel supply agreement (FSA) and progress of the Indian IPP, timeline for the power units to come on stream and project outlook.

Optimistic on FSA; higher coal cost is not an issue. Management remains optimistic the FSA will be signed eventually, despite the issues raised from Coal India Ltd's (CIL) unilaterally changing the FSA terms, which in turn delays the signing of the FSA. Management thinks that ultimately, a presidential directive has been given to CIL to supply coal to incoming IPPs and the supply of 1.5m tonnes for the first 360MW unit should be received by end 2012. The group's 1,440MW facility will utilise 6m tonnes of coal p.a. Coal cost to incoming IPP's are likely going to be pegged to the market rate of US$30-40/tonne, and that is not an issue as the IPP will be able to fully pass the cost through.

Tariff rates will be adjusted; FCPT is intact. Tariff rates will be adjusted from the Rs2-2.3/kWh (15-22 sen/kWh) signed for the first three units. To ensure that the full cost pass-through mechanism (FCPT) remains intact, the IPP association in India and the Indian government recently agreed that tariffs will be adjusted. The rate for Mudajaya's IPP could be adjusted to cRs3.5/kWh or around 30 sen/kWh. This rate is still lower than the current Rs5.6/kWh rate for the state of Tamil Nadu.

Power cash flows from 2013 with no major delays expected. Testing and commissioning of the first unit are targeted by end-2012 and the sale of power will start by early 2013. So far, it is on track. This suggests that recurring cash flows from this IPP will start flowing through in 1H13, which is in line with our assumptions. All four of the 360MW units are targeted to be fully commissioned by end-2013, suggesting that the full impact of recurring income will be felt in FY14. As for the progress on site, most civil structures, advance works and turbine, boilers and generators (TBGs) are taking shape. Management does not expect any more major delays. There could be minor delays relating to labour issues but that should be manageable.

More exciting outlook for project flows. The outlook for project flows is more exciting than earlier thought. Management is bidding for RM10bn worth of jobs, of which RM5bn (all local jobs) look more promising. The group is targeting RM400m-500m more jobs to close the year with but we think that it may be able to exceed that. A potential 1,000MW additional coal-fired facility and potential civil works for the c.1,000MW Prai gas-fired power plant could be dished out in 2H12. The group has the advantage given (i) its recent wins for the Tanjung Bin (RM1bn) and Janamanjung power plant (RM720m) extensions, and (ii) the limited supply of power plant contractors with expertise and track record.

Gunning for local infrastructure works; a local highway concession. Potential contracts on the domestic front are mostly for infrastructure works. Management is bullish on its power plant and highway prospects, which is not a big surprise. But we were positively surprised that there could be more highway jobs beyond the potential RM400m-500m subcontract works from West Coast Expressway (WCE) and the Kinrara-Damansara Expressway (Kidex), which the group is bidding for. Kidex could be worth RM2.2bn. Management is also exploring opportunities for a domestic highway concession, which was a positive surprise. But details are limited at this point. Mudajaya is less bullish on MRT as pretax margins are low single digit compared to 10-20% for the other highway and power plant jobs that it is vying for.

On the subject of regional prospects, the group is looking at power EPCC opportunities in Indonesia and Saudi but there are no material developments as yet. Management targets a new IPP venture within the Asean region within the next two years.

New recurring income prospects beyond India. New recurring income prospects are shaping up to be more than just the Indian power plant story. Management is exploring opportunities in renewable energy and in Vietnam and is one of the two shortlisted for Petronas's 10-15MW solar farm. If new IPP ventures arise, they are likely to be located in Vietnam, either coal-fired or a wind farm. The group is in preliminary discussions on potential ventures in Vietnam but reassured us that it would not proceed unless it secured a firm coal supply agreement.

Potential new property venture. The property side makes up a small proportion of the group's business. We were surprised to hear that management was looking at a land privatisation deal involving 10-12 acres. Potential GDV is RM1bn, covering commercial and residential developments. The likely development period is over the next 5-6 years. Assuming 20% pretax margin, this could add RM25m-30m to net profit.

Potential higher dividends. On the dividend front, management is looking at paying higher dividends this year though the quantum was not mentioned. The group paid 8 sen single tier in 2011. It ended 2011 with c.RM154m net cash, which we estimate will rise to RM163m at end-12. We forecast a net dividend of 8.5 sen in FY12, rising to 9.5 sen in FY14 based on 14-17% net payout.

Figure 1: P&L analysis (RM m)

FYE Dec	2009	2010	2011	2012F
Revenue	1,347.1	870.4	1,875.8	2,137.2
Operating Profit (EBIT)	298.7	275.9	383.8	376.7
Depreciation	(1.1)	(2.6)	(2.9)	(2.9)
Interest Expenses	0.0	0.0	0.0	0.0
Pretax Profit	293.9	278.4	413.8	523.3
Effective Tax Rate (%)	*18.4*	*14.9*	*17.0*	*17.0*
Net Profit	231.0	215.5	321.1	372.4
Operating Margin (%)	*22.2*	*31.7*	*20.5*	*17.6*
Pretax Margin (%)	*21.8*	*32.0*	*22.1*	*24.5*
Net Margin (%)	*17.2*	*24.8*	*17.1*	*17.4*

Source: Company, CIMB estimates

Recommendation

An attractive power plant and highway story backed by new recurring income flows. Mudajaya continues to offer an attractive power plant and highway story, backed by a new stream of recurring income flows from FY13. We forecast the Indian IPP to contribute 8-28% of pretax profit in FY13-14, based on the group's 26% stake. Growth in order book is driven by local jobs. The group could exceed our RM1.5bn target for new jobs for this year if the 1,000MW new coal-fired power plant project and civil works for the Prai gas-fired project come through in 2H12. If not, 2013 should be another good year for project flows.

Maintain Buy and RM3.45 target price. We advise investors to accumulate Mudajaya. Worries over the FSA for the India IPP should subside and there could be renewed interest in the stock due to potential highway contracts other than the RM400m-500m targeted from WCE and power plant jobs. The main takeaway from the meeting was the likelihood of more newsflow on job wins in 2H12. At 5-6x CY12-13 P/E, the stock is the cheapest in our construction coverage. Mudajaya remains a Trading Buy and not an Outperform because of the macro risk for the construction sector (review and potential delay of jobs) if the general election results turn out to be unfavourable.

Figure 2: Share price chart (RM)

Source: Bloomberg

Financial summary

FYE Dec	2010	2011	2012F	2013F	2014F
Revenue (RM m)	869.4	1,347.1	1,584.2	1,875.8	2,137.2
EBITDA (RM m)	284.1	298.7	344.7	383.8	376.7
EBITDA margins (%)	32.7	22.2	21.8	20.5	17.6
Pretax profit (RM m)	278.4	293.9	342.7	413.8	523.3
Net profit (RM m)	215.6	231.0	268.9	321.1	372.4
EPS (sen)	39.3	42.1	49.0	58.6	67.9
EPS growth (%)	+84%	+7%	+16%	+19%	+16%
P/E (x)	7.1	6.6	5.7	4.8	4.1
Gross DPS (sen)	5.6	10.8	11.5	12.2	12.8
Dividend yield (%)	2.0	3.9	4.1	4.3	4.6
P/NTA (x)	2.1	1.6	1.3	1.0	0.8
ROE (%)	21%	26%	25%	24%	22%
Net cash per share (RM)	0.46	0.28	0.29	0.48	0.60
P/CF (x)	7.1	6.5	5.6	5.2	6.7
EV/EBITDA (x)	4.4	4.5	3.9	3.2	3.1
% change in EPS estimates	-		0.0%	0.0%	0.0%
CIMB/Consensus (x)			1.10	1.06	1.02

Source: Company, CIMB Research, Bloomberg Estimates

Figure 3: RNAV

Concession	**DCF value (RM m)**	**Stake (%)**	**Value (RM m)**
IPP RKM Powergen, India (1,440 MW, 20 year DCF)	1,989.2	26%	517.2

Other segments	**P/E (x)**	**Value RM m**	**Stake (%)**	**Value (RM m)**
Construction FY14 net profit	13.0	151.5	100%	1,969.5
Manufacturing FY14 net profit	10.4	4.4	100%	45.9

Property	**m Sq ft**	**RM psf**	**Stake (%)**	**Value (RM m)**
Jalan Bukit Ledang - Damansara Heights	0.07	200.0	100%	13.1
Commercial land in Mutiara Damansara (For HQ)	0.04	150.0	100%	6.5

Net current assets less property development cost (As at 4QFY11)	448.3
Net cash/(debt) 4QFY11	154.8
Total RNAV	**3,155.3**
Enlarged no. of shares	549.3
RNAV/share (RM)	**5.74**
RNAV discount	40%
TP (RM)	**3.45**

Source: Company, CIMB estimates

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