



CIMB Research Report

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decisions

CBRS
FREE Expert
Analysis Reports

7 May 2011

Berjaya Corporation Berhad

Expanding portfolio

RECOM	Hold
PRICE	RM0.815
MKT CAPITALISATION	RM3,479.4m
BOARD	Main
SECTOR	Conglomerate
INDEX COMPONENT	Nil

BL MK / BLAD.KL

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Investment highlights

- Buying stake in Atlan.** B-Corp may end up with a 25% stake in Bursa-listed Atlan Holdings after offering to buy an additional 15.8% stake. The RM4.25 offer price for the duty-free operator is, in our view, fair as it values it at 9.4x FY12 P/E, lower than its 5-year historical average of 15x. We are overall neutral on this surprising deal as the impact on the bottomline is minimal. Our target price is cut from RM0.98 to RM0.89 as we have widened our SOP discount from 50% to 55% to factor in election risks, particularly for the gaming operations. The stock remains a Hold as it is unlikely to outperform in such an environment. For big-cap exposure to conglomerates, investors should opt for Sime Darby (SIME MK, Trading Buy).
- Earnings accretive.** Although our net profit forecasts could rise by 9-12%, the impact on our FY12-14 FD EPS forecasts is only 3.5-6.4% due to the enlarged share base as the RM170m payment for the second tranche will be via 5% ICULS with warrants (it paid RM85m cash for the first tranche). The contribution from Atlan could be partly used to offset the ICULS interest which amounts to RM8.5m per annum. In our computations, we assumed 5% growth for Atlan for FY12-14 but excluded FY12's RM57m one-off items.
- Cutting target price.** Although we maintain our numbers pending completion of the deal, our target price is cut from RM0.98 to RM0.89 as we have widened our SOP discount from 50% to 55% to factor in election risks, particularly for the gaming operations. On completion of the acquisition, our target price could be further reduced to RM0.85 to reflect the higher share base.

Key stock statistics

	2011	2012F
FYE Apr		
EPS (sen)	2.4	1.2
P/E (x)	33.6	70.7
Dividend/Share (sen)	1.3	2.7
NTA/Share (RM)	0.03	0.03
Book Value/Share (RM)	1.43	1.42
Issued Capital (m shares)		4,221.3
52-weeks Share Price Range (RM)		RM0.795/RM1.26
Major Shareholders:		%
Tan Sri Dato' Seri Vincent Tan		20.1
Hotel Resort Ent		12.3

Per share data

FYE Apr	2009	2010	2011	2012F
Book Value (RM)	1.76	1.41	1.43	1.42
Cash Flow (sen)	8.6	12.9	12.0	10.4
Earnings (sen)	(0.8)	4.1	2.4	1.2
Dividend (sen)	0.0	1.5	1.3	2.7
Payout Ratio (%)	0.0	37.4	55.0	234.5
P/E (x)	(100.0)	19.9	33.6	70.7
P/Cash Flow (x)	9.4	6.3	6.8	7.8
P/Book Value (x)	0.5	0.6	0.6	0.6
Dividend Yield (%)	0.0	1.9	1.6	3.3
ROE (%)	-0.6%	2.9%	2.2%	1.2%
Net Gearing (%)	57.1%	49.7%	43.8%	26.5%

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

Recent developments

Buying stake in Atlan Holdings. B-Corp has acquired 7.9% or 20m Atlan shares for RM85m cash (RM4.25/share) on 3 May 2012. It has also proposed to acquire another 40m shares or 15.8% stake in Atlan for RM170m or RM4.25 per share, making it a 25% associate. The proposed acquisition is subject to the approval of B-Corp's shareholders and the relevant authorities. It is estimated that the proposed acquisition will be completed in the second half of 2012.

Earnings outlook

Caught by surprise. The proposal caught us by a surprise even though we see potential for synergies between the two companies as Atlan is, like B-Corp, involved in property and leisure, in addition to its duty-free operations. Apart from the RM85m paid for the 7.9% Atlan shares, B-Corp will issue RM170m irredeemable convertible unsecured loan stocks (ICULS) together with 170m detachable warrants as payment for another 40m shares, valuing Atlan at RM4.25 per share. We think that the acquisition price is fair as it values Atlan at 9.4x FY2/12 P/E, lower than its 5-year historical average P/E of 15x.

Background on Atlan. Atlan Holdings, which is listed on the Main Market of Bursa Securities, is involved in duty-free trading and retailing, property development and investment, hospitality as well as manufacturing of automotive component parts. It holds 81% of Duty Free International Limited. It also manages the Zon Johor Bahru Duty Free Complex, the Zon Regency Hotel by the sea in Johor Bahru and the international ferry terminal at Johor Bahru duty-free zone. It operates a golf club, Black Forest Golf & Country Club, which is located near the Malaysia-Thailand border at Bukit Kayu Hitam, Kedah.

Earnings accretive. Although our net profit forecasts could rise by 9-12%, our FY12-14 FD EPS forecasts rise by only 3.5-6.4% due to the enlarged share base. Note that we have assumed 5% growth for Atlan for FY12-14 and excluded RM57m one-offs (mainly gain on disposal of land and reorganisation cost). The contribution from Atlan could be partly used to offset the ICULS interest which amounts to RM8.5m per annum.

Gearing to rise. As at Jan 2012, B-Corp's net gearing stood at 0.44x. It will rise to 0.47x after this acquisition.

Figure 1: Impact of rights and warrants

Impact on share base (m)				
Original enlarged share base		6,438.1		
New ICULS		170.0		
New warrants		170.0		
New enlarged share base		6,778.1		
FYE Apr (RMm)				
Net profit (basic)	FY12	FY13	FY14	
	74.2	142.1	145.4	
Acquisition cost	(3.0)			
5% coupon interest	(8.5)	(8.5)	(8.5)	
Net profit post-ICULS	62.7	133.6	136.9	
Add: Interest income from warrant conversion @ 3%	5.1	5.1	5.1	
Net profit post-ICULS & warrant conversion	67.8	138.7	142.0	
Income from 25% stake in Atlan (assuming 5% growth)	15.3	16.1	16.9	
Net profit post-ICULS & warrant conversion & Atlan	83.1	154.7	158.8	
Impact on EPS				
Original FD EPS	1.2	2.2	2.3	
Potential revised FD EPS	1.2	2.3	2.3	
Potential changes (%)	6.4%	3.5%	3.8%	

Source: Company, CIMB estimates, Bloomberg

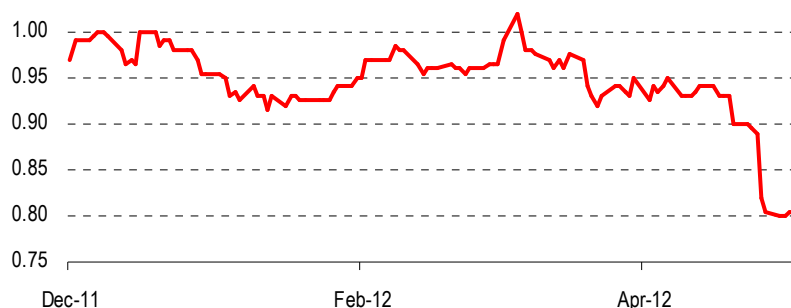
Figure 2: P&L analysis (RM m)

FYE Apr	2009	2010	2011	2012F
Revenue	6,339.0	6,757.5	7,043.6	5,985.2
Operating Profit (EBIT)	689.2	864.0	868.2	597.7
Depreciation	(128.0)	(145.0)	(170.5)	(198.0)
Interest Expenses	(289.8)	(295.6)	(286.6)	(228.0)
Pretax Profit	274.6	595.6	861.6	398.8
Effective Tax Rate (%)	-60.3%	-34.5%	-27.3%	-32.0%
Net Profit	(32.0)	168.9	130.5	74.2
Operating Margin (%)	10.9%	12.8%	12.3%	10.0%
Pretax Margin (%)	4.3%	8.8%	12.2%	6.7%
Net Margin (%)	-0.5%	2.5%	1.9%	1.2%

Source: Company, CIMB estimates

Recommendation

Maintain Hold. Pending the completion of this deal, we make no changes to our EPS forecasts. However, our target price is cut from RM0.98 to RM0.89 as we have widened our SOP discount from 50% to 55% to factor in election risks, particularly for the gaming operations. After the acquisition, our target price could be further reduced to RM0.85 to reflect the higher share base. The stock remains a Hold. For big-cap exposure to conglomerates, investors should opt for Sime Darby (SIME MK, Trading Buy).

Figure 3: Share price chart (RM)

Source: Bloomberg

Financial summary

FYE Apr	2010	2011	2012F	2013F	2014F
Revenue (RM m)	6,757.5	7,043.6	5,985.2	6,539.7	7,164.0
EBITDA (RM m)	1,009.0	1,038.6	795.6	921.5	1,009.5
EBITDA margins (%)	14.9	14.7	13.3	14.1	14.1
Pretax profit (RM m)	595.6	861.6	398.8	590.7	671.2
Net profit (RM m)	80.9	352.2	74.2	142.1	145.4
EPS (sen)	2.2	8.3	1.8	3.4	3.4
EPS growth (%)	+230.1%	+280.8%	-78.9%	+91.5%	+2.3%
P/E (x)	37.2	9.8	46.4	24.2	23.7
Core EPS (sen)	4.0	3.1	1.8	3.4	3.4
Core EPS growth (%)	+495.8%	-22.8%	-43.2%	+91.5%	+2.3%
Core P/E (x)	20.4	26.4	46.4	24.2	23.7
FD EPS (sen)	4.1	2.4	1.2	2.2	2.3
FD P/E (x)	19.9	33.6	70.7	36.9	36.1
Gross DPS (sen)	1.5	1.3	2.7	2.7	2.7
Dividend yield (%)	1.9%	1.6%	3.3%	3.3%	3.3%
P/NTA (x)	(19.1)	26.9	29.3	19.6	14.6
ROE (%)	2.9%	2.2%	1.2%	2.4%	2.4%
Net gearing (%)	49.7%	43.8%	26.5%	21.1%	15.0%
P/CF (x)	11.6	8.5	4.2	28.7	21.8
EV/EBITDA (x)	6.6	6.1	6.6	5.4	4.6
% change in EPS estimates			0.0%	0.0%	0.0%

Source: Company, CIMB Research, Bloomberg

Figure 4: SOP valuation of B-Corp

Landbank	Method	Stake	Size	Unit	Price (RM sq ft/ per unit)	Value (RM m)
Berjaya Hills	Estimated RNAV	100.0%	13,884.6	ac	2.5	1,539.5
Berjaya City (Socfin Land)	Estimated RNAV	100.0%	13,201.8	ac	2.2	1,291.0
Ritz	Estimated RNAV	100.0%	3.0	ac	3,000.0	396.0
Colmar Tropicale	Estimated RNAV	100.0%	248	units	200,000.0	49.6
The Chateau Spa	Estimated RNAV	100.0%	211	units	200,000.0	42.2
	Method	Stake	Price (local curr)		No of share (m)	
Berjaya Land	CIMB's target price	55.5%	0.78		5,000.3	2,163.1
	Method	Stake	Price (local curr)		No of share (m)	
Consumer						
Cosway Corporation	Privatisation cost (based on latest transacted price)					6,181.8
	Method	Stake	Price (local curr)		No of share (m)	
Financial services						
Inter Pacific	0.8x Net asset	91.5%	100.00			73.2
Berjaya Sompou	2.7x BV	30.0%	376.06			304.6
	Method	Stake	Price (local curr)		No of share (m)	
Food and beverages						
Berjaya Food	Marked to market	74.6%	0.99		148.8	109.9
Starbucks	10x CF	50.0%				100.0
	Method	Stake	Price (local curr)		No of share (m)	
Listed investment						
Berjaya Media	Marked to market	14.3%	0.40		232.9	13.3
Taiga Products Canada	Marked to market	39.3%	0.65		32.4	25.7
Magni-Tech	Marked to market	23.1%	1.32		103.6	31.6
TMC Life	Marked to market	30.8%	0.30		601.8	55.6
	Method				Estimated profit	
Others						
Mazda franchise	10x P/E				35.0	350.0
Sanitary landfill	NBV					60.0
Total value						12,817.8
Net cash/(debt)						383.65
Increase in debt due to new ICULS + RM533m debt incurred						(1,300.5)
Proceeds from warrant conversion (RMm)						767.5
Total SOP						12,668.4
No of shares - basic (m)						4,222.9
No of shares - FD (share + cash option) RM0.50 + 1 ICULS (m) + New ICULS + warrants						6,438.1
SOP (RM/share)						3.00
SOP - FD (share and cash option) (RM/share) + New ICULS + warrants						1.97
After 55% discount						5,700.8
Target price (RM/share)						0.89

Source: Company, CIMB estimates, Bloomberg

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