

2 August 2012
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12-month upside potential

Target price	4.37
Current price (as at 1 Aug)	2.56
Capital upside (%)	70.7
Net dividends (%)	2.8
Total return (%)	73.5

Key stock information

Syariah-compliant?	Yes
Market cap (RM m)	1,407
Issued shares (m)	549
Free float (%)	34
52-week high / low (RM)	3.12 / 1.74
3-mth avg volume ('000)	850
3-mth avg turnover (RM m)	2

Share price performance

	1M	3M	6M
Absolute (%)	-5.8	-6.4	-7.7
Relative (%)	-7.6	-5.8	-11.4

Share price chart


Source: Bloomberg

Major shareholders

	%
Dataran Sentral (M) Sdn Bhd	24.3
Mulpha Infrastructure Holdings	21.9
Lembaga Tabung Haji	5.9

Mudajaya Group
Construction
Bloomberg Ticker: MDJ MK | Bursa Code: 5085
Buy
India's wakeup call

India recently experienced its worst power crisis, effecting over 600m people across 20 states. We view this blackout as a positive for RKM (Mudajaya's 26% associate) as there is heightened pressure for Coal India Ltd to ink the fuel supply agreements with IPPs. Coal India Ltd recently agreed to supply 80% of the required coal to the IPPs with any shortfalls met via imports. The pooled pricing should not impact RKM given its fuel cost pass thru mechanism. Maintain BUY on Mudajaya with RM4.37 TP.

Monster blackout hits India

- On Monday and Tuesday, India was hit by a massive power disruption affecting over 600m people, marking India's worst power crisis. While Monday's blackout impacted 9 states, it was far worse on Tuesday with 20 states effected, covering India's entire northern half (see Figure 1).
- India's Federal Power Minister said that the outage was caused by states drawing power "beyond their permissible limits". There appeared to have been a domino effect, with the overloaded northern grid drawing too heavily on the eastern grid, which in turn led to the collapse of the north-eastern network.

Loud wakeup call

- We think that this event serves as a loud wakeup call for the Indian government to swiftly resolve India's power shortage which is estimated to run at a negative reserve margin of -15%, implying that blackouts are experienced at some point every day.
- This massive power disruption also puts pressure on Coal India Ltd (CIL) to expedite the signing of the Fuel Supply Agreement (FSA) with IPPs to ensure the generation capacity comes on-stream as planned. Recall that one of the major hiccups in India's power sector is the reluctance of CIL to ink the coal supply agreement with IPPs (see our Mudajaya reports dated 13 and 18 April).
- During CIL's board meeting on 31 July, it was agreed that CIL will supply at least 80% of the required coal to the IPPs. To meet the minimum supply, 65% will come from domestic coal while the balance 15% will be imported to cover the shortfall.
- A pooled pricing mechanism will be employed to ensure pricing fairness to all IPPs. Each IPP will pay the same price for its coal which is based on the weighted average price of domestic and imported coal.
- Previously, it was proposed that a 0.01% penalty be imposed on CIL if it fails to supply the minimum 80% requirement. With such an insignificant penalty, there were concerns whether CIL will be committed to fulfil its supply obligations. However, with coal imports and a pooled pricing mechanism now coming in, we think this penalty clause is likely to be raised. Earlier proposals were for a 40% penalty on the shortfall sum.

Impact on Mudajaya

- We view India's blackout as a positive to Mudajaya's 26% associate, RKM Powergen, which is tasked to operate 4x360MW coal fired power plants in Raigarh, Chhattisgarh. RKM is one of the IPPs in India that has yet to ink the FSA with CIL.
- While the pooled pricing mechanism will increase the overall coal cost for RKM, it will not dent its bottomline as it can invoke its Fuel Cost Pass Thru (FCPT) mechanism to charge a correspondingly higher tariff.

Valuation and recommendation

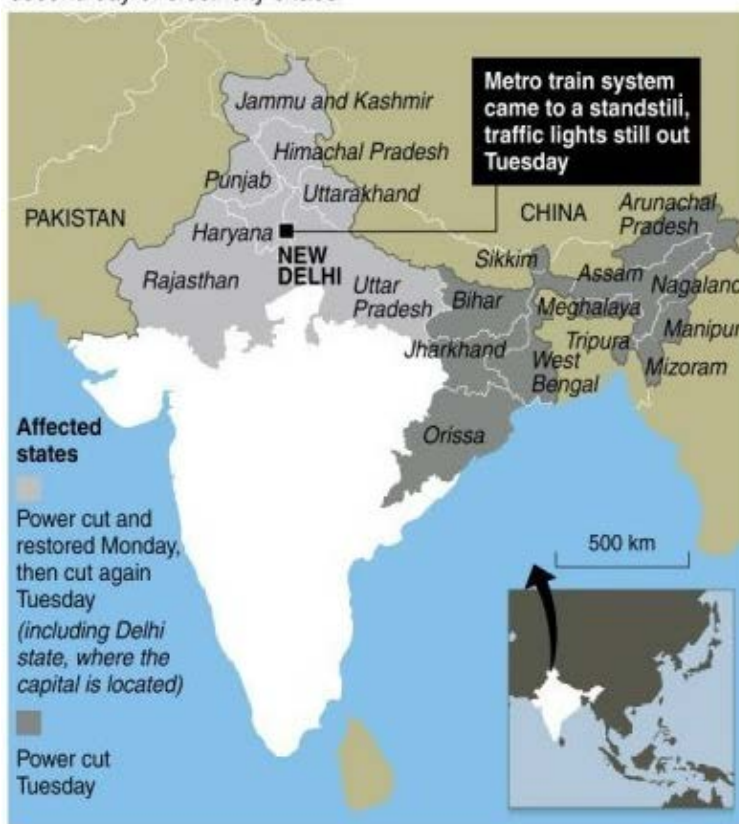
- We maintain our earnings forecast and BUY rating on Mudajaya at an unchanged TP of RM4.37. Our TP is based on a 25% discount to SOP value comprising: (i) 10x FY12 earnings and (ii) FCFE valuation of its Chhattisgarh IPP at 16% equity cost. This implies an undemanding FY12-13 P/E of 9x and 7.5x respectively.



Figure 1 : State's effected by India's power crisis

Power cuts spread in India

Massive power failure affecting over 600 million people in the second day of electricity chaos



Source: Agence France-Presse (AFP)

Figure 2 : Sum-of-parts valuation for Mudajaya

SOP Component	RM/m	Multiplier/ WACC	Value to Mudajaya	Per Share
FY12 earnings	267	10	2,667	4.85
Chattisgarh IPP - FCFE at 16% equity cost	2,047	16%	532	0.97
SOP Value			3,200	5.82
Discount applied		25%	(800)	(1.46)
Target Price			2,400	4.37

Source: Alliance Research



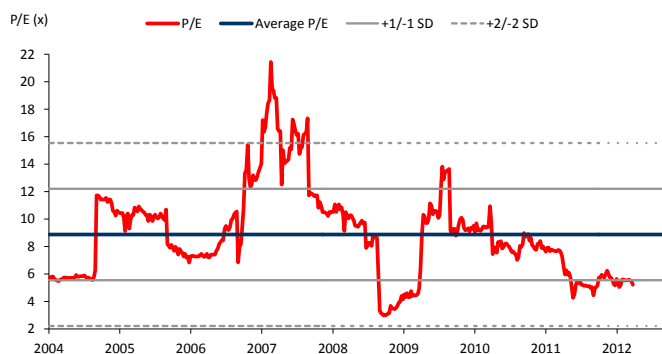
SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 3 : Key financial data

FYE 31 Dec	FY10	FY11	FY12F	FY13F	FY14F
Revenue (RM m)	870.4	1,347.1	1,574.2	1,932.7	1,660.7
EBITDA (RM m)	280.5	299.9	396.7	460.4	332.7
EBIT (RM m)	277.9	297.1	392.3	454.8	325.9
Pretax profit (RM m)	278.4	293.9	392.3	454.8	435.4
Reported net profit (RM m)	215.6	231.0	266.7	318.9	333.1
Core net profit (RM m)	215.6	231.0	266.7	318.9	333.1
EPS (sen)	39.2	42.0	48.5	58.0	60.6
Core EPS (sen)	39.2	42.0	48.5	58.0	60.6
Alliance / Consensus (%)			110.9	106.7	97.8
Core EPS growth (%)	80.9	7.2	15.5	19.6	4.4
P/E (x)	6.5	6.1	5.3	4.4	4.2
EV/EBITDA (x)	4.4	4.1	3.1	2.7	3.7
ROE (%)	39.3	27.7	25.2	24.4	21.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Net DPS (sen)	3.4	6.9	7.3	8.7	9.1
Net dividend yield (%)	1.3	2.7	2.8	3.4	3.6
BV/share (RM)	1.32	1.72	2.13	2.63	3.14
P/B (x)	1.9	1.5	1.2	1.0	0.8

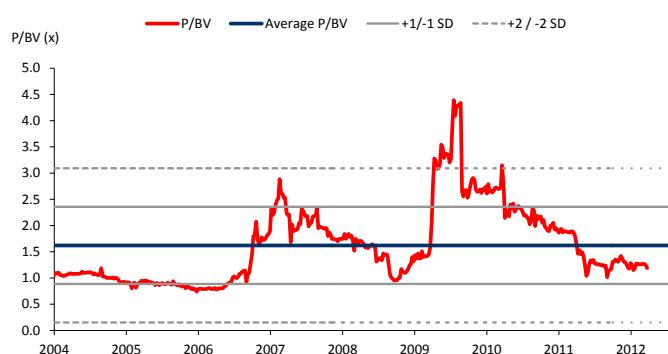
Source: Alliance Research, Bloomberg

Figure 4 : Forward P/E trend



Source: Alliance Research, Bloomberg

Figure 5 : Forward P/B trend



Source: Alliance Research, Bloomberg

Figure 6 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
					CY12	CY13	CY12	CY13	CY12	CY13	CY12	CY13	CY12	CY13
Gamuda	Buy	4.77	3.52	7,319.5	17.4	13.4	13.2	11.6	1.8	1.7	13.6	14.3	3.8	4.3
IJM Corporation	Neutral	5.61	5.13	7,087.9	18.5	9.2	14.0	12.8	1.3	1.2	9.1	9.4	2.9	3.1
WCT	Trading buy	3.10	2.48	2,035.5	10.5	19.8	11.3	9.5	1.3	1.2	11.4	12.5	3.1	3.7
Mudajaya Group	Buy	4.37	2.56	1,406.6	15.5	19.6	5.3	4.4	1.2	1.0	22.7	22.1	2.8	3.4
Kimlun Corp	Buy	1.85	1.42	341.4	6.6	16.9	7.5	6.4	1.3	1.1	16.0	14.8	3.3	3.9
Average					13.7	15.8	10.3	8.9	1.4	1.2	14.6	14.6	3.2	3.7

Source: Alliance Research, Bloomberg

Share price date: 1 Aug 2012



Mudajaya Group

Financial Summary

Price Date: 1 Aug 2012

Balance Sheet

FYE Dec	FY10	FY11	FY12f	FY13f	FY14f
PPE	43.4	75.1	100.1	125.1	150.1
Intangibles	7.0	8.0	9.0	10.0	11.0
Inventories	12.3	12.8	21.9	27.4	24.7
Receivables	380.3	706.3	690.0	847.2	728.0
Other assets	421.8	479.7	676.0	872.4	1,019.0
Deposit, bank and cash	254.9	154.8	190.5	185.5	365.8
Assets	1,119.7	1,436.7	1,687.5	2,067.6	2,298.6
LT borrowings	-	-	-	-	-
ST borrowings	-	-	-	-	-
Payables	337.7	413.9	438.1	547.1	494.9
Other liabilities	21.0	15.0	15.0	15.0	15.0
Liabilities	358.7	428.9	453.1	562.1	509.9
Share capital	314.8	320.3	320.3	320.3	320.3
Reserves	408.2	625.9	852.6	1,123.7	1,406.8
Shareholder's equity	723.1	946.2	1,172.9	1,444.0	1,727.1
MI	37.9	61.6	61.6	61.6	61.6
Equity	761.0	1,007.7	1,234.5	1,505.5	1,788.7
Equity and Liabilities	1,119.7	1,436.7	1,687.5	2,067.6	2,298.6

Cash Flow Statement

FYE Dec	FY10	FY11	FY12f	FY13f	FY14f
Profit before taxation	278.4	293.9	392.3	454.8	435.4
Depreciation & amortisation	2.6	2.8	4.4	5.6	6.9
Changes in working capital	(47.1)	(250.2)	31.2	(53.6)	69.7
Net interest received/ (paid)	-	-	-	-	-
Tax paid	(41.4)	(17.0)	(58.8)	(68.2)	(65.3)
Others	3.2	85.2	-	-	-
Operating Cash Flow	195.7	114.7	369.1	338.6	446.7
Capex	(9.6)	(34.5)	(25.0)	(25.0)	(25.0)
Investment in associate	(156.0)	(68.0)	(200.0)	(200.0)	(150.0)
Others	(43.5)	(75.2)	(69.1)	(66.7)	(40.8)
Investing Cash Flow	(209.1)	(177.7)	(294.1)	(291.7)	(215.8)
Issuance of shares	176.9	5.5	-	-	-
Changes in borrowings	-	-	-	-	-
Dividends paid	(18.4)	(38.1)	(40.0)	(47.8)	(50.0)
Others	(6.3)	(4.4)	-	-	-
Financing Cash Flow	152.2	(37.1)	(40.0)	(47.8)	(50.0)
Net cash flow	138.8	(100.1)	35.7	(5.0)	180.3
Forex	-	-	-	-	-
Beginning cash	116.1	254.9	154.8	190.5	185.5
Ending cash	254.9	154.8	190.5	185.5	365.8

Income Statement

FYE Dec	FY10	FY11	FY12f	FY13f	FY14f
Revenue	870.4	1,347.1	1,574.2	1,932.7	1,660.7
EBITDA	280.5	299.9	396.7	460.4	332.7
Depn & amort	(2.6)	(2.8)	(4.4)	(5.6)	(6.9)
Net interest expense	-	-	-	-	-
Associates & JV	0.5	(3.2)	-	-	109.5
EI	-	-	-	-	-
Pretax profit	278.4	293.9	392.3	454.8	435.4
Taxation	(41.4)	(17.0)	(58.8)	(68.2)	(65.3)
MI	(21.4)	(45.9)	(66.7)	(67.6)	(37.0)
Net profit	215.6	231.0	266.7	318.9	333.1
Adj net profit	215.6	231.0	266.7	318.9	333.1

Key Statistics & Ratios

FYE Dec	FY10	FY11	FY12f	FY13f	FY14f
Growth					
Revenue	20.9%	54.8%	16.9%	22.8%	-14.1%
EBITDA	62.5%	6.9%	32.3%	16.1%	-27.7%
Pretax profit	65.7%	5.6%	33.5%	15.9%	-4.3%
Net profit	80.9%	7.2%	15.5%	19.6%	4.4%
Adj EPS	80.9%	7.2%	15.5%	19.6%	4.4%

Profitability

EBITDA margin	32.2%	22.3%	25.2%	23.8%	20.0%
Net profit margin	24.8%	17.2%	16.9%	16.5%	20.1%
Effective tax rate	14.9%	5.8%	15.0%	15.0%	15.0%
ROA	24.0%	18.1%	17.1%	17.0%	15.3%
ROE	39.3%	27.7%	25.2%	24.4%	21.0%

Leverage

Debt/ Assets (x)	-	-	-	-	-
Debt/ Equity (x)	-	-	-	-	-
(Net debt)/ equity (x)	Net cash	Net cash	Net cash	Net cash	Net cash

Key Drivers

FYE Dec	FY10	FY11	FY12f	FY13f	FY14f
Contract wins (RM/m)	241	766	1,800	500	500

Valuation

FYE Dec	FY10	FY11	FY12f	FY13f	FY14f
EPS (sen)	39.2	42.0	48.5	58.0	60.6
Adj EPS (sen)	39.2	42.0	48.5	58.0	60.6
P/E (x)	6.5	6.1	5.3	4.4	4.2
EV/ EBITDA (x)	4.4	4.1	3.1	2.7	3.7
Net DPS (sen)	3.4	6.9	7.3	8.7	9.1
Yield	1.3%	2.7%	2.8%	3.4%	3.6%
BV per share (RM)	1.32	1.72	2.13	2.63	3.14
P/BV (x)	1.9	1.5	1.2	1.0	0.8



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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