

19 August 2016 | Corporate Update

## Vivocom International Holdings Berhad

### Higher orderbook from project award in Perak

**Maintain BUY**

**Adjusted Target Price (TP): RM0.63**  
(From RM0.59)

#### INVESTMENT HIGHLIGHTS

- **Orderbook expanded from project award in Perak**
- **Perak and Gemas-JB electrified double track could provide catalyst for orderbook expansion in FYE17/FYE18**
- **Reaffirm our earnings estimates for FYE16/FEY17 underpinned by robust orderbook of RM3.5bn**
- **We maintain our BUY recommendation with an adjusted TP of RM0.63 per share**

#### Orderbook expanded from recent project award in Perak.

Vivocom International Holdings Berhad (VIHB) has recently entered into a joint-venture agreement with Seni Perspektif Sdn. Bhd. as a turnkey contractor to develop 377-acres of land known as Bandar Tasik Amanjaya in Kinta, Perak (*Figure 1*). As we have anticipated in our previous report (04.08.16), the recent award of projects in Perak has increased its orderbook from RM3.3bn to RM3.7bn (+12.0%). Going forward, we expect its orderbook to grow further from current levels to RM3.9bn by 4QFY16, or approximately 36 months backlog.

#### Expanding orderbook is evidential of VIHB's business model clarity and direction.

We forecasted VIHB to win c.RM950m of jobs for FYE16. Insofar, due to its orderbook replenishment abilities, VIHB has clinched c.RM3.5bn projects. Going forward, we foresee a good possibility of VIHB securing sub-contracting jobs from projects such as Gemas-JB double railway track from China Railway Group Ltd. (CREC) and the construction of affordable housing in Merujaya, Perak. We estimated that the said projects would give a total additional injection of RM2.0bn to its current orderbook. Furthermore, we gather a positive whiff from our channel checks on the likelihood of VIHB participating in work packages (c.RM2.0bn) related to the CREC regional centre in Bandar Malaysia. Hence we believe that its orderbook will continue to rise to meet our earnings expectation for the next three financial years.


**Tapering reliance on China's SOEs.** Construction projects in Perak currently amounts to c.17% of our orderbook estimates for VIHB. Consequently, if the project in Merujaya is won, the percentage would rise to c.29.0%. This is reassuring as VIHB tapers down the risk of relying too heavily on projects from China's State-owned Enterprises (SOE). We view the project awards from Perak as a stepping stone for VIHB to win more government related works considering that track record is a primary consideration in winning any bids from Public Works Department (PWD) and the Ministries.

RETURN STATS	
Price (18 Aug 2016)	RM0.31
Target Price	RM0.63
Expected Share Price Return	103.0%
Expected Dividend Yield	+0.0%
<b>Expected Total Return</b>	<b>+103%</b>

STOCK INFO	
KLCI	1,694.87
Bursa / Bloomberg	0069/VIVO MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	2587
Par Value (RM)	1.00
Market cap. (RM'm)	802
Price over NA	2.048
52-wk price Range	RM0.07– RM0.37
Beta (against KLCI)	0.86
3-mth Avg Daily Vol	35.1
3-mth Avg Daily Value	RM9.66m
Major Shareholders (%)	
Golden Oasis S/B	23.42
Ang Li Hann	10.54
Soo Ching Kung	5.1
Yan Chan Chuck	3.49

**Demand for affordable housing will give a fillip to VIHB orderbook moving forward.** The affordable housing market segment is an area where VIHB could give a strong focus on especially in Perak where the State government is targeting affordable housing projects for every district. We estimate that >30,000 houses are needed to fulfil the demand gap. VIHB's entrance into the affordable housing space gives comfort to the prospects of its orderbook replenishment.

**Earnings estimates.** We reiterate our FY16F/FY17F earnings projections. Nevertheless, we fine-tuned our DCF variables to factor in higher reinvestment rate of 41.0% and cash of RM47m. We reaffirm our perspective that VIHB is currently positioned at the inflection point of stabilized margins of 10.0%. We estimated that VIHB would be able to maintain the momentum of clinching new projects supported by its healthy financial position (*Figure 2*).

**Recommendation.** On the basis thereof, we reaffirm our **BUY** recommendation with an adjusted TP of RM0.63 per share based on FYE17 sum-of-parts (SOP) methodology on an implied prospective PER of 13x which is on the lower end of our small to mid-cap construction PER range of 10x-14x (+1.3SD above the mean of 12). 

## SOP VALUATION

Segments	Basis	Indicative Value (RM'm)	Per Share (RM)
Construction	FY17 PER of 13	1080	0.436
Aluminium Manufacturing	FY17 PER of 12x	192	0.08
Telecommunication Assets	FY17 PER of 12x	240	0.10
<b>Total Sum of Parts</b>		1382	<b>0.62</b>
Net Cash (Current)		47	0.01
<b>SOP Per Share</b>			<b>0.626</b>
No of Shares (mil)			2475

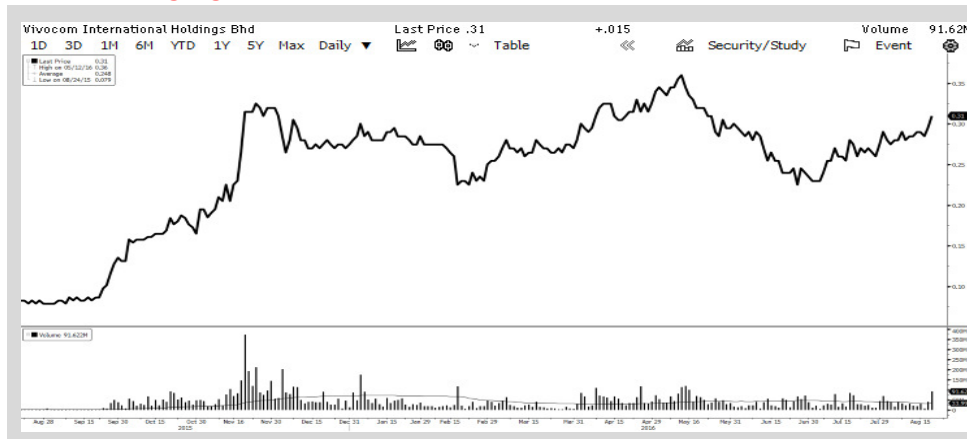
Source: MIDFR

## INVESTMENT STATISTICS

FYE DEC (RM m)	2013	2014	2015	2016F	2017F
Revenue	120.4	66.0	182	740.7	1009
Gross Profit	43.9	13.9	46.7	222	420
Net Profit	26.2	3.7	12.5	81.47	111
EPS (Sen)	0.04	0.01	0.02	0.03	0.04
EPS (Growth)(%)	N/A	(86)	+50	+66	+75
PER	28.4	201.2	2	10.1	2

Source: MIDFR

## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

## FIGURE 1: PROJECT DETAILS

Projects	Amount (MYR'm)	Comments
Tasik Amanjaya Phase 1	158	Total of 4 Phases (Affordable Housing)
Wilayah Sultan Azlan Shah	160	Mixed Development/Turnkey Contractor
Batu 10, Chepor	160	Mixed development
Merujaya (BQ Stage)	c.500 (Estimated)	Mixed development and affordable housing

Source: Bursa, Company

## FIGURE 2: FINANCIAL HIGHLIGHTS

(MYR'm)	2012	2013	2014	2015	2016F
Revenue	3.5	120.4	66.0	97.9	129.2
Profit before tax	-1.3	30.5	6.2	12.0	15.7
Operating Profit Margin (%)	-38.6	25.3	9.3	12.3	36.2
EBIT Interest Coverage (x)	-	5.0	1.9	4.5	3.3
CFO	-2.9	26.2	3.7	8.7	12.0
CFO Interest Coverage (x)	-	4.3	1.2	3.2	1.9
FCF	-0.8	22.3	6.6	6.9	10.6
Total Liabilities	0.2	73.6	50.4	83.3	108.4
Shareholders Fund	13.4	163.4	167.5	329.4	406.5

Source: MIDFR, Bloomberg

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.