

20 September 2017

Construction & Engineering | Construction

ML Global

Constructing a Brighter Future

We initiate coverage on MGB with BUY and TP of MYR1.46 (15% upside). The resilient performance at LBS bodes well for MGB's orderbook replenishment. Coupled with the initiative to secure more external jobs in the affordable housing space and sizeable outstanding orderbook of MYR2.1bn, we are forecasting net profit growth of 71% and 21% in FY18 and FY19 respectively. The stock is currently trading at FD FY18F P/E of 12.3x, which we believe does not fully reflect its strong fundamentals and bright prospects.

LBS' resiliency bodes well for orderbook replenishment. We believe ML Global Bhd's (MGB) prospects would be underpinned by strong backing from its parent, LBS Bina Group (LBS) as the majority of its wholly-owned property projects are awarded to MGB. Despite the slowdown in the property market, LBS has clocked an impressive 3-year CAGR of 26% in new property sales to reach MYR1.2bn in FY16. This could be due to its strategic market position and focus on medium and medium-to-high end property development projects.

Affordable housing offers new opportunities. We think that the combined construction entity following the injection of MITC Engineering Sdn Bhd (MITC) would help MGB to secure more external jobs given the larger business scale and platform to tender for bigger external construction contracts. With the Government's ongoing efforts to provide more affordable housing and pledge to build 1m units of affordable houses by 2018, MGB is looking to capitalise on the huge opportunity by targeting this segment of the market.

Investing for the future. MGB has entered into a MoU with Sany Construction Industry Development (M) Sdn Bhd (Sany Malaysia) for its industrialised building system (IBS) precast manufacturing business. As the Government is looking to enforce 50% IBS usage in the private sector and 70% in the public sector by 2018, the expansion would reduce MGB's dependence on labour and thus be less susceptible to labour shortages, while more cost savings can be derived in the long run in view of rising labour wages.

Sizeable orderbook in hand. MGB currently has an outstanding orderbook of MYR2.1bn. It has clinched new contracts worth c.MYR1.3bn so far in FY17. Moving forward, we assume new contract wins of MYR1.5bn, MYR1.1bn, and MYR1.1bn during FY17F-19F respectively, premised on the strong backing of LBS, and the initiative to secure more external jobs. This would in turn power net profit growth of 71% and 21% in FY18 and FY19 respectively.

Initiate coverage with BUY and TP of MYR1.46, based on FD FY18F P/E of 14x, which is in line with the 5-year mean P/E of 14x for the KL Construction Index, and at a discount to the 16x P/E for Sunway Construction (Suncon, SCBG MK, NEUTRAL, TP: MYR2.30) – this is justified by the latter's capabilities in infrastructure-based projects and larger market capitalisation. The stock is currently trading at FD FY18F P/E of 12.3x, which we believe does not fully reflect its strong fundamentals and bright prospects.

Risk to our call and TP include lower-than-expected orderbook replenishment and sharp rise in construction input costs.

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	37	93	637	1,087	1,297
Reported net profit (MYRm)	10.2	0.6	34.8	59.5	72.0
Recurring net profit (MYRm)	10.2	0.6	34.8	59.5	72.0
Recurring net profit growth (%)	13836.7	(93.8)	5390.7	70.9	21.0
Recurring EPS (MYR)	0.03	0.00	0.09	0.15	0.18
DPS (MYR)	na	na	na	na	na
Recurring P/E (x)	49	791	14	8	7
P/B (x)	16.6	1.5	1.4	1.2	1.0
P/CF (x)	na	na	na	5.51	5.50
Dividend Yield	na	na	na	na	na
EV/EBITDA (x)	54	102	9	5	4
Return on average equity (%)	40.4	0.3	9.9	14.9	15.4
Net debt to equity (%)	46.2	8.7	21.6	2.1	net cash
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Buy

Target Price:	MYR1.46
Price:	MYR1.27
Market Cap:	USD120m
Bloomberg Ticker:	MLG MK

Share Data

Avg Daily Turnover (MYR/USD)	0.57m/0.13m
52-wk Price low/high (MYR)	0.75 - 1.32
Free Float (%)	25
Shares outstanding (m)	395
Estimated Return	15%

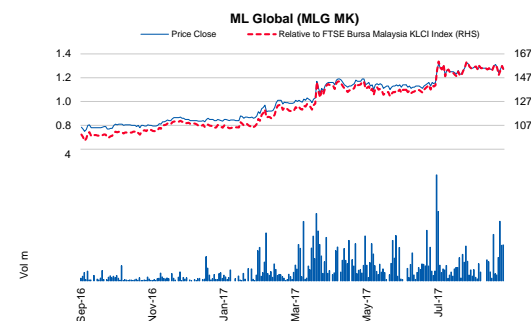
Shareholders (%)

LBS Bina Group Bhd	51.4
Datuk Lim Lit Chek	12.2
Etiqa Insurance Bhd	3.4

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	52.1	(3.8)	11.4	28.9	62.8
Relative	43.9	(3.8)	12.1	27.1	55.2

Source: Bloomberg



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Financial Exhibits

Financial model updated on : 2017-09-20.

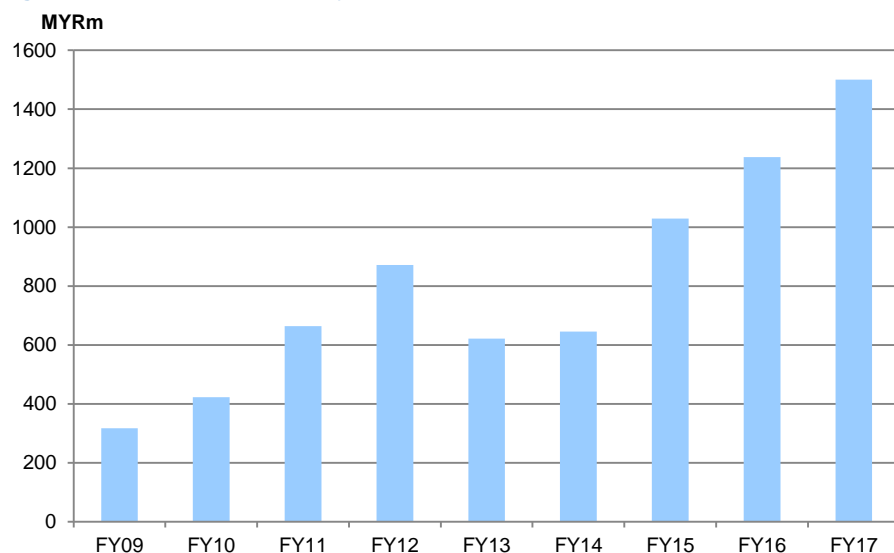
Asia	Financial summary	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Malaysia	Recurring EPS (MYR)	0.03	0.00	0.09	0.15	0.18
Construction & Engineering	EPS (MYR)	0.03	0.00	0.09	0.15	0.18
ML Global	BVPS (MYR)	0.08	0.85	0.94	1.09	1.27
Bloomberg MLG MK	Weighted avg adjusted shares (m)	395	395	395	395	395
Buy						
	Valuation metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Valuation basis	Recurring P/E (x)	49	791	14	8	7
P/E valuation	P/E (x)	49	791	14	8	7
	P/B (x)	16.6	1.5	1.4	1.2	1.0
Key drivers	FCF Yield (%)	(0.8)	(2.6)	(6.1)	14.2	14.2
Orderbook replenishment, proliferation of IBS	EV/EBITDA (x)	54	102	9	5	4
	EV/EBIT (x)	61	138	10	5	4
Key risks						
Slowdown in property market, sharp rise in input costs.	Income statement (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Total turnover	37.0	92.5	636.6	1,087.1	1,297.1
	Gross profit	9.5	10.6	76.2	126.4	148.9
	EBITDA	9.5	4.6	55.5	91.8	108.4
	Depreciation and amortisation	(1.0)	(1.2)	(4.5)	(6.2)	(7.4)
	Operating profit	8.5	3.4	51.0	85.7	101.0
	Net interest	(1.4)	(0.9)	(2.2)	(2.2)	(0.7)
	Pre-tax profit	7.1	2.5	48.8	83.4	100.3
	Taxation	3.1	(1.8)	(13.7)	(23.4)	(28.1)
	Minority interests	0.0	0.0	(0.4)	(0.6)	(0.2)
	Recurring net profit	10.2	0.6	34.8	59.5	72.0
	Cash flow (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Change in working capital	(10.4)	(12.0)	(55.4)	24.7	11.5
	Cash flow from operations	(3.9)	(12.7)	(15.8)	90.9	91.1
	Capex	(0.1)	(0.1)	(15.0)	(20.0)	(20.0)
	Cash flow from investing activities	2.6	19.6	(35.0)	(20.0)	(20.0)
	Cash flow from financing activities	(3.0)	(4.7)	51.2	(50.0)	(40.0)
	Cash at beginning of period	4.3	3.0	9.5	9.9	30.8
	Net change in cash	(4.3)	2.3	0.4	20.9	31.1
	Ending balance cash	(0.0)	5.3	9.9	30.8	61.9
	Balance sheet (MYRm)	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Total cash and equivalents	3.0	9.5	9.9	30.8	61.9
	Tangible fixed assets	18.6	39.5	70.0	83.9	96.5
	Intangible assets	0.0	260.1	260.1	260.1	260.1
	Total investments	0.0	60.5	60.5	60.5	60.5
	Total other assets	1.5	1.6	1.6	1.6	1.6
	Total assets	65.1	636.2	716.1	837.2	921.2
	Short-term debt	3.0	8.2	40.0	20.0	0.0
	Total long-term debt	14.0	30.6	50.0	20.0	0.0
	Other liabilities	0.0	0.8	0.8	0.8	0.8
	Total liabilities	34.8	300.4	345.1	406.2	418.0
	Shareholders' equity	30.3	335.8	370.6	430.1	502.1
	Minority interests	0.0	(0.0)	0.4	0.9	1.2
	Total equity	30.3	335.8	370.9	431.0	503.2
	Net debt	14.0	29.3	80.1	9.2	(61.9)
	Total liabilities & equity	65.1	636.2	716.1	837.2	921.2
	Key metrics	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
	Revenue growth (%)	337.7	149.9	587.9	70.8	19.3
	Recurrent EPS growth (%)	13836.7	(93.8)	5390.7	70.9	21.0
	Gross margin (%)	25.7	11.4	12.0	11.6	11.5
	Operating EBITDA margin (%)	25.7	5.0	8.7	8.4	8.4
	Net profit margin (%)	27.5	0.7	5.5	5.5	5.6
	Capex/sales (%)	0.2	0.1	2.4	1.8	1.5
	Interest cover (x)	5.94	3.61	23.35	38.85	148.91

Source: Company data, RHB

Investment Thesis

LBS' resiliency bodes well for MGB's orderbook. MGB's prospects for new contract wins should be underpinned by the resilient sales performance at LBS and its sizeable landbank, as well as future GDV of c.MYR30bn (Figure 2). Despite the slowdown in the property market, LBS has clocked in an impressive 3-year CAGR of 26% in new property sales to reach MYR1.2bn in FY16.

Figure 1: LBS' annual property sales



Source: Company

*Sales target of MYR1.5bn for FY17

LBS' market position and its focus on medium and medium-to-high end property development projects may have driven its resilient performance amidst headwinds in the property market.

Moving forward, LBS is targeting new sales of MYR1.5bn in FY17 (8M17: MYR799m), a potential 21% growth from FY16, backed by planned MYR2.3bn worth of new launches. We expect the solid sales momentum to be sustained as LBS continues to concentrate on addressing the market's needs by offering an affordable range of products to capture demand amidst the soft market conditions.

LBS' resilient property sales/launches augurs well for MGB's orderbook replenishment as the majority of LBS' wholly-owned property projects are awarded to MGB, whilst MGB also stands a chance in the JV projects via open tenders.

Figure 2: LBS' future GDV and landbank

Project	Property type	Remaining acreage	State	Future GDV (MYRm)	Stake
Bandar Saujana Putra	Mixed Township	136.8	Selangor	3,379	100%
D'island Residence	Residential	68.1	Selangor	1,178	100%
Skylake Residence	Residential & Commercial	2.6	Selangor	190	100%
Taman Tasik Puchong, Phase 2	Residential & Commercial	48.2	Selangor	129	100%
Alam Awana Industrial Park @U10 Shah Alam	Residential & Industrial	73.9	Selangor	179	100%
Bukit Chera	Residential & Commercial	58.3	Selangor	319	100%
Cameron Centrum	Mixed Township	80.3	Pahang	2,253	58%
Tengkolok	Residential	37.8	Pahang	472	61%
Cameron Golden Hills	Mixed Township	6.1	Pahang	40	100%
Taman Royal Lily	Mixed Township	7	Pahang	357	51%
Kampung Raja	Residential	30	Pahang	134	61%
Bandar Putera Indah	Mixed Township	398.4	Johor	1,023	100%
Chemor, Ipoh	Residential	356.2	Perak	160	71%
Chemor, Ipoh	Residential	18.5	Perak	31	100%
Puncak Jelapang Maju	Industrial	26.2	Perak	18	100%
Jelapang Maju Light Industrial Park	Industrial	5.4	Perak	9	100%
Sinaran Mahkota	Commercial	4.2	Pahang	139	100%
Midhills, Genting	Residential	1.3	Pahang	72	100%
Midhills 2, Genting	Residential	5.5	Pahang	516	85%
Johor CBD	Residential	5.5	Johor	2,299	100%
Celebrity Residence, KK	Residential	6.3	Sabah	646	100%
Tampoi, Johor	Residential	10.6	Johor	901	75%
Danga Bay	Residential	6.6	Johor	873	80%
Kampar Land	Residential	84.8	Perak	331	100%
Kota Tinggi, Kulai Johor	Mixed Township	1,232.4	Johor	5,425	80%
Telok Gong	Industrial	47.1	Selangor	295	100%
Bukit Jalil Project	Residential	10.9	KL	1,294	100%
LBS CyberSouth, Dengkil	Residential	633	Selangor	3,368	51%
LBS Alam Perdana	Residential	469.9	Selangor	3,378	51%
Taman Molek	Mixed Development	2.61	Johor	405	100%
Other small parcels	Residential & Commercial	7.3	Selangor	16	100%
Total		3,882		29,829	

Source: Company data

Affordable housing offers external opportunities. We think that the combined construction entity post the injection of MITC would increase MGB's chances of securing more external jobs given the larger scale of business and platform. MGB currently has a tenderbook of MYR1bn of which 80% is external. We are hopeful of MGB securing more external projects given its competitive advantage in design-and-build capability, proven track record with 10 years of IBS experience and the expansion into its in-house IBS precast manufacturing.

The Ministry of Urban Wellbeing, Housing and Local Government, in a recent statement to the media revealed that the Government's target of building 1m affordable housing units (RMM) is expected to be achieved by end-2017. According to the ministry, the total number of RMM units targeted for construction was 875,490 as at Apr 2017, of which 237,738 units had been fully completed.

With the Government's ongoing efforts to provide affordable housing and pledge to build 1m affordable houses by 2018, MGB is looking to capitalise on the huge opportunity by targeting the affordable housing market. As such, it is aiming to enhance its proposition and strengthen its rapport with relevant government agencies by delivering quality products and services in order to get into the ranks of preferred contractors for government residential projects.

Figure 3: Affordable housing projects awarded during 2016-2017

Date awarded	Contract details	Contract amount (MYRm)	Awarded contractor	Awarding client
2/23/2016	Proposed construction and completion of 800 units public apartments, Perumahan Penjawat Awam 1 Malaysia, inclusive of two blocks multi-level car park and common facilities at parcel 17RM2, Precint 17, Putrajaya.	157.3	Mitrajaya	Putrajaya Homes Sdn Bhd
5/3/2016	Five blocks of Selangorku affordable homes.	165.8	Kimlun	Hillcrest Gardens Sdn Bhd
5/6/2016	Project management and sub-contract works for the proposed Affordable Housing Development Project at Sebahagian Lot 6515, Taman Sutera Wangi, Mukim Batu Berendam, Melaka (Fasa 3) – construction package for 28 units of single storey detached, 150 units double storey semi-detached and infrastructure works.	30.9	Flonic	B.S. Civil Engineering Sdn. Bhd.
8/2/2016	Build and develop PR1MA at Sri Gading at Alor Gajah Melaka comprising of 554 residential units with five apartment blocks of 11 storeys each, and one apartment block comprising 12 storeys.	101.1	O&C Resources	PR1MA and Mampan ESA (Melaka) Sdn. Bhd
9/8/2016	Affordable Housing Development Scheme.	91.0	O&C Resources	Yayasan Pahang
9/26/2016	1,000 units of apartments in Kota Bharu under the Programme Perumahan Rakyat (PPR)	24.6	Voir	Wira Syukur (M) Sdn Bhd
10/4/2016	Perform reinforced concrete structure and associated works for the project Cadangan Pembangunan Rumah Selangorku (714 unit) RSKU.	8.6	Minetec	Gamuda
6/13/2017	Construct and complete the construction of four blocks of 1,200 units of condominiums for 1Malaysia Civil Servants' Housing Programme (PPA1M) at Lot PT 16636 Seluas 5.02 Hektar (12 Ekar), Mukim Lumut, Daerah Manjung, Perak.	195.2	Vivocom	S.B.A Property Management Sdn Bhd
7/18/2017	Develop project known as Perumahan Penjawat Awam 1Malaysia (PPA1M) in Putrajaya.	324.0	O&C Resources	Damansara Realty (Johor) Sdn Bhd
7/26/2017	Site clearance and infrastructure earthworks of prima homes project.	3.7	SC Estate Construction Sdn Bhd	Visi Sempena Sdn Bhd
9/7/2017	Build three blocks of apartment residences, housing 338 units with built-up sizes ranging from 750sf (Type B units) to 900sf (Type C2 units) and amenities at Kota Warisan, Sepang under the Rumah Selangorku scheme.	43.9	Mitrajaya	Gema Padu Sdn Bhd
9/14/2017	Proposed construction and completion of six blocks of 29-storey PPA1M apartments at Lot 10030, Seksyen 63, Mukim Kg Sireh, Jajahan Kota Bharu, Kelantan Darul Naim.	581.6	SUNCON	Liziz Standaco Sdn Bh

Source: Bursa announcements

Investing for the future. In Jul 2017, MGB signed a MoU with Sany Malaysia on the setting up of a JV for its IBS precast manufacturing business. The JV (MGB: 51%, Sany Malaysia: 49%) will see the construction of the partnership's first IBS plant in Nilai, Negeri Sembilan, which requires capex of MYR40m and can produce up to 2,000 house units per year upon reaching full capacity in 2H19. This compares with approximately 6,000 units of houses per year that MGB currently builds.

MGB's role in the JV would be to promote the usage of precast concrete to its clients as well as sourcing labour for the operations, while Sany Malaysia would transfer the technical know-how.

Sany Malaysia is an indirect 70%-owned subsidiary of Sany Group Co Ltd (Sany Group). One of Sany Group's core subsidiaries, Sany Heavy Industry Co Ltd (600031 CH, NR) was publicly listed on the Shanghai Stock Exchange on 3 Jul 2003, and has a market capitalisation of USD10bn. It is currently the largest provider of precast concrete equipment solutions in China, accounting for 50% of the market.

We are positive on the venture as it would reduce MGB's dependence on manual labour and costs in the long run. Management indicated that the IBS solution could potentially reduce 15% of its construction workforce and 30% of the construction period for projects.

While the construction costs of IBS are expected to remain the same as current construction methods over the next two years after including transportation costs, it is able to serve as a buffer in the event of possible increases in labour-related costs, and/or labour shortages. The maiden production is expected to roll out in Jun 2018 for the construction of 764 units of houses under SkyLake Residence.

In a recent media statement, Deputy Prime Minister, Datuk Seri Dr Ahmad Zahid Hamidi urged the construction industry to be prepared for the adoption of IBS within three years before it is made mandatory. The decision was made during a high-level committee meeting, chaired by the Deputy Prime Minister at Parliament on 25 Jul 2017.

Meanwhile, as outlined in the Construction Industry Transformation Programme (CITP), the Construction Industry Development Board (CIDB) is aiming to enforce 50% IBS usage in the private sector and 70% in the public sector by 2018. Hence, we believe the expansion into the IBS business bodes well for MGB given the commitment by the Government, while the strategic partnership with Sany Group would also pave the way for MGB to become one of the most efficient IBS manufacturers going forward, in our view.

Figure 4: IBS vs traditional construction methods

Aspects	IBS	Traditional construction methods
Quality control	The factories' strict quality system can effectively control the quality of component products, such as waterproofing, fireproofing, soundproofing, permeability, anti-cracking and thermal insulation.	Manual operations are difficult to monitor in a precise manner. Problems, such as water seepage, cracking, hollowing, and uneven walls may occur.
Cost control	Standard product components, unified design, unified purchase. The larger the construction scale, the higher degree of standardisation, the lower the cost.	Cost control is difficult. Most of the construction processes are labour intensive. Large number of skilled workers are difficult to recruit and retain. The cost of labour continues to rise.
Construction efficiency	Most components are finished on factory assembly lines. Manual processes have been transformed into automated processes. Production takes place in a factory rather than on site. No weather limitations, increased speed, higher efficiency.	For the main structure, an experienced construction team can finish one storey in five days, but more complicated subsequent works might require more time than initially expected.
Impacts to environment	Environmentally friendly. More factory manufacturing means less field manufacturing. Dust, noise and pollution are easily contained and managed in a factory environment.	Inefficient use of resources. Higher material costs, dust, construction debris, noise and waste discharged into the environment.

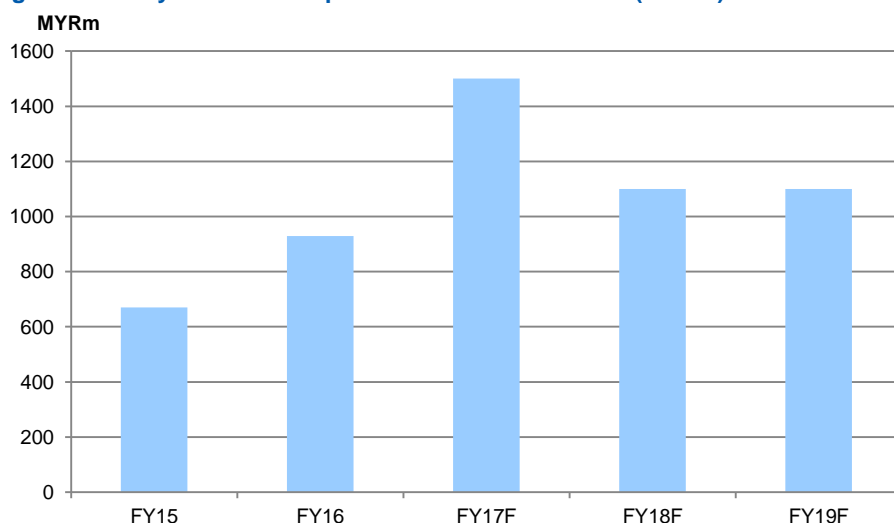
Source: Sany Construction Industry

Sizeable orderbook in hand. MGB currently has an outstanding orderbook of MYR2.1bn, which provides near-term earnings visibility for the next 2-3 years. Of this, slightly more than three quarters of the outstanding orderbook is derived from its parent company, LBS.

The Group has clinched new contracts/projects totalling MYR1.3bn so far in FY17. Moving forward, we assume new orderbook wins of MYR1.5bn, MYR1.1bn, and MYR1.1bn during FY17F-19F respectively. This would in turn power net profit growth of 71% and 21% in FY18F and FY19F respectively.

We believe that contract flow would be supported by the strong backing of its parent company, LBS, as well as the initiative to secure more external jobs in the affordable housing space. Via its indirect 70%-owned subsidiary, MGB Geotech, MGB is also looking to explore piling-related project opportunities in East Malaysia. In Jul 2017, MGB Geotech secured a MYR68m subcontract from Samling-Ekovest JV Sdn Bhd to undertake piling works at the Pan Borneo Highway projects.

Figure 5: Yearly orderbook replenishment/contract wins (MYRm)



Source: Company data

Figure 6: Orderbook project breakdown (updated as of Aug 2017)

Ongoing project	Contract value (MYRm)	Unbilled amount (MYRm)
<u>Awarded by LBS</u>		
BSP 21 - A (A&B)	98	12
BSP 21 - C	80	22
BSP 21 - B2 (D&E)	93	14
BSP 21 - F&G	112	74
BSP 21 - H, I & J	195	182
Kem Slim	17	3
Genting Midhill - Pkg 2	128	49
56 semi D	34	2
30 semi D	19	2
Skyvilla building	93	34
Desiran Bayu - Ph1 - Ph3	57	31
Desiran Bayu - Ph4 & Ph5	42	39
53u Superlink Building	25	9
Alam Perdana Sales Gallery	9	3
Rumah Selangorku	168	168
Bukit Jalil	687	687
Skylake	189	189
203u Arcadia	38	38
Desiran Bayu Ph6	24	24
Total	2109	1581
<u>Third-party projects</u>		
51 shop office Batu Pahat	17	17
96 shop office Batu Pahat	28	21
1.88 acre hotel	76	75
YPJ Building	145	135
TNB Habu	71	67
Delta Gallery	121	105
Pan Borneo (Sarawak)	68	68
Total	528	487
Grand total	2637	2068

Source: Company data

Valuation And Recommendation

We initiate coverage on MGB with a BUY recommendation and TP of MYR1.46 (15% upside) derived from ascribing a target FD FY18F P/E of 14x. The valuation is in line with the 5-year mean P/E of 14x for the KL Construction Index. Although MGB's market capitalisation of MYR501m is relatively smaller than the average of MYR1.1bn for the KL Construction Index members, we believe the prospective strong earnings growth and potential new orderbook replenishment are MGB's strong points, on top of its IBS manufacturing initiatives.

MGB is similar to Suncon (SCBG MK, NEUTRAL, TP: MYR2.30) as both companies are supported by property developer parent companies that help to ensure a stable flow of new jobs. However, Suncon possesses additional capabilities in infrastructure-based construction while also being larger in terms of market capitalisation compared to MGB, hence justifying a premium valuation target multiple of 16x (vs the 14x target P/E for MGB).

Figure 7: Peer comparison

Name	Price	Mkt cap (MYRm)	P/E (x)		DY	ROE	P/BV (x)	EPS Growth		TP	Rating	
			Hist.	1Y-Fwd				2Y-Fwd	1Y-Fwd			2Y-Fwd
Gamuda Bhd	5.37	13,176	21.0	19.1	16.7	2.3%	10%	1.8	10%	14%	5.80	Buy
IJM Corp Bhd	3.39	12,299	22.8	18.8	16.6	2.5%	7%	1.3	22%	13%	3.70	Buy
WCT Holdings Bhd	1.77	2,490	36.4	16.9	14.6	1.8%	5%	0.9	115%	16%	1.80	Neutral
Sunway Construction Group	2.32	2,998	24.3	19.9	17.0	2.6%	26%	5.2	22%	17%	2.30	Neutral
Gadang Holdings Bhd	1.22	803	8.0	8.2	7.3	2.1%	16%	1.3	-3%	13%	1.53	Buy
Kimlun Corp Bhd	2.20	703	8.6	10.1	8.7	2.5%	12%	1.2	-15%	17%	2.92	Buy
Kerjaya Prospek Group Bhd	3.85	2,168	21.8	17.2	14.6	1.6%	14%	2.5	26%	18%	3.84	Neutral
Hock Seng Lee Berhad	1.45	797	14.1	15.1	10.6	1.7%	7%	1.1	-7%	43%	2.18	Buy
Pintaras Jaya Bhd	3.88	640	17.7	15.0	11.9	5.0%	12%	1.8	18%	25%	3.50	Neutral
ML Global Bhd^	1.27	501	2,244.6	21.0	12.3	0.0%	12%	2.6	10606%	71%	1.46	Buy
Average ex-MGB			19.4	15.6	13.1	2.5%	12%	1.9	21%	20%		

Note: Share price data as at 19 Sep 2017

Note 2: ^based on fully diluted share base

Source: Bloomberg, RHB

The company is now trading at FY18F FD P/E of 12.3x, which is lower than the sector average of 13.1x despite the higher forecasted EPS growth. In addition, MGB provides the highest coverage in terms of outstanding orderbook/market capitalisation among all the construction stocks under our coverage (Figure 8). As such, we believe that its current valuations do not fully reflect its fundamentals and positive prospects.

Figure 8: Outstanding orderbook vs market capitalisation comparison

Company	Outstanding orderbook (approx.)	Market capitalisation (MYRm)	Outstanding orderbook/market capitalisation (x)
Gamuda Bhd	16,000	13,176	1.2
IJM Corp Bhd	8,700	12,299	0.7
WCT Holdings Bhd	5,200	2,490	2.1
Sunway Construction Group	4,700	2,998	1.6
Gadang Holdings Bhd	1,500	803	1.9
Kimlun Corp Bhd	2,000	703	2.8
Kerjaya Prospek Group Bhd	3,150	2,168	1.5
Hock Seng Lee Berhad	2,600	797	3.3
ML Global Bhd	2,100	501	4.2
Average ex-MGB			1.9

Source: Companies data

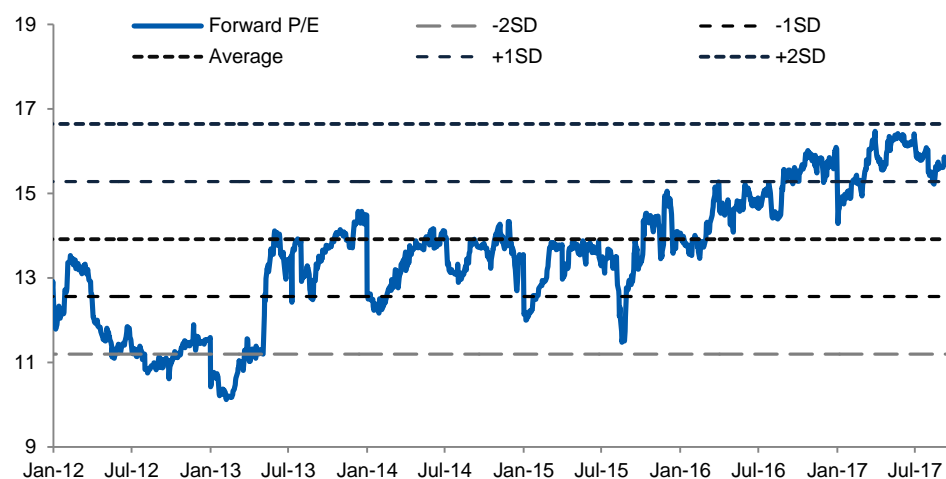
Our valuation takes into account the potential enlarged share base from the conversion of 180m units of irredeemable convertible preference shares (ICPS). The ICPS were issued to fund the acquisition of MITC and are currently held by its major shareholders, namely LBS (135m shares or 75%) and Datuk Lim Lit Chek (45m shares or 25%). The ICPS can be converted in two phases starting Nov 2017 before being automatically converted upon the expiry in Nov 2021. Post conversion, MGB would still comply with the free float requirement of 25% (Figure 9).

Figure 9: Shareholding post ICPS conversion

	Current shareholding		ICPS (m shares)	Shareholding post ICPS conversion	
	(m shares)	Stake		(m shares)	Stake
LBS	202.0	51.2%	135	337.0	58.7%
Datuk Lim Lit Chek	47.9	12.2%	45	92.9	16.2%
Total owned by major shareholders	249.9	63.4%	180	429.9	74.8%
Remaining shareholders/floating	144.7	36.7%	0	144.7	25.2%
Total shares	394.6	100.0%	180	574.6	100.0%

Source: Company data

Figure 10: Construction sector's P/E trading range



Source: Bloomberg

Figure 11: Sensitivity analysis on EPS and TP

New orderbook assumption (MYRm)	FY18 FD EPS (sen)	Target price @ P/E of				
		10x	12x	14x	16x	18x
700	0.096	0.96	1.15	1.34	1.54	1.73
900	0.100	1.00	1.20	1.40	1.60	1.80
1,100	0.104	1.04	1.25	1.46	1.66	1.87
1,300	0.108	1.08	1.30	1.51	1.73	1.94
1,500	0.112	1.12	1.34	1.57	1.79	2.02

Source: RHB

Key Risks

Key risks to our recommendation and target price include:

- i. Shortage of labour and rising labour costs;
- ii. Single customer risk;
- iii. Slowdown in the property segment which could lead to an inability to replenish its construction orderbook;
- iv. Higher input costs, which may translate into poor margins for its construction business;
- v. Competition within the construction sector.

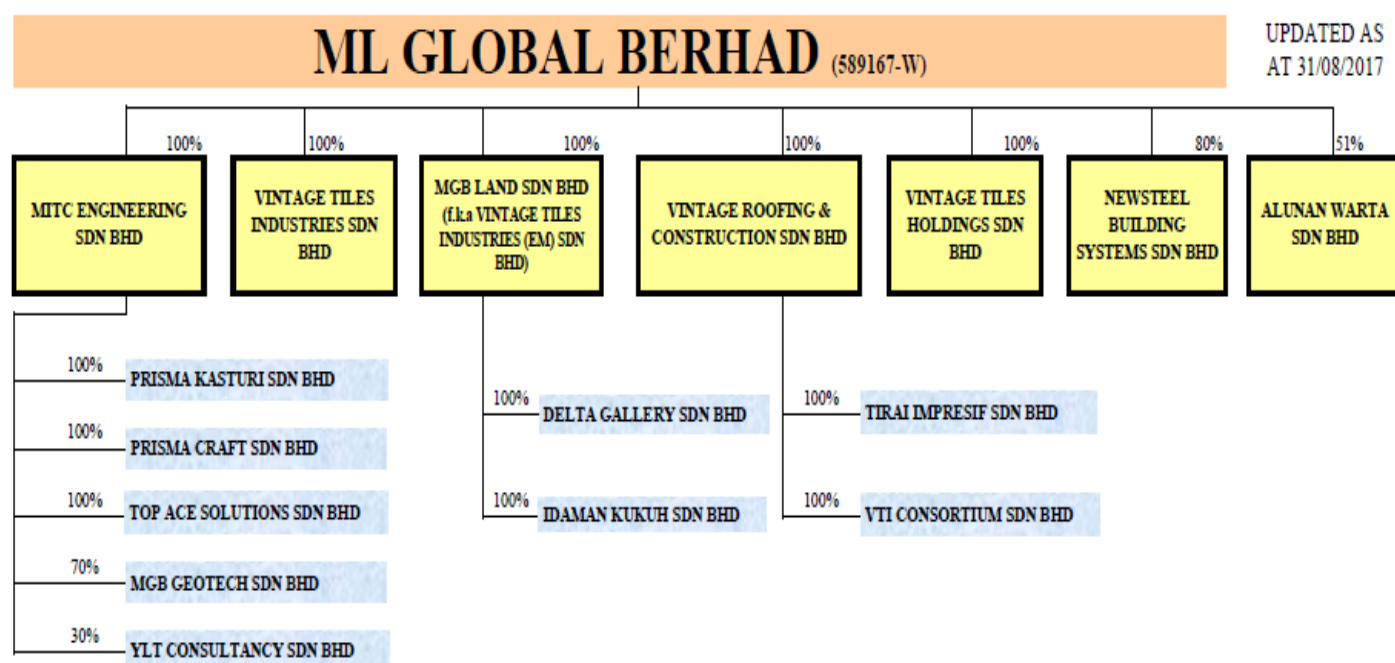
Beginning Of a New Chapter

Company overview

After MGB completed its self-regularisation plan on 31 Oct 2014, MGB had on 11 Mar 2016 been successfully uplifted by Bursa Malaysia Securities Bhd from being classified as a PN17 company. Subsequently, on 11 Apr 2016, LBS made an unconditional mandatory takeover offer for MGB after it raised its stake to 50.9% from 32.0%. Accordingly, MGB became a subsidiary of LBS.

As part of LBS' plan to streamline its construction business under MGB and its subsidiaries by consolidating the resources of MGB and MITC and its subsidiaries for a greater operational and financial efficiency, MGB had on 14 Sep 2016 entered into a share sale agreement for the acquisition of the entire issued and paid up share capital of MITCE for a purchase consideration of MYR300m.

Figure 12: MGB's corporate structure



Source: Company data

Proven track record. The newly acquired subsidiary MITCE is an established construction player that has accumulated its track record for more than 10 years in constructing high-rise buildings and landed residential properties as well as commercial properties. Upon the completion of the acquisition in Nov 2016, the construction business had an outstanding orderbook of approximately MYR1.1bn, and the orderbook was subsequently expanded to MYR2.1bn as at Aug 2017.

Figure 13: Recently completed projects

Project name	Location	Contract value (MYRm)
612U AF House	Batu Pahat, Johor	46
Somer Square, Cameron Highlands	Cameron Highlands, Pahang	36
Skypark, Bandar Saujana Putra	Kuala Langat, Selangor	150
106U Double Storey Semi-D	Kuala Langat, Selangor	26.8
260U Double Storey Cluster Link	Kuala Langat, Selangor	56.6
60U 3 Storey Superlink House	Sepang, Selangor	52.2
368U Double Storey Cluster Link	Kuala Langat, Selangor	73.9

Source: Company data

Figure 14: BSP Skypark (Bandar Saujana Putra, Selangor)



Source: Company

Figure 15: BSP Skypark Indigo Semi-D



Source: Company

Figure 16: Barrington Square (Cameron Highlands, Pahang)



Source: Company

Figure 17: Somersquare (Cameron Highlands, Pahang)



Source: Company

Figure 18: Taman Tasik Puchong factory



Source: Company

Figure 19: Nautilus Superlink (Puchong)



Source: Company

Profile of key management team

Datuk Lim Lit Chek, chief executive officer - Datuk Lim, aged 41, was appointed to the board as executive director and chief executive officer on 1 Dec 2016. He holds a Master's Degree in Engineering Management from the Ivy League Cornell University in New York after graduating with a First Class Honours Bachelor's Degree in Civil Engineering and a Bachelor's Degree in Business Administration with the highest distinction from RMIT University in Melbourne. He is a member of the Board of Engineers Malaysia, and has 16 years of experience in the field of property development and construction. In 2007, he founded MITC Engineering Sdn Bhd, a subsidiary of ML Global Berhad and holds the position of managing director.

Lim Kim Hoe, deputy chief executive officer - Mr Lim, aged 32, was appointed to the board as executive director on 1 Aug 2014. Mr Lim graduated with an Honours Degree in Bachelor of Engineering (civil) from the University of Melbourne, Australia. After graduation, he began his career with a listed property developer where he accumulated wealth of experience in business development, project planning and design. He later joined a construction company as executive director where he continued to extend his experience in the field of property development and construction. He is the son of Tan Sri Lim Hock San, the managing director of MGB.

Mr Wong Tack Leong, deputy chief executive officer - Mr Wong, aged 45, was appointed as Deputy CEO on 1 Dec 2016. He is responsible for the construction division and the company's operations. He graduated with a Bachelor of Building (Quantity Surveying) from the University of South Australia. He has 21 years of experience working in pre- and post-contract administration and duties related to quantity surveying such as contract implementation, costing and feasibility studies. He is a member of Australia's Institute of Quantity Surveyors, and an Associate member of the Malaysian Institute of Arbitrators and Institute of Value Management Malaysia.

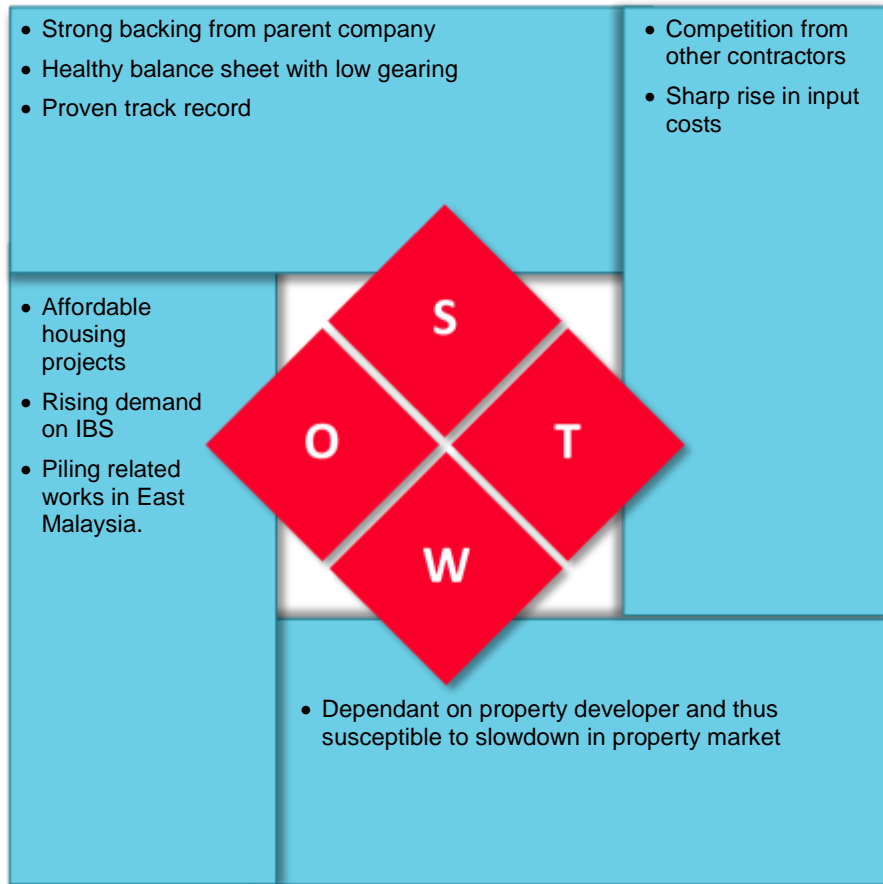
Mr Chew Wee Seong, chief operating officer - Mr Chew, aged 47, is a Bachelor of Science (Finance) graduate of St. Cloud State University in the US. He is also a MBA (Merit) graduate from the prestigious Cardiff Metropolitan University in Cardiff, United Kingdom. Mr Chew joined LBS Bina Group in Aug 2000. He was appointed the chief executive officer from Aug 2014 to Nov 2016, before he was re-designated as COO on 1 Dec 2016.

Mr Lee Hon Meng, chief operating officer - Mr Lee, aged 38 graduated with a Bachelor of Science (Physics) from Universiti Sains Malaysia (USM). He has 14 years of experience in the field of Construction Management. Mr Lee's areas of expertise are high-rise construction, vacant possession inspection and submission for development project, health and safety, plant and machinery and infrastructure works.

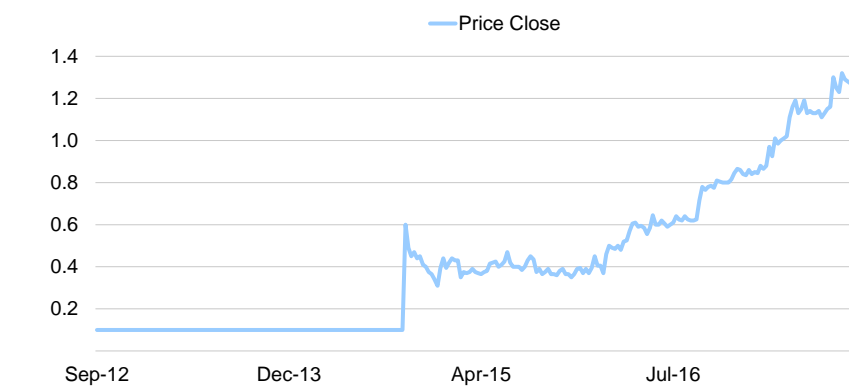
Ms Tan Suan Suan, assistant general manager, accounts & finance - Ms Tan, aged 34, was appointed assistant general manager, accounts & finance on 20 Dec 2016. She graduated with Bachelor of Commerce (Account & Finance) from Queensland University of Australia. She is also a member of Malaysian Institute of Accountants (MIA) and Certified Practising Accountants, Australia (CPA). She has more than 10 years of working experience accumulated from audit firm, Ernst & Young, and local listed entities, specialising in reporting and compliance.

Mr Yeo Wee Ching, company secretary - Mr Yeo, aged 34, was appointed as company secretary on 1 Sep 2016. He is an Associate Member of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) since 2011 and graduated from Tunku Abdul Rahman College with Advance Diploma in Business Management in 2005. He started his career in year 2004. He has 12 years extensive working experience in corporate secretarial practices of public listed companies and private limited companies.

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-09-20			

Source: RHB, Bloomberg

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