

Gagasan Nadi Cergas Berhad

INITIAL PUBLIC OFFERING

None Rated

Target Price **RM 0.33**

IPO Price **RM 0.30**

IPO Calendar

Opening Date Of Application	13/12/2018
Closing Date of Application	24/12/2018
Balloting of Application	27/12/2018
Notice of Allotment	4/1/2019
Listing Date	8/1/2019

Listing

Market Cap	RM225.9mil
Outstanding Shares	753mil
Eligible Directors & Employee	20mil
Application for public	20mil
Private Placement	100mil
Offer for Sale	60mil

Major Shareholding (%)

Hj Wan Azman	66.6%
Dato's Sri Subahan	6.7%

Analyst: Lai Yoon Hui, David

Email: davidlai@interpac.com.my

Leveraging on its expertise

Gagasan Nadi Cergas is a Grade G7-certified contractor for government procurement works with Construction Industry Development Board. The group is primarily involved in the construction of non-residential and residential buildings for the government and currently holds two 20-year Private Financial Initiative Concessions. The group also have a 20-year district cooling system contract to supply a chilled water for air conditioning at the German-Malaysian Institute in Bangi.

The group intends to use its IPO proceeds to

- 1) Fund the ASEAN Football Federation Mixed Development Project
- 2) CAPEX for district cooling system for the Datum Jelatek Development
- 3) Working capital for construction projects

Moving forward, the group plans to move up the value chain by way of a foray into property development and completing a second district cooling contract. We forecast earnings growth to dip, as contract income dips -32%, driven by 3 out of 5 projects being in only in the commencement phase of their project cycles, and on higher financing and administrative cost. Our Sum of Parts valuation suggests 13.3% in gains, inclusive of dividends. Risk to our call are 1) termination of government projects 2) revision or cost reduction requested for government projects 3) construction delay/cost overrun 5) Slow take up rate for their upcoming property development projects.

Table 1: Investment Highlights & Earnings Forecasts

FYE 31st Dec	FY14	FY15	FY16	FY17	1HFY18	FY18(F)
Revenue (m)	324.0	206.3	227.9	212.5	121.6	222.9
PATAMI (m)	56.4	37.8	74.4	50.2	17.3	34.1
EPS (sen)	7.5	5.1	10.0	6.7	2.3	4.5
EBITDA (m)	74.5	38.9	88.3	51.7	14.1	26.0
Earnings Growth (%)	NA	-33.0%	96.8%	-32.6%	-65.5%	-32.0%
EBITDA Margin (%)	23.0%	18.9%	38.8%	24.3%	11.6%	11.7%
PER (x)	4.0	5.9	3.0	4.5	13.1	6.6
DPS (sen)	NA	NA	NA	NA	NA	1.0
Dividend Yield (%)	NA	NA	NA	NA	NA	3.33
ROE (%)	NA	NA	NA	NA	NA	7.9%
ROA (%)	NA	NA	NA	NA	NA	3.8%
Gearing Ratio (%)	1.1	1.0	1.0	1.0	0.9	0.7
Price/Book Ratio (x)	NA	NA	NA	NA	NA	0.25

Source: Inter-Pacific

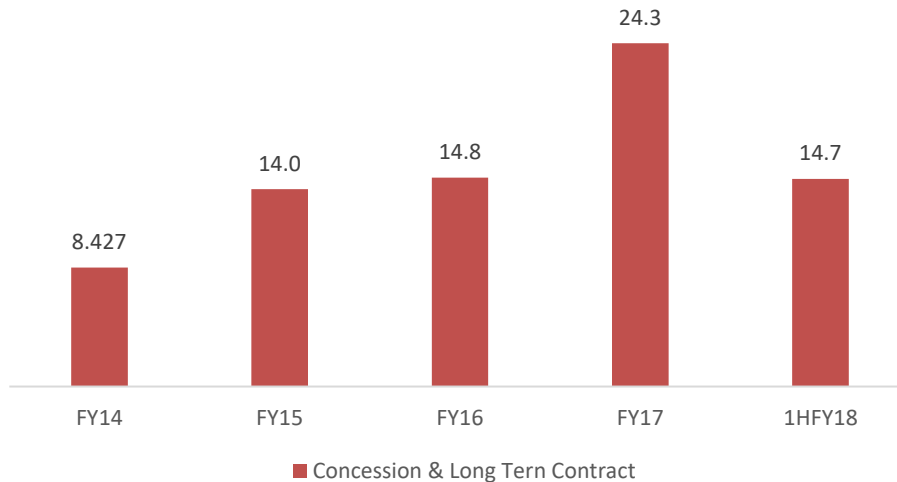
Investment Merits

Long-term recurring income

The company currently holds 4 long-term recurring income contracts, namely:

- 1) 20-year concession to provide facility management (FM) services for International Islamic University Malaysia (IIUM) till 2034.
- 2) 20-year concession to provide FM services for International Universiti Teknikal Malaysia Melaka (UTeM) till 2037.
- 3) 20-year contract to supply chilled water to the German Malaysian Institute (GMI) cooling system till 2028.
- 4) 30-year contract to supply chilled water and electric to a shopping mall in Datum Jelatek, commencing in 1H2019.

Revenue from Concession, Long Term Contract and Supply & Installation of M&E works



Source: Company

Recurring revenue currently represents 12% and 40.7% of group revenue and PBT respectively in 1HFY18. The group currently recognizes FM services provided to IIUM and UTeM and chilled water supply to GMI. Assuming an annualized FY18 revenue of RM29.4 mil, we estimate the Datum Jelatek contract (supply of chilled water and electricity) will generate RM5.1 mil in revenue in FY20, representing 17% growth in their Concessions, Long Term Contract and Supply & Installation of M&E Works business segment.

A Cash Flow Turnaround

The group entered a build and sublease agreement with IUM and UTeM. Upon completion and commencement of FM services, the university will pay availability and maintenance charges. Under the IUM, the total availability charges expected to be collected over 20 years is RM588.69 mil, 1) first 15 years - RM504.59 mil 2) the remaining 5 years - RM84.1 mil. The total maintenance charges for 20 years is approximately RM187 mil. The development cost for the IUM student hostel project is RM390.26 mil. For UTeM, the total availability charges expected to be collected over 20 years is RM476.07 mil, while the total maintenance charges for 20 years is approximately RM128 mil. The development cost for UTeM student hostel project is RM128 mil. In addition, both IUM and UTeM pay into a sinking fund of approximately RM69.98 mil and RM62.21 mil over 20 years for infrastructure and equipment life span replacement cycle. Any balance or unutilised funds will be disbursed back to the university.

We estimate the group took a RM320mil loan to for the above concession and generates RM68 mil or 9 cents/share of free cash flow that serves as cashflow for working capital, loan repayment and dividends. The group gearing as of 1HFY18 stood at 0.93x.

Orderbook of RM682.9 mil

Table 2: Orderbook as of 15 Nov 2018

On Going Projects	Estimated Contract Value (RM' mil)	Remaining Contract Value (RM' mil)	Targeted Completion			
			2018	2019	2020	2021
PR1MA Homes Pasir Mas (Phase 1) Project, Kelantan	157.72	11.88	x			
Rumah Selangorku Bukit Raja Project in Klang, Selangor	96.98	38.06	x	x		
Rumah Selangorku Putra Heights Project, Selangor	241.43	190.81	x	x	x	
Maktab Rendah Sains Mara Project in Bagan Datuk, Perak	95.59	81.79	x	x	x	
Cardiology Centre for Serdang Hospital Project, Selangor	289.77	276.46	x	x	x	x
PR1MA Homes Pasir Mas (Phase 2) Project, Kelantan	pending site possession	83.86	x	x	x	x

Source: Prospectus

The current orderbook of RM682.9 mil represents orderbook to sales of 3.2x FY17 group revenue. In addition, the group also have RM44.5 mil contract for the supply and installation of testing and inspection equipment, ground support equipment and related tools for the aircraft hanger as well as ICT equipment and furniture for the UniKL MIAT (Malaysia Institute of Aviation Technology) project. However, the group has received request from the government for cost revision of 10% reduction on for the Hospital project and a price revision for Maktab Rendah Sains project. The group assumes a maximum 10% reduction to the contract sum of the 2 projects that will see a revenue reduction of RM38 mil. The group's recent venture into property development and will have Gagasan Nadi Cergas' hands full for the next 3 years.

Foray into Property Development

The group intends to extend its specialization into design and build expertise to climb the value chain. Future property development projects are Antara Residence, Cyberjaya, PPA1M Ulu Yam and Serviced Apartments, Kuala Lumpur. The group acquired land in Ulu Yam, Selangor and Lorong Haji Hussein 2 in Kuala Lumpur for RM59.88 mil in 2016.

1) ASEAN Football Federation (AFF) Mixed Development, Antara Residence

To develop one 5-storey freehold block that consists of the AFF headquarters and serviced apartments of 458 units on a 8,094 sq m landbank with a GDV of RM179 mil. It will be located in Putrajaya, federal administrative centre of Malaysia where majority of government offices and ministries are now located. Under the terms of the joint venture agreement between Nadi Cergas Development (group's subsidiary) and AFF, AFF (the land owner) granted sole and exclusive developmental rights to develop the land and all profit after tax of the mixed development to Nadi Cergas Development. In return, Nadi Cergas Development will foot the cost of acquisition of the land, all construction costs and the cost of securing relevant approvals for conversion of the land, estimated at RM2.8 mil. The entire mixed development project is expected to be completed by 2022. The piling works for the construction of serviced apartment commenced in August 2018.

The unit sizes range between 583sq ft, 796 sq ft, 817 sq ft and 1,006 sq ft with prices ranging between RM311k – RM502k, i.e., RM500 psf to RM534 psf. Condominium units around the area are priced at between RM420 to RM550 psf while apartments are priced around RM350 psf. However, most the housing supply in Cyberjaya is located in Precincts 8 to 15. As of 15 Nov 2018, sales and purchase agreements for 236 units have been signed, representing 51.53% of the total available for sale.

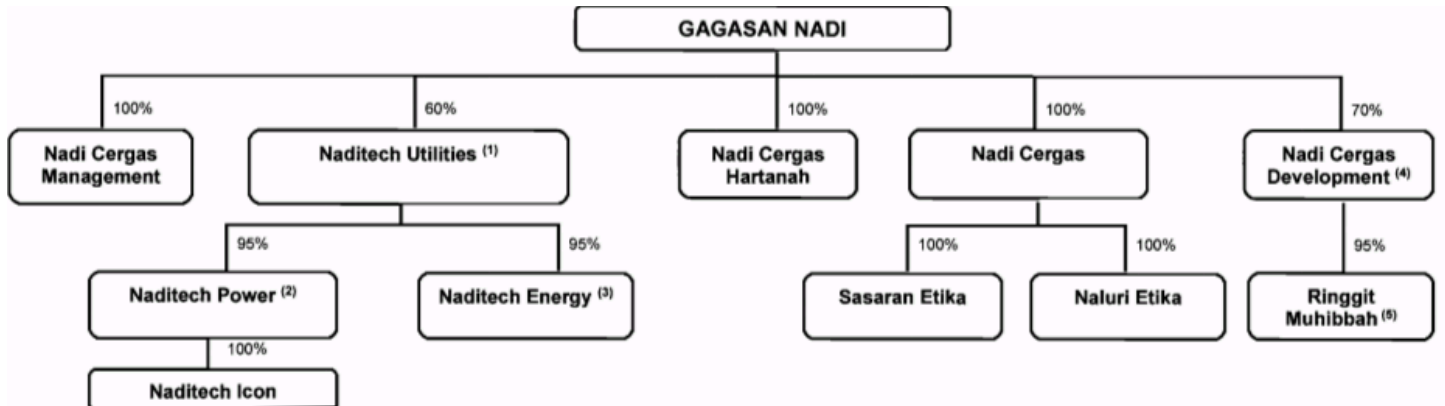
2) Perumahan Penjawat Awam Satu Malaysia (PPA1M) Ulu Yam, Selangor

The group intends to build 447 units of single storey and double storey terrace houses situated on 31 acres of land in Selangor. The construction is expected to commence on 2H2019 and completed by 2022. This is part of the affordable housing program under the initiative of the Malaysian Government. The GDV of the project is estimated at RM135 mil.

3) Service Apartment, Lorong Haji Hussein, Kuala Lumpur

The 2,203 sq m land is situated 5-minute walk from Chow Kit train Monorail station. The group intends to build 352 units of serviced apartments with selling prices ranging between RM500k and RM1 mil per unit. The estimated GDV is RM150 mil and construction is expected to commence in 2019, with completion expected by 2023.

Group Corporate Structure



Source: Prospectus

Table 3: IPO Proceeds

Utilisation of Proceeds	RM mil	Time Frame
Funding for the AFF Mixed Development	14.0	Within 30 months
CAPEX for the district cooling system for the supply of chilled water to the Datum Jelatek Development shopping mall	6.5	Within 12 months
Working Capital for construction project	39.3	Within 24 months
Estimated listing expenses	5.0	Within 3 months
Total	42.0	

Source: Prospectus

- 1) RM14 mil is to be used for the funding needs of the AFF Mixed Development i.e., land-related costs, construction costs and marketing costs for construction of the showroom.
- 2) The bulk of the proceeds used for the district cooling system for the supply of chilled water to the Datum Jelatek Development shopping mall is intended for the material and installation cost of the Thermal Energy Storage system and chiller plant.
- 3) RM16.5mil will be used to fund the working capital requirements to carry out Rumah Selangorku Putra Heights Project, primarily for earthworks and piling works.

Major Share Holders

Hj Wan Azman Bin Wan Kamal – Group Managing director. He graduated from Universiti Teknologi Malaysia with a Diploma in Quantity Surveying and holds an Advanced Diploma in Quantity Surveying form MARA Institute of Technology. He has been a Registered Quantity Surveyor of the Board of Quantity Surveyors Malaysia since 1990 and a Member of the Institute of Surveyors Malaysia since 1995. He has extensive experience in the property development and construction industry with a career span of approximately 32 years. He started his career in 1982 as a Technical Assistant at Jabatan Kerja Raya (Pahang) and later joined QS Associate as a Quantity Surveyor. Later in 1990, he joined Sime UEP Development Sdn Bhd as a Quantity Surveyor and was promoted to Cost Controller, before he left in 1998 and took up the position of Director of Business at Juwana Construction Sdn Bhd. In 1999 he left and became the major shareholder and Managing Director of Nadi Cergas.

Dato’ Sri Subahan Bin Kamal - Group Executive Director. He was appointed in 2017, He graduated from Southern Illinois University at Carbondale USA, with a Bachelor of Science Honors Degree in Finance. He also holds a certificate of Marine Cargo Technical Claims and Certificate of Liability Insurance from Malaysian Insurance Institute obtained in 1. He started his career in 1989 as a Claims Executive at Malaysian Nippon Insurance Berhad. Subsequently he joined Bank Rakyat as a Corporate Planning Executive before he was appointed as Personal Assistant to the Chairman at Bank Rakyat in 1991. Later, he was seconded to the Ministry of Finance Malaysia as the Private Secretary to the Parliament Secretary of the Ministry of Finance. He was also the Senior Private Secretary to the Deputy Ministry of Human Resources. Dato’ Sri Subahan sits on the board of Can-One Berhad and Aluminum Company of Malaysia Berhad.

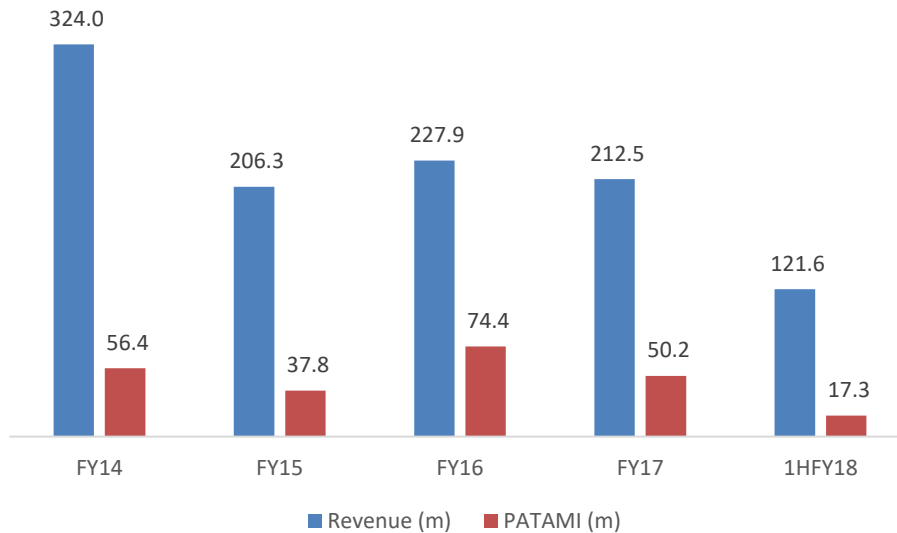
Industry Background

Under the government initiatives to supply affordable homes in Malaysia, the government has allocated RM1.5 bil in Budget 2019 to support the construction and completion of affordable houses (PPR, PPAM, PR1MA and SPNB). Despite government’s continuous effort to provide affordable housing, the government does not hesitate to cancel or revise contracts that have an adverse effect on property developers and contractors. The group has seen 2 of its PPAM projects terminated, 1) proposed property development of PPA1M Alam Damai Cheras Development and 2) appointment as main contractor for PPA1M Tanjung Chat Project. The government, in its efforts to save costs, has requested the group reduce its contract value for its Cardiology Centre for Serdang Hospital and Maktab Rendah Sains project in Perak.

Demand for affordable housing below RM500 k is expected to remain strong, supported by the ongoing rebalancing of supply which is expected to improve overall housing affordability for first home buyers. While most unsold completed residential properties are priced RM500k above. 2 out of 3 of Gagasan Nadi Cergas’s property developments are in the affordable housing segments, except for the proposed development of Serviced Apartments in Chow Kit.

Financials

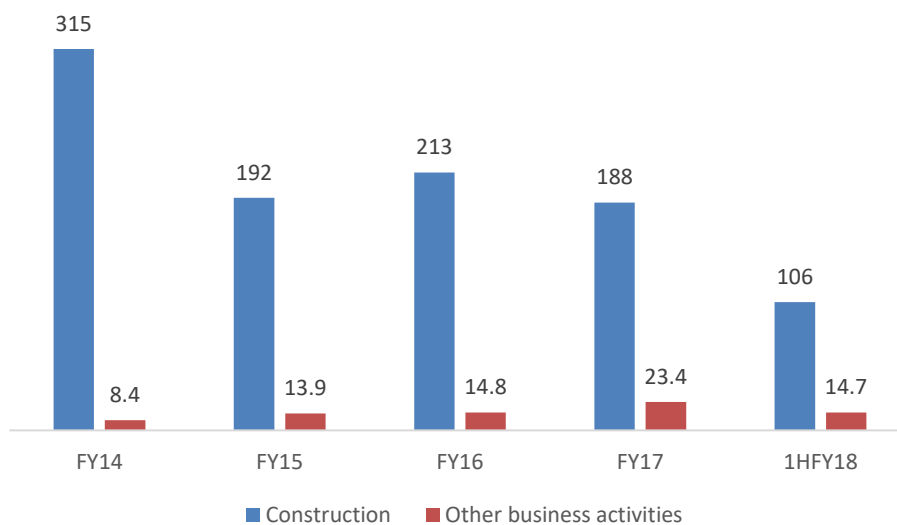
Revenue and PBT



Source: Company

1HFY18 PAT represents 35% of FY17 full year earnings, largely due to the higher cost of building materials by RM16.44 mil, coming from the commencement of the construction phase for Rumah Selangorku Putra Height Project, the Cardiology Centre for Serdang Hospital and the Maktab Rendah Sains project in Perak, where revenue and operating profit margins are normally low. The group also recognised RM1.69 mil in preliminary development cost for the proposed property development project in PPA1M Alam Damai, Cheras, and incurred higher interest expenses.

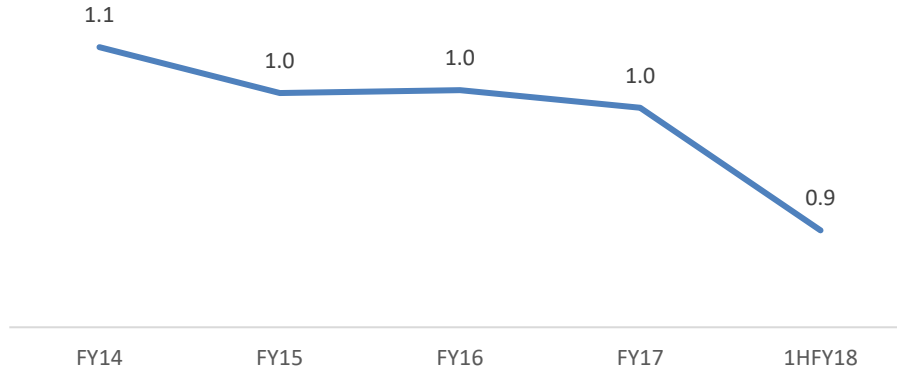
Revenue by operating segment revenue



Source: Company

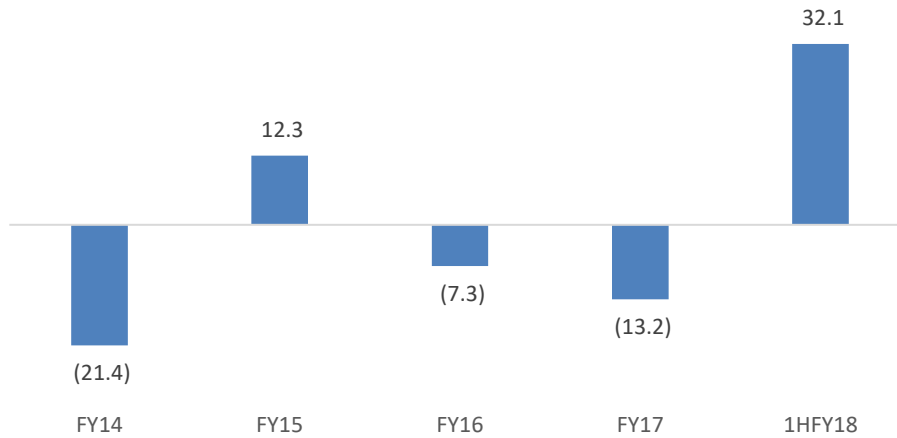
The group has been involved with the IIUM and UTeM Concession contracts since FY14 and completed them in FY17. It will continue to see growth in other businesses segments until FY19, driven by recognition of income from the UTeM Concession and its supply of chilled water and electricity to a shopping mall in Datum Jelatek. Recurring revenue currently represents 12% and 40.7% of the group revenue and PBT respectively in 1HFY18 or RM9.4 mil.

Relatively high gearing ratio



Source: Company

Free cash flow from operating activities turn around



Source: Company

The group gearing ratio of 1 is relative low compared to its peers (refer to Table 6:- Zelan, Ahmad Zaki Resources, Crest Builders and Menang Corporation). The bulk of the gearing is for the IIUM and UTeM Concession projects for which payments will be made by the Malaysian Government. The group gearing is expected to gradually taper down, driven by positive cash flows from the concession project. However, Gagasan Nadi Cergas may gear up again, when they commence construction on their property projects, namely Antara Residence, Cyberjaya, PPA1M, Ulu Yam and its Serviced Apartments project in Kuala Lumpur.

Dividend policy

The group targets a dividend payout ratio of not more than 30.0% of their earnings. Companies in their growth cycle normally have a lower payout ratio.

Competitors

Companies that competing for the government's Private Finance Initiative Projects are Ahmad Zaki Resources Bhd, Zelan Berhad, Crest Builders Holdings Berhad, Menang Corporation (M) Berhad, BGMC Corporation Berhad, Konsesi Kota Permatamas Sdn Bhd, Konsortium PAE Sepakat Sdn Bhd, KP Mukah Development Sdn Bhd, Rekajaya Project Sdn Bhd, Syarikat Permodalan Kebangsaan Bhd and Sime Darby Property Selatan Bhd.

Risk

- Termination of government projects.
- Revision or cost reduction request for government projects.
- Construction delay or cost overrun.
- Slow up take up rate of their future property development projects.

Earnings forecast

We forecast earnings to contract by -32%, for the reason of 3 out of 5 projects are in the commencement phase of the project cycle, higher financing and administrative cost. Our forecast excludes earnings from Datuk Jelatek contract due to its commencement in 4QFY18 and we excluded sales recognition Antara Residence, Cyberjaya. (GDV: RM 179 mil, 236 units has signed the sales and purchase agreement, representing 51.53% of the total available).

Table 4: Orderbook as of 15 Nov 2018

On Going Projects	Estimated Contract Value (RM' mil)	Remaining Contract Value (RM' mil)	Targeted Completion			
			2018	2019	2020	2021
PR1MA Homes Pasir Mas (Phase 1) Project, Kelantan	157.72	11.88	x			
Rumah Selangorku Bukit Raja Project in Klang, Selangor	96.98	38.06	x	x		
Rumah Selangorku Putra Heights Project, Selangor	241.43	190.81	x	x	x	
Maktab Rendah Sains Mara Project in Bagan Datuk, Perak	95.59	81.79	x	x	x	
Cardiological Centre for Serdang Hospital Project, Selangor	289.77	276.46	x	x	x	x
PR1MA Homes Pasir Mas (Phase 2) Project, Kelantan	pending site possession	83.86	x	x	x	x

Source: Prospectus

Valuation

Our fair value for Gagasan Nadi Cergas is RM0.33, based on the Sum of Parts. This points to a potential share price upside of 10% and a total return of 13.3% including dividends, after applying a 30% discount to initial fair value results, amidst unfavorable investor perceptions of the construction and property sector and amidst uncertainty given possible project cancellations. The group's price to book and gearing ratio compares well against its peers, leaving room for potential upside during listing.

Table 5: Sum of Parts

		Value RM mil
Operating cash flow from concession & availability chargers	Discount rate of 4.5%	259.1
Construction, maintenance & utilities	6x PER	52.4
<u>Landbank</u>		
Ulu Yam	70% Discount to book value	35.6
Chow Kit, KL	70% Discount to book value	11.6
		<u>358.8</u>
Total Number of share (mil)		753
Fair value per share (RM)		0.48
Discount		30%
RM		0.33

Source: Company

Table 6: Peer Comparison

Company	Share	Market	PER (x)		Gearing	Price to	Dividend
	Price (RM)	Capitalisation (RM mil)	Trailing	FWD	Ratio (x)	Book (x)	Yield (%)
Crest Builder Bhd	0.75	145.6	2.39	3.89	1.55	0.31	4.68
Zelan Bhd	0.255	21.1	NA	NA	7.33	0.39	NA
Ahmad Zaki Resources Bhd	0.295	173.4	12.55	NA	5.44	0.64	3.07
Menang Corporation Bhd	0.385	185.1	14.03	NA	0.88	0.58	NA
Gagasan Nadi Cergas Bhd	0.385	255.9	4.5	6.6	1.03	0.25	3.33

Source: Company

Declaration of Independence of Opinions and of Interest in Securities

The analyst(s) responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. Inter-Pacific Research Sdn Bhd prohibits the analyst(s) who prepared this research report from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the business. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

(i) As of Dec 24, 2018, Inter-Pacific Research Sdn Bhd has a proprietary position in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies mentioned or recommended in this report: (a) Gagasan Nadi Cergas Berhad - nil,

(ii) As of Dec 24, 2018, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report: (a) Lai Yoon Hui - nil.

Signed



Pong Teng Siew
Director
Inter-Pacific Research Sdn Bhd

Ratings System

Ratings:

Description:

SUBSCRIBE	Total return is expected to exceed 15% in the next 12 months
UNSUBSCRIBE	Total return is expected to be below -15% in the next 12 months

Abbreviation

Abbreviation

Definition

PER	Price Earnings Ratio
PEG	PER to Growth
EPS	Earnings per Share
FYE	Financial Year End
FY	Financial Year
CY	Calendar Year
MoM	Month-on-Month
QoQ	Quarter-on-Quarter
YoY	Year-on-Year
YTD	Year-to-Date
p.a.	Per Annum
DCF	Discounted Cash Flow
FCF	Free Cash Flow
NAV	Net Asset Value

Abbreviation

Definition

CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
DPS	Dividend per Share
ROA	Return on Asset
ROE	Return on Equity
PBT	Profit Before Tax
PAT	Profit After Tax
EV	Enterprise Value
EBIT	Earnings Before Interest And Tax
EBITDA	EBIT Depreciation & Amortisation
WACC	Weighted Average Cost of Capital
NTA	Net Tangible Asset
BV	Book Value

IMPORTANT: This report has been prepared from sources that are believed to be reliable but we do not hold ourselves responsible for its completeness and accuracy. All opinions and estimates in this report are subject to change without notice. We do not accept any liability that may arise from the use of information in this report. **Inter-Pacific Research Sdn Bhd** and/or its associates may from time to time have interest and/or underwriting commitments in the company being reported. This report is for internal circulation only and the contents or any part thereof **cannot be reproduced** in any manner whatsoever except with the prior written consent of Inter-Pacific Research Sdn Bhd.

Published and Printed by:

Inter-Pacific Research Sdn Bhd (449005-X)

West Wing, Level 13,
Berjaya Times Square,
No.1, Jalan Imbi,
55100 Kuala Lumpur
General Line : 03-2117 1888 Fax : 03-2142 7678