

Gagasan Nadi Cergas Berhad

TP: RM0.35 (+16.7%)

Building Contractor with Recurring Income

Ace Market Listing

NOT RATED

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Background

Gagasan Nadi Cergas (NADIBHD) is principally involved in: i) building construction; ii) provision of facility management services of student hostels and related facilities; iii) operations of a district cooling system for the supply of chilled water; and iv) property development (see Exhibit 10 in Appendix)

IPO Statistic

The IPO entails a public issue of 140.0mn new ordinary shares, and an offer for sale of 60.0mn shares at an IPO price of RM0.30/share.

Public issue:

- 20.0mn new shares for application by the Malaysian public;
- 20.0mn new shares for application by eligible directors, employees and persons;
- 100.0mn new shares by way of private placement to selected investors;

Main Competitive Advantages

- 1) Experienced executive directors and key management team with a proven track record in the building construction industry;
- 2) Long term contracts in place to provide recurrent revenue stream and provide some assurance of business continuity for the duration of these contracts.

Valuation

At IPO price of RM0.30/share, NADIBHD is valued at a trailing PER of 6.5x FY18 annualised earnings. We value the company at **RM0.35**, based on 6x CY19 construction earnings and 10x CY19 recurrent earnings. **NOT RATED.**

Earnings Summary (RM'mn)

FYE Dec	FY16	FY17	FY18f	FY19f	FY20f
Revenue	227.9	212.5	269.5	316.5	338.0
Gross profit	112.3	78.8	59.3	60.1	64.2
EBITDA	112.0	84.5	67.2	71.5	76.1
EBITDA margin (%)	49.2	39.7	24.9	22.6	22.5
Operating profit	112.7	83.8	66.7	66.5	71.0
PBT	100.8	67.0	47.3	44.3	46.8
Core profit	73.6	49.8	35.9	33.7	35.6
EPS* (sen)	9.8	6.6	4.8	4.5	4.7
PER^	3.1	4.5	6.3	6.7	6.4
Gross dividend (sen)	na	na	0.0	1.0	1.2
Dividend yield^	na	na	0.0	3.3	4.0
ROE (%)	26.7	14.9	9.6	8.3	8.2

Note: *based on enlarged share base of 753mn shares, ^based on IPO price of RM0.30/share

Share Information

Listing	Ace Market
Enlarged Share Capital (mn)	753.0
Market Cap @ RM0.35 (RM mn)	225.9
Issue price (RM)	0.30
Oversubscription rate	N/A
Estimated free float (%)	26.6
Tentative listing date	8 January 2019

Tentative Listing Dates

Event	Tentative Date
Opening of the IPO	13 December 2018
Closing of the IPO	24 December 2018
Balloting of Applications	27 December 2018
Allotment of Shares	4 January 2019
Listing	8 January 2019

Ratio & Analysis

NA per share (post IPO) (RM)	0.53
Price to NA (x)	0.57
Proforma Gearing (x)	0.60

Utilisation of Proceeds	RM(mn)	%
Funding AFF development	14.0	33.3
Capex	6.5	15.5
Working capital	16.5	39.3
Estimated listing expenses	5.0	11.9
TOTAL	42.0	100.0

Business Overview

Gagasan Nadi Cergas (NADIBHD) is principally involved in: i) building construction; ii) provision of facility management services of student hostels and related facilities; iii) operations of a district cooling system for the supply of chilled water; and iv) property development.

1) Construction

It has a track record of approximately two decades of delivering non-residential and residential buildings. Among notable projects include German-Malaysian Institute, student hostels for Universiti Teknikal Malaysia Melaka and International Islamic University Malaysia, 7 Polytechnics, and 4th military camp for the General Operations Force of the Royal Malaysia Police.

2) Provision of Facility Management Services

The group is involved in facility management services. It provides financing, design, development and construction, and maintenance of student hostels and related facilities at International Islamic University Malaysia (IIUM) student hostel (see Exhibit 1) and Universiti Teknikal Malaysia Melaka (UTeM) student hostel (see Exhibit 2).

Exhibit 1: IIUM Student Hostel Concession Project



IIUM Student Hostel Concession Project in Kuantan, Pahang

- Designed, developed, and constructed student hostels and related facilities to accommodate 5,000 students for RM390.26 million
- Upon completion in 2014, GNCB undertook a 20-year concession until 2034 to maintain hostel facilities
- Total Availability Charges expected to be collected over 20 years is RM588.69 million :
 - First 15 years: RM504.59 million (payable in fixed equal monthly instalments over the 15 years)
 - Remaining 5 years: RM84.10 million (payable in fixed equal monthly instalments over the 5 years).
- Total Maintenance Charges for 20 years is approximately RM187 million

Source: Company

Exhibit 2: UTeM Student Hostel Concession Project



UTeM Student Hostel Concession Project in Melaka

- Designed, developed, and constructed student hostels and related facilities to accommodate 5,000 student for RM295.88 million
- Upon completion in 2017, GNCB undertook a 20-year concession until 2037 to maintain hostel
- Total Availability Charges expected to be collected over 20 years is RM476.07 million (payable in fixed equal monthly instalments)
- Total Maintenance Charges for 20 years is approximately RM128 million

Source: Company

3) Operations of District Cooling System

The group currently operates a district cooling system including a thermal energy storage (TES) tank and related facilities to supply chilled water for air conditioning purposes in German-Malaysian Institute (see Exhibit 3). Moving forward, the group will supply chilled water and electricity to Datum Jelatek Development under 30-year concessions (see Exhibit 4).

Exhibit 3: Supply of Chilled Water in German-Malaysian Institute



German-Malaysian Institute

- **20-year chilled water supply**
 - Built district cooling system to supply chilled water to the campus of GMI
 - The district cooling system:
 - TES tank with a storage capacity of 17,000 RTh
 - Supply of chilled water supply runs till 2028

Source: Company

Exhibit 4: Upcoming Supply of Chilled Water and Electricity in Datum Jelatek Development

Datum Jelatek development

- **30-year chilled water supply**
 - Build, own, operate and transfer district cooling system for the production and supply of chilled water to a shopping mall in the said development
 - Commencement of the supply of chilled water is expected to be first half 2019, upon completion of building and installation works as well as testing & commission
- **30-year electricity supply**
 - Own, operate and transfer an electricity distribution system, and the supply of electricity in the development
 - Obtained the licence to supply of electricity by the Energy Commission in July 2018
 - up to a maximum licenced capacity of 21.25 MW
 - Installation of electricity distribution system to commence in the first half of 2019, upon the completion of development

Source: Company

4) Property Development

To leverage on its core competency in building construction, the group has expanded its business into property development with first project being the AFF mixed development (see Exhibit 5). It has allocated approximately 31.5 acres of its total land bank of 120.4 acres, for current and upcoming developments (see Exhibit 6 & 7).

Exhibit 5: Ongoing AFF Mixed Development

AFF MIXED DEVELOPMENT @ Putrajaya

- **GNCB joint-venture with Asian Football Federation (AFF) to develop:**
 - AFF headquarters (One 5-storey block)
 - Serviced apartments (458 units)
- **Progress:**
 - AFF headquarters:
 - Completed piling works for AFF headquarters
 - Expected to be completed by 2018
 - Serviced apartment of Antara Residence (estimated GDV: RM179 million)
 - Works commenced in August 2018
 - Expected to be completed by 2022



Source: Company

Exhibit 6: Upcoming PPAIM at Ulu Yam, Selangor

PPA1M Ulu Yam, Selangor

- 447 units of single-storey and double-storey terrace houses
- Estimated GDV: RM135 million
- Progress:
 - To start works in 2nd half of 2019
 - Expected to be completed by end of 2022

Source: Company

Exhibit 7: Upcoming Service Apartments Project at Lorong Haji Hussein

Serviced Apartments @ Lorong Haji Hussein, KL

- 352 units of serviced apartments with the selling price ranging between RM500,000 and RM1,000,000 per unit.
- Estimated GDV: RM150 million
- Progress:
 - To start works in 2019
 - Expected to be completed by 2023

Source: Company

Utilisation of proceeds

The estimated gross proceeds of RM42.0mn raised are expected to be utilised for the following:

Exhibit 8: Utilisation of proceeds

Description	Estimated timeframe for utilisation from Date of Listing	Amount (RM'mn)	% of Total Gross Proceeds
Funding for the AFF Mixed Development	Within 30 months	14.0	33.3
Capex for district cooling system for supply of chilled water	Within 12 months	6.5	15.5
Working capital for a construction project	Within 24 months	16.5	39.3
Estimated listing expenses	Within 3 months	5.0	11.9
Total gross proceeds		42.0	100.0

Source: Company, TA Securities

Key Risks Relating to Business and Industry

1) Dependent on Government Projects

Government projects accounted for 98.1%, 97.9%, 98.6%, 99.4% and 100.0% of the group's total revenue for FY14, FY15, FY16, FY17 and 1H FY18 respectively. As such, the group is exposed to the risks associated with changes in government spending and initiatives, along with government policies such as the affordable housing schemes and budget allocations. Changes in political conditions or general economic conditions in Malaysia would also impact the group in securing future contracts.

2) Dependent on its Ability to Secure New Contracts

Given that the nature of the construction business is project-based, there is no assurance that the group would be able to continuously secure new projects. If the group is unable to secure new projects to sustain its order book, the order book may decline and this may cause a materially adverse impact on the sustainability, growth potential and future financial performance.

3) Increase in the Cost of Construction

Any increase in the cost of construction, arising from building materials, labour, sub-contractors' fees and overheads, may have a material adverse impact on its business and financial performance.

4) Inherent Risks in the Property Development Industry

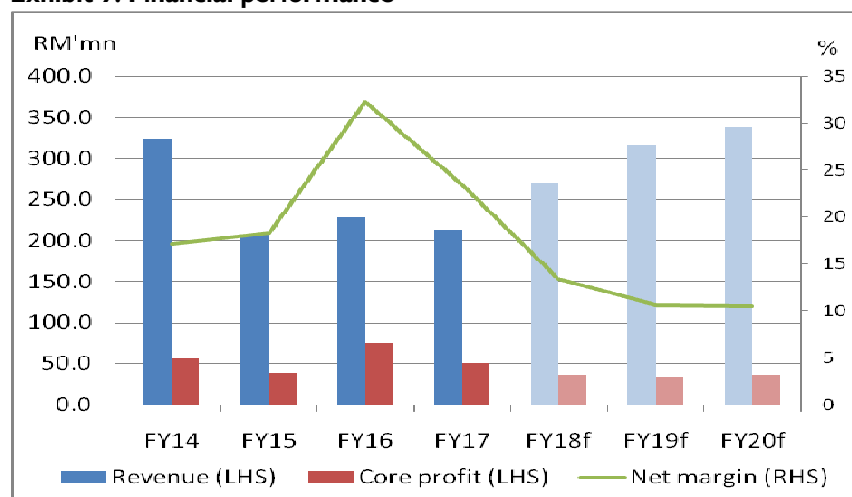
The group is subject to inherent risks in property development industry, which include general economic conditions, inflation, shortage of labour supply, challenges in securing experienced sub-contractors with track records and proven capabilities, increase in labour and raw material costs, uncertainties in demand for real estate properties and changes in government policies on lending by financial institutions.

Financial Highlights

For the period between FY14 and FY17, NADIBHD generated majority (>85%) of its revenue from building construction. The group's revenue for the period fluctuated according to volume of construction activities.

The group experienced exceptional margin in FY16 (32.3%) and FY17 (23.4%) mainly due to the adjustments to the estimated total construction cost of student hostel, after registering savings in the construction costs (see Exhibit 9).

Exhibit 9: Financial performance



Source: Company, TA Securities

Going forward, we expect FY18/FY19/FY20 revenues to grow by 26.8%/17.4%/6.8% respectively, supported by more than RM600mn of outstanding order book, together with an order book replenishment assumption of RM200mn each for FY19 and FY20. Given the construction of student hostel project for UTeM, which generated exceptional gross margins (56.2%, 65.2% and 67.1% for FY15, FY16 and FY17 respectively) has been completed, we expect the overall net margin for FY18, FY19 and FY20 to normalise to 13.3%, 10.6% and 10.5% respectively. With that, we forecast the core profits for FY18 and FY19 to decline by 27.8% and 6.2% to RM35.9mn and RM33.7mn respectively, before rebounding 5.6% to RM35.6mn in FY20.

Growth Strategies

Future growth of the group is expected to come from:

- i) 30-year contract to supply chilled water and electricity at Datum Jelatek development (see Exhibit 4);
- ii) Natural progression by expanding from construction into property development. It has ongoing and upcoming developments with a total GDV of RM464mn. The group has total landbank of 120.4 acres of land for development, including those future projects that have yet to be identified.

Outlook

As of 15 November 2018, the group has an outstanding order book of RM682.9mn (RM644.3mn if assuming a maximum 10% reduction in MRSM project in Bagan Datuk, Perak and Cardiology Centre for Serdang Hospital project in Selangor) (Exhibit 12 in Appendix), translating into 3.6x (3.4x) FY17 construction revenue. This would provide earnings visibility to the group for the next 2 to 3 years.

Besides, the group is supported by recurring incomes from availability charges and maintenance charges at IIUM student hostel and UTeM student hostel, supply of chilled water supply at German-Malaysian Institute, and upcoming supply of chilled water and electricity at Datum Jelatek development.

Dividend Policy

The Board intends to recommend and distribute dividends up to 30% out of net profit attributable to shareholders for FY19.

Earnings Forecast

We forecast FY18 earnings to decline 27.8% to RM35.9mn, and FY19 and FY20 earnings to stay range bound. Our earnings projections are premised upon the following assumptions:

- Order book replenishment assumption of RM200mn each for FY19 and FY20;
- Average construction PBT margin of 9%;
- Negligible earnings contribution from the property development division in FY19 and FY20 given that the construction of serviced apartment at AFF mixed development has just commenced.

Valuation

There is no listed company that is directly comparable with NADIBHD. We assign target PE multiples of 10x for its recurrent income, and 6x for its construction division - a 2x PE multiple discount to the target PE multiple of 8x we ascribe for small and mid-sized construction companies, due to its heavy reliance on government-based projects. Based on CY19 earnings, we arrive at a target price of **RM0.35** for **NADIBHD. NOT RATED.**

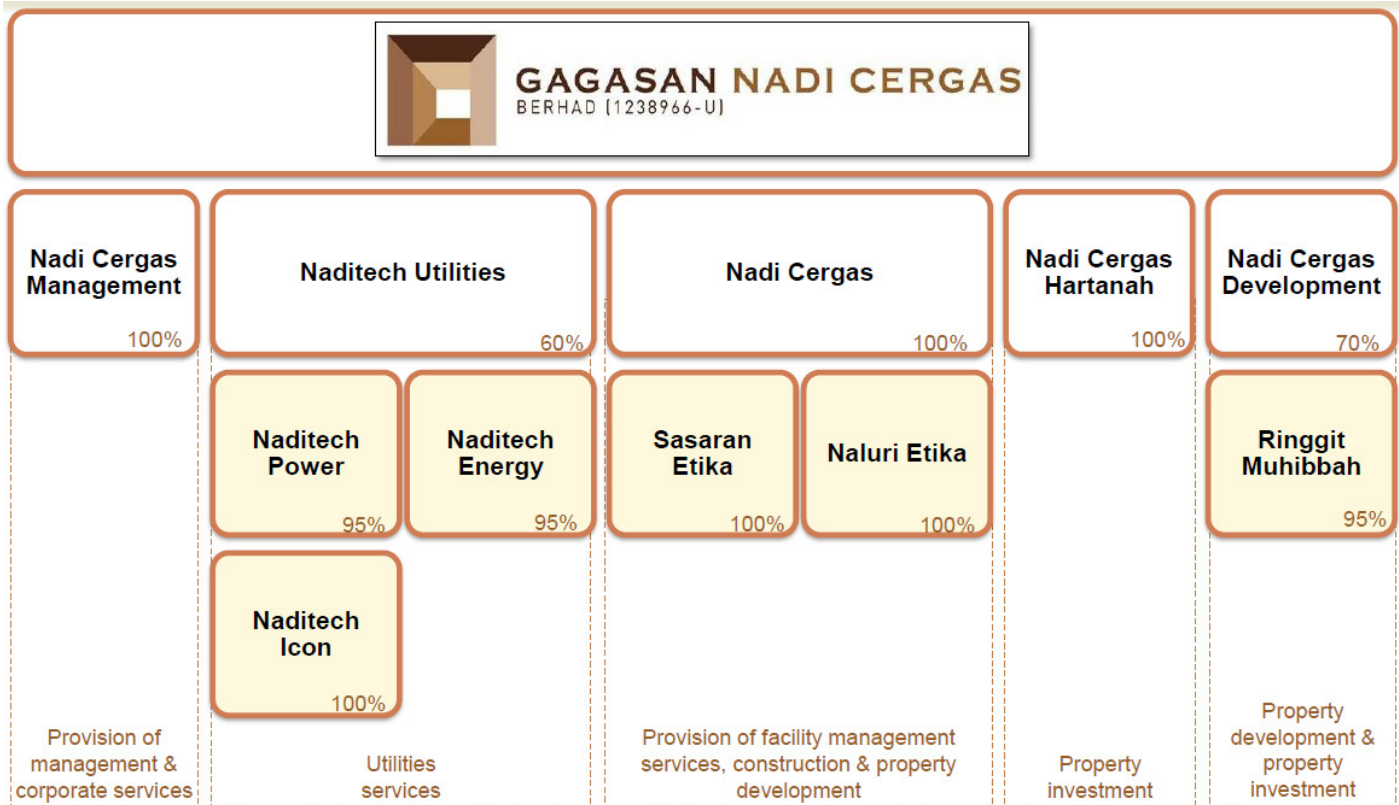
Peer Comparison

	Share Price (RM)	Market Cap (RM'mn)	EPS* (sen)	PE* (x)	P/B* (x)	ROE* (%)	Net Debt/Equity* (%)	Dividend yield* (%)
AZRB	0.295	156.8	5.6	5.2	0.3	10.0	312.9	5.1
CRESBLD	0.875	154.8	16.4	5.3	0.4	6.8	123.5	4.6
PESONA	0.175	121.6	2.8	6.3	0.7	11.9	56.2	5.7
AVERAGE				5.6	0.5	9.6	164.2	5.1
NADIBHD	0.30	225.9	6.61	4.5	0.6	14.9	87.5	na

[^]Note: Based on FY17 results; Based on NADIBHD enlarged share base of 753mn shares; Pro forma net debt/ equity for NADIBHD is inclusive of IPO proceeds net of listing fee.

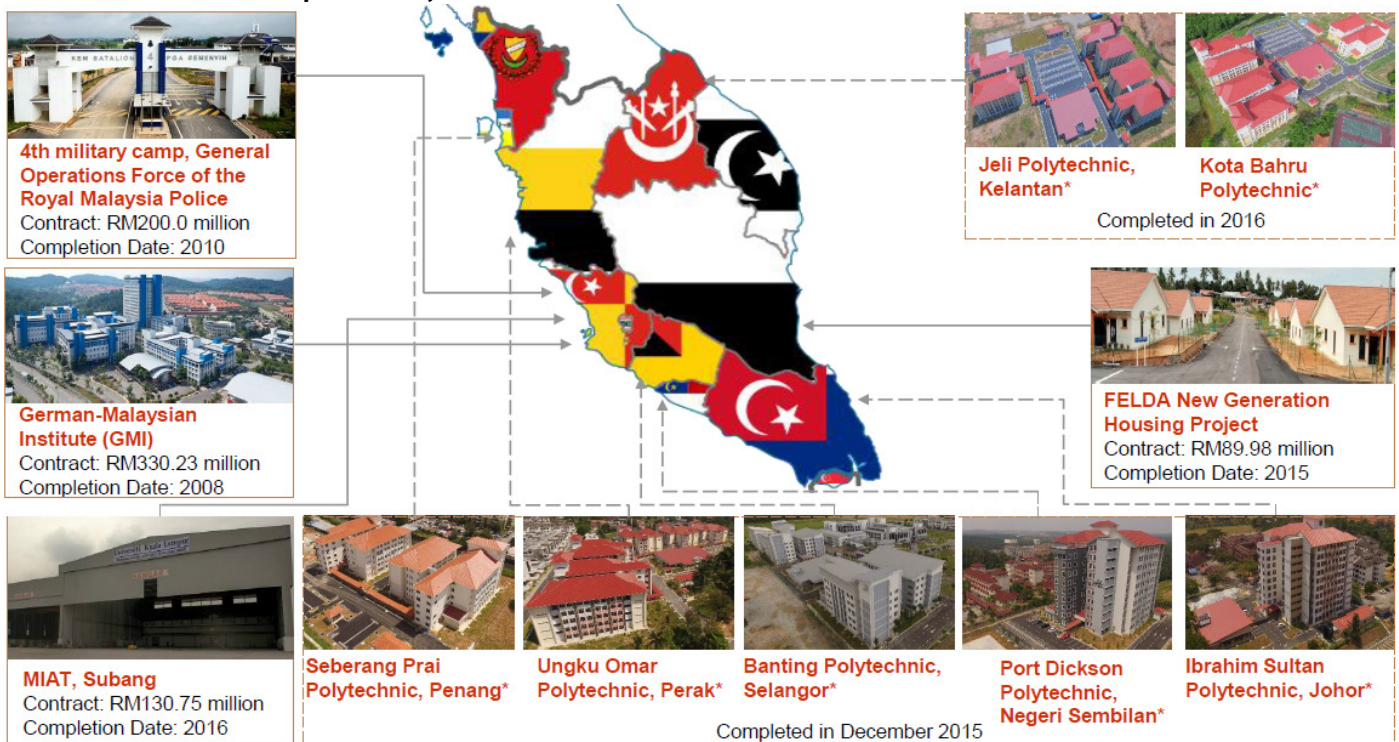
APPENDIX

Exhibit 10: Corporate Structure



Source: Company

Exhibit 11: Selected Completed Projects



*Contract value for 7 polytechnic project: RM285 million

Source: Company

Exhibit 12: Outstanding Order Book

Projects	Estimated Contract Value (RM' mil)	Remaining contract value (RM' mil)	Targeted completion			
			2018	2019	2020	2021
Ongoing Projects						
PR1MA Homes Pasir Mas (Phase 1) Project, Kelantan	157.72	11.88				
Rumah Selangorku Bukit Raja Project in Klang, Selangor	96.98	38.06				
Rumah Selangorku Putra Heights Project, Selangor	241.43	190.81				
MRSB Project in Bagan Datuk, Perak*	95.59	81.79				
Cardiology Centre for Serdang Hospital Project, Selangor*	289.77	276.46				
Subtotal of on-going projects		599.00				
New Contracts						
PR1MA Homes Pasir Mas (Phase 2) Project, Kelantan		83.86				
Total Order Book Value		682.86*				

*In November 2015, the Group received contract sum reduction requests from 2 Government project owners, namely Public Works Department Malaysia and MARA. The negotiations for such contract sum revisions have yet to be finalized. Assuming maximum 10% reduction to the contract sum of the 2 project, the estimated orderbook will be lower at approximately RM644.33 million

Source: Company

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
HOLD : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
SELL : Total return is lower than the required rate of return.
Not Rated: The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

Disclaimer

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As of Thursday, December 20, 2018, the analyst, Ooi Beng Hooi, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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