MALAYSIA RHB RESEARCH

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RHB Highlights

- **Telecommunications (OVERWEIGHT) / Media (NEUTRAL) / IT (NEUTRAL) Sector Updates :** Government Launches MyICMS 886
- **Construction Sector Update :** Along Will Come Sizeable Public Jobs **OVERWEIGHT**

Telecommunications / Media / IT Sector Updates

Government Launches MyICMS 886

- Yesterday the Energy, Water and Communications Minister Datuk Seri Lim Keng Yaik launched the Malaysian Information, Communications and Multimedia Services Strategy (MyICMS 886). This basically sets out targets for the local ICT industry to achieve over the next five years. In Table 1, we have listed the eight key areas mentioned in MyICMS 886, and our comments on each area.

Table 1: MyICMS 886 Goals For 2006-2010

Area	Expected results in 2010	RHBRI Comments
1) High speed broadband	Broadband household penetration rate to reach 75%.	Given that the current broadband household penetration rate is <10%, the target seems like a tall order. Furthermore, this plan could potentially raise Telekom's capex substantially.
2) 3G	At least 5m subscribers.	Not an impossible target although there are only 40K 3G subscribers currently. Reasons being: a) 3G packages are already very affordable; b) video call rates are already at voice call rates; c) cellcos are currently subsidising 3G handphones to encourage the upgrade to 3G; and d) cellcos continue to work on increasing 3G content to improve its value proposition.
3) Mobile TV	Multimedia services anywhere, anytime for 90% of mobile users.	This will probably be achieved given a) the adoption of 3G services as mentioned above; b) the continuous support from the Government for the content service providers; and c) partnerships / alliance with channel broadcasts.
4) Digital multimedia broadcasting	95% household coverage.	Broadcasters like TV1, TV2 and Media Prima will have to adopt digital broadcasting standards, i.e. DTTB, vs the current analog. Thus they may have to incur some capex on new equipment and transmitters.
5) Digital home	1m digitally connected homes.	Given the above mentioned plans to increase broadband penetration, digitally connected homes should follow.

6) Short range communications	Widespread usage in various applications.	IT companies may not see a need to invest in RFID (Radio Frequency Identification) technology as our manufacturing processes are not sophisticated enough, hence customer base may be small. E-commerce will also not drastically shift revenue mix because our IT companies are more focused on systems integration, and especially outsourcing work currently, which provides high growth and high margins.
7) VOIP / Internet telephony	VOIP revenue to reach RM1.5bn.	The target is to double VOIP revenue to RM1.5bn by 2010. This bodes well for market leader Redtone, but will continue to have a negative impact on Telekom's fixed line residential revenue, which slides every quarter due to higher usage of VOIP and/or mobile substitution effect.
8) USP – Universal service provision	60% coverage for underserved rural households.	Currently telcos/cellcos contribute about 6% of its net revenue to a fund, i.e. the USO fund which is utilised for capex in underserved rural areas. If this fund is utilised to increase broadband coverage in underserved areas, this would ease Telekom's broadband capex burden.

Source: NST, RHBRI

- There is no major change in our views on the telecommunications, media and IT sectors arising from this, as this is basically a general guideline as to where the local ICT industry will head in the future. Maintain OVERWEIGHT stance on the telecommunications sector, and our NEUTRAL stance on the media and IT sectors.

Valuations of telecommunications stocks

Company	FYE	Price (RM)	EPS Growth (%) FY05	EPS Growth (%) FY06	PER (x) FY05	PER (x) FY06	EV/EBITDA (x) FY05	EV/EBITDA (x) FY06	P/CF (x) FY05	P/CF (x) FY06	Gross Yld (%) FY05	Gross Yld (%) FY06	Recom
Digi	Dec	7.95	42.8	17.8	13.2	11.2	4.3	3.9	4.9	4.5	0.0	4.4	OP
Maxis	Dec	8.50	15.5	5.6	12.5	11.8	5.7	6.3	6.9	8.7	6.6	7.4	OP
Redtone ^	Feb	1.40	16.6	40.2	11.9	8.5	9.7	6.4	10.0	7.2	7.1	7.1	OP
Telekom	Dec	9.45	(6.0)	3.6	15.6	15.0	5.7	4.5	6.0	5.1	3.7	4.2	MP
Sector avg			6.0	6.2	14.0	13.2							

^ Refers to FY02/06 and FY02/07

Valuations of media stocks

Company	FYE	Price (RM)	EPS Growth (%) FY05	EPS Growth (%) FY06	PER (x) FY05	PER (x) FY06	EV/EBITDA (x) FY05	EV/EBITDA (x) FY06	P/CF (x) FY05	P/CF (x) FY06	Gross Yld (%) FY05	Gross Yld (%) FY06	Recom
Astro ^	Jan	5.25	7.8	35.3	49.4	36.6	18.1	13.9	20.3	16.3	0.6	1.0	MP
Media P *	Dec	1.62	27.2	15.3	19.4	16.8	9.4	8.2	13.4	9.9	1.2	1.9	OP
NSTP	Dec	2.51	243.3	88.0	42.8	22.8	13.0	9.7	10.2	8.2	2.0	2.0	MP
Sin Chew ^	Mar	3.36	8.5	32.6	15.7	11.8	13.0	9.3	12.1	9.0	3.5	4.7	OP
Star	Dec	7.00	(2.4)	(3.7)	16.4	17.0	10.2	9.7	12.7	11.8	5.2	5.4	MP
Sector avg			15.8	22.0	30.6	24.7	14.5	11.5					

^ Refers to FY006 and FY07
** Refers to fully diluted*

Valuation of IT stocks

Company	FYE	Price (RM)	EPS Growth (%) FY05	EPS Growth (%) FY06	PER (x) FY05	PER (x) FY06	EV/EBITDA (x) FY05	EV/EBITDA (x) FY06	P/CF (x) FY05	P/CF (x) FY06	Gross Yld (%) FY05	Gross Yld (%) FY06	Recom
Mesiniaga	Dec	2.65	-3.1	5.6	9.6	9.1	6.6	5.5	22.8	7.5	6.0	6.0	UP
CSA^	Mar	1.73	68.0	25.0	10.3	8.3	5.9	5.0	6.8	6.0	4.6	4.6	TB
HeiTech Padu	Dec	1.06	58.4	9.0	5.5	5.0	1.6	0.8	4.5	2.7	5.7	5.7	MP
Sector Avg (IT)			**34.0**	**13.1**	**8.3**	**7.4**							

^ FY05-06 valuations refer to those of FY06-07

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Construction Sector Update

Along Will Come Sizeable Public Jobs

- Construction stocks have generally underperformed the broader market in 2005 (see Chart 1). We believe the worst is over and the sector is poised for a recovery in 2006 thanks to a more vibrant public sector. The development expenditure in 2006 that coincides with the first year of the 9th Malaysia Plan (9MP) has been budgeted at RM33.5bn, up 9.8% from RM30.5bn in 2005. As far as implementation is concerned, the Government has also set the ball rolling by releasing in May 2005 the list of the first 30 public projects worth a total of RM2.4bn to be carried out under the 9MP (see Table 1).

Chart 1: Relative Performance vis-à-vis KLCI

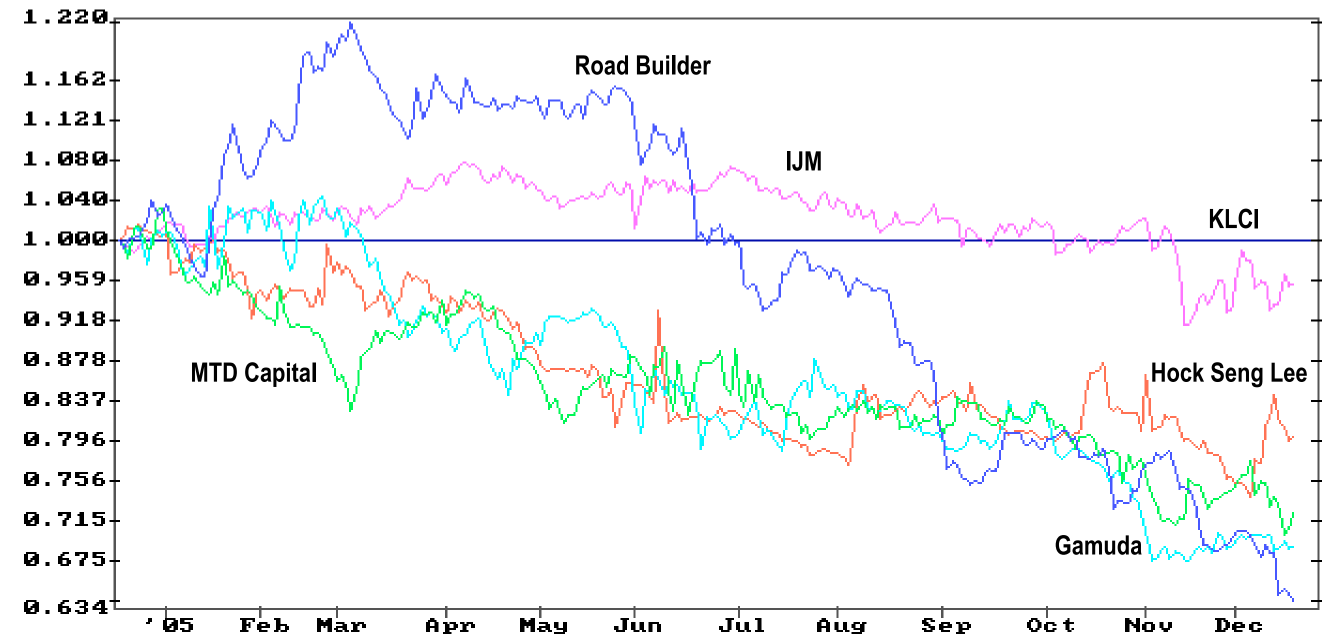

Table 1: First RM2.4bn 9MP Projects

	Value (RMm)
<u>*New road/highway, road uprade/repair & bridge*</u>	
Jerantut, Bentong & Maran, Pahang	225.0
Tran-Eastern Kedah Inland Highway	217.0
Durian Burung - Kupang, Kedah	
Jalan Timur Barat - Pendang & Sungai Tiang, Kedah	160.0
Jalan Linggi - Jalan Lingkaran Tengah, Seremban (Sections 1 & 3), Negeri Sembilan	141.0
Jalan Linggi - Jalan Tengah, Seremban, Negeri Sembilan	100.0
Jalan Raja Dr Nazrin Shah - Siputeh, Perak	98.0
Jalan Timur Barat, Kedah, through Kodiang - Arau, Perlis	71.5
Laluan 5 Jalan Koh - Setiawan, Perak	74.0
Sandakan Northern Ring Road, Sabah	70.0
Federal Route 1 - Bukit Tengah roundabout (4km), Penang	60.0
Damar Laut - Changkat Jering	50.0
Jalan Linggi - Jalan Lingkaran Tengah, Seremban (Section 4), Negeri Sembilan	50.0
Alor Star, Kedah - Padang Besar, Perlis (Ulu Pauh - Chuping)	43.0
Jalan Sultan Azlan Shah - Jalan Tambun, Perak	37.0
Bridge in Durian Tunggal, Penang	34.0
Menggatal - Brunttis Road, Sabah	30.0
Sub-total	*1,460.5*
<u>*New building & building extension*</u>	
Polytechnic, Penang	250.0
New chemical lab, University of Malaya, Kuala Lumpur	100.0
ADTEC building, Taiping, Perak	80.0
Muar Hospital extension, Johor	80.0
Gua Musang Hospital extension, Kelantan	71.5
Internal Revenue Board Academy extension, Selangor	65.0
New hall, University of Malaya, Kuala Lumpur	40.0
Road Transport Department Academy, Melaka	30.0
Clinic in Taiping, Perak	17.0
Sub-total	*733.5*
4 projects under agencies other than Public Works Department	*206.0*
Total	**2,400.0**

- The major concern is this batch of projects, predominantly small-scale simple road and building works, is not “hitting the spot” as far as the big boys are concerned. With low technical and working capital requirements, and hence virtually no entry barrier, hordes of small- and mid-sized contractors will be bidding for these contracts alongside the big boys. Intense competition means successful bids are likely to carry razor-thin margins.

- However, all is not lost for the big boys. We are sensing a gradual shift in the Government’s focus from predominantly small-scale projects, to a combination of small-scale and mid-sized projects. In the 2006 Budget announced in end-September 2005, for instance, a hefty sum of RM1.9bn has been allocated for “environmental preservation projects consisting of works in relation to the prevention of coastal erosion, drainage and flood mitigation, improvement of river and river estuaries, repair and construction of sewerage plants, and solid waste management”. The mid-sized segment (and above) is where the big boys will dominate and could walk away with more decent margins.

- We expect more good news to come in March 2006 when the 9MP proper is to be officially unveiled. We expect the announcement of more higher-valued and specialised jobs, including water, waste management and railway projects, that augurs well for the big boys with stronger track records, engineering capabilities and balance sheets.

- Apart from the resurgence of public jobs under the 9MP, more specifically, our **OUTPERFORM** recommendations for **Gamuda, IJM, Hock Seng Lee** and **Prinsiptek** are also based on: (1) Their respective strengths, i.e. Gamuda's superior engineering capabilities, IJM's strong presence in the booming construction and property sectors in India, Hock Seng Lee's competence in land reclamation, and Prinsiptek's forte in building works for government funded low-cost housing units and quarters, and private/privatised housing projects; and (2) Their good earnings visibility underpinned by orderbooks that could keep them busy for the next 2-3 years (see Table 2).

- We are cautious on **MTD Capital (MARKET PERFORM)** for its exposure to the troubled Bakun Hydroelectric project via an effective 7.7% stake in Malaysia-China Hydro Joint Venture, the consortium that was awarded the turnkey contract for the project. We are negative on **Road Builder (UNDERPERFORM)** that is saddled with a major low-yielding asset, i.e. the RM1.2bn New Pantai Expressway (NPE).

Table 2: Outstanding Orderbooks & Projects Pending Formal Award

	Outstanding Orderbook# (RMm)	Orderbook's "lifespan"# (years)	Projects Pending Formal Award* (Estimated Value)
IJM	3,400	2-3	-
Gamuda	2,700	2-3	Civil works of 523MW Nam Theun 1 Hydroelectric Power Project in Laos (RM1,300m)
Road Builder	800	1	-
Hock Seng Lee	600	2-3	-
MTD Capital	487	1	East Coast Expressway Phase 2 (RM500-600m)
Prinsiptek	347	2-3	Low-cost units funded by National Housing Authority of Thailand (RM193m); and Property project in Sri Gombak (RM100m)

#Excluding projects pending formal award

- Maintain **OVERWEIGHT** on the construction sector.

Table 3: Indicative Fair Values & Bases

	Indicative fair value (RM/share)	Basis
IJM	6.00	14x FY03/07 EPS
Gamuda	5.44	14x FY07/06 EPS
Hock Seng Lee	3.90	12x FY12/06 EPS
Prinsiptek	1.59	8x FY12/06 EPS
MTD Capital	2.20	10x FY03/07 EPS
Road Builder	1.62	10x CY2006 EPS

	FYE	Price	EPS GWTH (%)		PER (x)		EV/EBITDA (x)		P/CF(x)		GDY (%)		Recomm
		(RM/s)	FY05	FY06	FY05	FY06	FY05	FY06	FY05	FY06	FY05	FY06	
Gamuda	Jul	3.60	-9.1	8.8	10.1	9.3	6.6	5.9	12.9	10.6	4.4	4.4	OP
Hock Seng Lee	Dec	2.63	18.0	18.9	9.6	8.1	3.8	3.0	12.1	8.8	4.9	4.9	OP
MTD^	Sep	1.90	84.8	83.3	15.8	8.6	5.0	3.3	5.1	3.9	2.1	2.1	MP
Prinsiptek	Dec	0.94	-11.2	13.8	5.4	4.7	3.9	3.2	8.9	7.5	5.3	5.3	OP
RBH	Jun	1.53	-4.6	-9.9	8.9	9.9	5.9	6.0	3.8	4.2	5.2	5.2	UP
IJM^	Mar	4.42	-0.9	25.6	13.0	10.3	7.7	6.1	10.1	8.4	3.4	3.4	OP
Sector Avg			**19.0**	**19.3**	**13.0**	**10.9**							

^ Refers to FY03/06 and FY03/07

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