



CONSTRUCTION

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3M FY08 Results Review

Private Circulation Only

Melati Ehsan

BUY **Maintain**
Price **RM1.50**
Target **RM2.35**

Slowly but Surely

As expected, 1Q results came in rather slow owing to seasonality factors. We expect things to pick up slightly in 2Q and accelerate in the last 2 quarters. Its strong orderbook balance of RM1.4bn should continue to drive earnings moving forward. The company has already tendered for over RM1bn worth of projects. **Maintain BUY** with a TP of RM2.35, citing a 57% upside.

Seasonally lower. Melati registered a net profit of RM4.1m for 1QFY08, or 12.4% of our original full year forecast. Traditionally, 1H tends to be the weaker half attributed to (i) rainy season hampering construction works and (ii) the relative abundance of public holidays during the period. We expect only a marginal pick up in the following quarter but things should kick back into high gear during Q3 and Q4. To reaffirm this seasonality effect, 1H earnings only made up 21% of its FY07 results.

Margins remain healthy. Gross and net margins came in spot on at 15.9% and 10.4%, vis-à-vis our projection of 15.6% and 10.3%. We continue to like Melati's ability to command such healthy margins even in light of rising raw material prices. To recap, most of its government awarded projects contain a "Variation of Price" clause, protecting margins from adverse fluctuations in prices of key raw materials.

Property development – Minor setback. We understand that the launch of its maiden property development in Pandamaran, Klang will be done in 2Q 2008 instead of 1Q. However, to maintain a conservative stance, we have now assumed that take up rates will only commence in FY09 (i.e. post Aug 2008). This property venture constitutes a mixed development comprising residential houses and shop lots with a total GDV of RM500m.

What next? We understand that Melati has submitted a proposal to participate in the earthworks, infrastructure and drainage of a property development in Ijok, Selangor. The mixed development is being conducted by Kuala Lumpur Kepong Bhd (BUY, RM17.20) and is known as Desa Coalfield with a total land space of 1,500 acres. Further, Melati is also eyeing on some flood mitigation jobs located in Johor.

A value BUY. We forecast an earnings growth of 15.5% and 29.3% for FY08 and FY09 respectively. Current multiples are very undemanding at 6.4x FY08 earnings and 5.0x FY09 earnings. Owing to its recently listed status, we tag a 9x multiple (rather than our standard 11x to 13x) to FY08 earnings. **Maintain BUY** with a target price of RM2.35.

Stock Profile/Statistics

Bloomberg Ticker	MEHB MK
KLCI	1388.50
Issued Share Capital (m)	120.00
Market Capitalisation (RMm)	180.00
52 week H L Price (RM)	1.78 1.18
Average Volume (3m) '000	414.23
YTD Returns (%)	-0.18
Net gearing (x)	0.31
Altman Z-Score	3.71
ROCE/WACC	1.31
Beta (x)	N.A.
Book Value/share (RM)	0.97

Major Shareholders (%)

Alpine Equity (M) SB	23.6%
Melati Corp SB	20.9%
Desalink SB	11.6%

Share Performance (%)

Month	Absolute	Relative
1m	(7.98)	(4.10)
3m	(7.98)	(9.15)
6m	(3.85)	(6.35)
12m	N.A.	N.A.

6-month Share Price Performance



FYE Aug (RMm)	FY05	FY06	FY07	FY08f	FY09f
Turnover	133.3	144.2	173.4	308.6	409.4
EBITDA	23.1	31.8	35.4	43.4	55.4
Net Profit	16.2	22.7	27.1	31.3	40.5
% chg YoY	11.8%	40.1%	19.6%	15.5%	29.3%
Consensus					
EPS (sen) ^A	13.5	18.9	22.6	26.1	33.7
DPS (sen) ^A	-	13.8	7.5	6.5	10.1
Div Yield	0.0%	9.2%	5.0%	4.4%	6.7%
ROE	39.1%	42.0%	31.3%	21.7%	21.7%
ROA	16.3%	17.6%	18.2%	12.7%	12.1%
PER (x)	11.1	7.9	6.6	5.7	4.4
P/BV (x)	3.5	3.2	1.5	1.0	0.9

EARNINGS FORECAST**Quarter Results Table**

FYE Aug (RMm)	3QFY07	2QFY07	% chg	YTD FY07	YTD FY06	% chg
Turnover	39.5	79.9	-50%	39.5	NA	NA
EBITDA	5.5	15.7	-65%	5.5	NA	NA
Depreciation	(0.0)	(0.2)	-77%	(0.0)	NA	NA
Net interest expense	(0.0)	-	NA	(0.0)	NA	NA
Associates	-	-	NA	-	NA	NA
PBT	5.5	15.5	-65%	5.5	NA	NA
Tax	(1.4)	(4.2)	-68%	(1.4)	NA	NA
MI	-	-	NA	-	NA	NA
Net Profit	4.1	11.3	-64%	4.1	NA	NA
EPS (sen)	3.4	9.4	-64%	3.4	NA	NA
Gross DPS (sen)	-	-	NA	-	NA	NA
EBITDA margin	14.0%	19.7%	-29%	0.1	NA	NA
NTA/share (RM)				1.0	NA	NA

FYE Aug (RMm)	FY05	FY06	FY07	FY08f	FY09f
Turnover	133.3	144.2	173.4	308.6	409.4
EBITDA	23.1	31.8	35.4	43.4	55.4
PBT	22.9	31.6	36.6	42.3	54.0
Net Profit	16.2	22.7	27.1	31.3	40.5
EPS (sen)	13.5	18.9	22.6	26.1	33.7
DPS (sen)	-	13.8	7.5	6.5	10.1
Margin					
EBITDA	17.3%	22.1%	20.4%	14.1%	13.5%
PBT	17.1%	21.9%	21.1%	13.7%	13.2%
Net Profit	12.1%	15.7%	15.6%	10.1%	9.9%
ROE	39.1%	42.0%	31.3%	21.7%	21.7%
ROA	16.3%	17.6%	18.2%	12.7%	12.1%
Balance Sheet					
Fixed Assets	0.9	1.0	22.1	31.2	35.7
Current Assets	154.9	99.6	174.0	266.6	335.2
Total Assets	155.9	101.1	196.6	298.3	371.4
Current Liabilities	105.0	44.0	60.8	102.0	141.8
Net Current Assets	50.0	55.7	113.2	164.6	193.4
LT Liabilities	0.0	0.1	19.3	24.3	29.3
Shareholders Funds	50.9	57.1	116.5	172.0	200.4

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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