



## Melati Ehsan Holdings Bhd

*Substantial order book***Target Price: RM2.58****Buy (+63.29%)**

Stock Code 5129

Bloomberg Ticker MEHB  
MK

Current Price - RM1.58

Listing:  
Main BoardFinancial Year End - 31<sup>st</sup>  
AugustNumber of Shares -  
120,000,000Market Cap. -  
RM189,600,000**Major Shareholders**Dato' Yap Suan Chee &  
Family ..... 54.6%SP Epark Konsortium Sdn  
Bhd ..... 5.7%

Desalink Sdn Bhd ..... 11.6%

52Wk High 6/31/2007  
RM1.78  
52Wk Low 8/17/2007  
RM1.18**Investment Highlights**

Melati Ehsan Holdings Bhd (MEHB) through its subsidiaries, is involved in construction activities. Most of its jobs are turnkey construction projects. Its services include planning, design, engineering, procurement and construction. MEHB commands good margins due to its efficient operations. Its current unbilled order book is approximately RM1.46b.

**Strengths and Prospects**

**Substantial order book.** MEHB has a total order book of RM1,725m and an unbilled amount of RM1,462m as at the 31<sup>st</sup> of August 2007. This offers both clear earnings visibility and revenue growth for the next few years. MEHB's strong relationship with government and quasi government bodies along with the gradual roll out of the 9MP would ensure replenishment of order books. MEHB has already tendered for more than RM1.7B worth of projects. Historically, its success rate has always been above 30%.

Client	Description	Project Duration	Contract Value (RM 000)	Unbilled Amount (RM 000)
PKNS	Turnkey Housing Construction - Kota Damansara	Jan 2005 - Dec 2007	23,847	676
Jabatan Pengairan & Saliran	Flood Mitigation - Kepala Batas, Pulau Pinang	Jan 2005 - Feb 2009	168,797	147,768
PKNS	Mixed development - Bernam Jaya	Sept 2009 - Aug 2014	55,034	55,034
JKR	Highway Project - Kedah	Sept 2005 - Aug 2008	287,000	231,683
DBKL/MLSB	Turnkey Construction - Taman Aman Putra, KL	Oct 2004 - Oct 2010	523,419	424,529
TPPT/MEDSB	Infrastructure Construction - Taman Ehsan Jaya, Johor	Nov 2005 - Nov 2007	8,040	1,444
TPPT/MEDSB	Housing Construction - Taman Ehsan Jaya, Johor	May 2006 - Apr 2008	31,640	4,074
PKNS/BONUS FOCUS (M) Sdn Bhd	Turnkey Housing Construction - Kota Damansara	May 2006 - Apr 2009	34,383	30,256
TPPT/MEDSB	Housing Construction - Taman Ehsan Jaya, Johor	Sept 2006 - Dec 2007	21,269	5,200
TPPT/MEDSB	Infrastructure Construction - Taman Ehsan Jaya, Johor	Sept 2006 - Apr 2008	10,976	3,148
TPPT/MEDSB	Housing Construction - Taman Ehsan Jaya, Johor	May 2007 - Nov 2008	10,730	8,536
TPPT	Mixed development - Taman Ehsan Jaya, Pandamaran, Klang	Dec 2007 - Nov 2012	500,000	500,000
Magnificent Diagraph Sdn Bhd	Turnkey Construction - Kota Damansara	Jan 2008 - Aug 2008	50,000	5,000

Diagram 1.0 Book Orders (Source : Company)

**Good margins.** MEHB enjoys good margins due to the combination of several factors. Its turnkey operations and value added services have provided for better margins, efficiency and reduce costs at the same time. MEHB is able to offer value engineering and the most suitable design for the customer. This essentially reduce material costs while exceeding customer's needs. Moreover, its turnkey basis enables faster completion due to better coordination. Its construction margins are on average, above 15%.

**Property development venture.** MEHB has ventured into property development in Klang. MEHB has acquired 99.29 acres of development land for RM32m. The current market value is RM40m. The total GDV is RM500m and consists of mixed development including 501 residential houses, 320 shop lots, 8.97 acres of commercial lots and 6.92 acres of industrial lots. The project would last from Dec 2007 to Nov 2012. MEHB believes that this venture would further improve its margins as it is able to capture margins from both the construction and development business.

**Strong balance sheet.** MEHB is essentially in a net cash position. MEHB has been conservative on its gearing and this has seen them through during difficult times ie. the Asian financial crisis. MEHB continues to maintain a strong balance sheet even after the acquisition of the 7 parcels of development land. Under the agreement, payment would be made over 2 years and therefore, MEHB's gearing would not be strained.

#### **Weaknesses and Threats**

**High dependency on government and quasi government projects.** Previously, MEHB was almost completely dependent on such projects. This has exposed them to cyclical construction budgets by the government. However, MEHB has become less dependent now with its maiden venture into mixed development on its own. Moreover, it currently has a project from Magnificent Diagraph Sdn Bhd, the company that runs Carrefour.

**The cost of building materials have been increasing** and would likely maintain this trend. This would generally affect all construction based companies. However, the effect on MEHB will be minimal as MEHB's government contracts have a Variation of Price (VOP) clause. This enables MEHB to claim for any increase in raw material prices.

## Company Profile

Melati Ehsan Holdings Bhd (MEHB) through its subsidiaries, is involved in construction activities. Most of its jobs are turnkey construction projects. A turnkey contractor provides for the complete planning, design, engineering, procurement, construction and start-up of a construction project. Its subsidiary Bayu Melati, is a Class "A" contractor while Pembinaan Kery, is both a Class "A" and "G7" contractor. This enables them to tender for government and private sector projects of any size and value. MEHB is also involved in property development through Melati Ehsan Consolidated and trading through Melati Ehsan Trading.



Diagram 2.0 Group Structure (Source : Company)

## Financial Data

	2004 (RM '000)	2005 (RM '000)	2006 (RM '000)	2007 (RM '000)	2008E (RM '000)	2009E (RM '000)
Revenue	81,326	133,299	144,203	173,428	357,315	436,718
Gross profit	21,098	24,615	32,962	37,622	53,597	65,508
PBT	20,094	22,850	31,638	36,604	52,146	63,734
Tax	(5,624)	(6,668)	(8,971)	(9,489)	(13,519)	(16,523)
Profit att. to shareholders	14,470	16,182	22,667	27,114	38,628	47,211
EPS (sen)	12.06	13.48	18.89	22.60	32.19	39.34
Gross margin (%)	0.26	18.47%	22.86%	21.69%	15.00%	15.00%
PBT margin (%)	24.71%	17.14%	21.94%	21.11%	14.59%	14.59%
Profit margin (%)	17.79%	12.14%	15.72%	15.63%	10.81%	10.81%
Revenue Growth (%)	N/A	63.91%	8.18%	20.27%	106.03%	22.22%

## Melati Ehsan Holdings Bhd

Company	Price	Market Cap (RM 'm)	P/E
Bina Puri	0.91	75.22	14.38
Crest Builder	1.11	137.54	6.77
Gadang	1.01	118.98	8.00
Protasco	0.98	294.00	9.82
Simple Average		156.44	9.74

Diagram 3.0 Peer Comparison (Source : Bloomberg)

### Valuation

Based on 2008E's earning estimate of 32.19 sen a share and a P/E ratio of 8.0x, we derive a fair value of RM2.58. We base our P/E on a slight discount to the simple average of similar sized peers. Based on the fair value of RM2.58, there is an upside potential of 63.29% from the current price of RM1.58.

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