

21 Jun 2005

Gold IS

GOLD MK

RM1.28

BUY

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Venturing into China sewerage treatment operations

Gold IS' subsidiary, Gold Water (Shanghai) Co. Ltd entered into a Heads of Agreement with Tie Ling City, Liao Ning Provincial in China for the proposed takeover (transfer, operate and transfer) of a 100,000 tonne/day sewage treatment plant and build a 50,000 tonne/day recycled water treatment plant on a BOT (build, operate and transfer) basis.

- **About the project.** The provincial government agreed to transfer the operation of a 100,000 tonne sewage treatment plant and the right to build a 50,000 tonne/day recycled water treatment plant over a 30-year concession for RMB125m (RM57m). The construction of the recycled water plant could take 2 years to complete.

We understand that Gold IS intends to own over 50% stake in the special purpose vehicle which will be set up to acquire the water and sewerage concession. While the revenues for the plants will be in Renminbi, the group plans to finance the project in US\$, hopefully benefiting from any revaluation of the renminbi.

Liao Ning province has a population of 43m over a 147,451 sq km area with its capital in Shenyang.

- **First project in sewerage project in China.** The group already has paper manufacturing and property development projects in China. However, this is the group's first project involving water and sewerage treatment operations in China. The gold membrane technology for water treatment plant is sourced in Malaysia with affiliations to universities in China.

Given the need for referrals to other potential projects, we understand that the IRRs for this project may be around 12%, lower than the normal 15% for overseas projects by other utilities players.

- **How much will the project add value?** Assuming a 80:20 debt:equity financing ratio, cost of equity of 12% and financing costs of 6%, we estimate that the whole project could generate a NPV of RM40m. Assuming a 50% stake in the project, we estimate that the group's RNAV may be enhanced by 12 sen to RM2.60.
- **We are positive on this project** which should be EPS enhancing over the long term and may augur new investment opportunities for the group. When this division becomes commercially viable, the group will be looking to list it overseas. With this new expertise in China, the group may be able to leverage into water & sewerage projects regionally as well.
- **Maintain our BUY call.** Target price of RM1.70 pegged to a CY05 P/E of 10x.

Gold IS (RM1.28)

Y/E Jan (RM'm)	Pretax Profit	Net Profit	EPS (sen)	EPS Chg (%)	P/E (x)	EV/EBITDA (x)	DPS (sen)	Yield (%)
2003	50.7	35.4	11.0	na *	11.6	28.5	-	-
2004	81.4	60.9	19.0	72	6.7	36.6	2.0	1.6
2005 **	59.7	44.6	13.9	(27)	9.2	18.7	2.5	2.0
2006E	73.8	55.0	17.1	23	7.5	17.8	4.0	3.1
2007E	85.8	64.4	20.1	17	6.4	15.4	5.0	3.9

* - the merger between IGB and Tan & Tan was completed on 31 Jan 02

** - drop in earnings due to sale of IJM Corporation shares by associate IGB and China property developments in FY04.

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