

02 Sep 2005

Goldis

GOLD MK

RM1.27

BUY

Price Chg (%)	GOLD	KLCI
1 mth	(2)	(3)
3 mth	(4)	5
12 mth	(16)	8

Forecast revision (RM'm)

Y/E: Jan	06E	07E
Revision (%)	-	-
Net profit	55.0	64.4
I/B/E/S net profit	N/a	N/a

Syariah	Yes
Issued Cap (m shares)	320.6
Market Cap (RM'm)	727.8
3M Avg Daily Volume (shrs)	52,910
52wk High/Low (RM)	1.60/1.27
Net Cash / (Debt) (RM'm)	(102.4)
Net Gearing (x)	0.1
Book NTA (RM/share)	2.64
Free float (%)	35

Major s/holders

*Dato' Tan Chin Nam, Robert Tan and family (43.1%)
Permodalan Nasional Bhd (13.1%)*

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Weak 1H expected

Company update

Salient features and Recommendation

- 2Q FY06 expected to come in weaker q-o-q mainly due to slower progress billings from associate IGB Corp and weak sales in Hoe Pharmaceuticals. 1H FY06 net profit may account for only 20% of our full year FY06 forecasts.
- Prospects for IGB are bright due to strong sales for Cendana condominiums, strong office sales at Mid Valley North Point, upcoming Phase 2 mall and infrastructure improvements to ease congestion.
- Potential gains from 21.7m Kris Components shares could reap investment gains of around RM40m.
- The 2-acre LA Residence project, worth RM350m, in Jalan Tun Razak is expected to commence in September 2006.
- **Maintain our forecasts for now.** While 1H05 is likely to be weak, we expect subsequent 2 quarters to be able to compensate due to higher progress billings from IGB, pick up in sales from Hoe Pharmaceuticals and Macro Kiosk.
- **Reiterate our BUY call.** The stock currently trades at an attractive 7.8x FY06 P/E of 6.6x 40% and a huge discount to our RNAV of RM2.22. Out target price of RM2.00, pegged to a FY07 P/E of 10x, offers a potential upside of 57%.

Highlights

- **Slower 2Q expected.** 2Q FY06 could come in weaker q-o-q mainly due to slower progress billings from associate IGB Corp and weak sales in Hoe Pharmaceuticals. Consequently, we expect 1H FY06 net profit to account for only 20% of our full year FY06 forecasts.
- **Nevertheless, maintaining our forecast, for 2H FY06 is expected to compensate.** 2H FY06 is expected to kick in with stronger progress billings from the IGB, pick-up in sales from Hoe Pharmaceuticals and Makro Kiosk.
- **Slower sales at Hoe Pharmaceuticals.** Sales at 78%-owned Hoe Pharmaceuticals have slowed down in 1H FY05 mainly due to timing and delivery issues for the dermatological creams and lotions. Management is currently consolidating its operations and building up its marketing campaigns to expand sales in Germany, Netherlands, Singapore, Taiwan and Hong Kong.

Up to July this year, Malaysia accounted for 60% of Hoe's sales. However, overseas sales are expected to rise in 3Q onwards for winter products, resulting in overseas sales accounting for half of the group's pharmaceutical sales.

Given that a listing on the Main Board requires a 5-year track record, we understand that the SC submission for Hoe's listing may only happen in 2007.

- **Slower 2Q earnings from IGB Corp (IGB).** IGB's 2Q FY05 pretax profit decreased 23% q-o-q due to slower progress billings from its property development projects. However, IGB's performance is expected to rebound in 2H from the group's unbilled sales of RM300m as at 30 June 2005.

We expect 28%-owned IGB to contribute 75% of Goldis pretax in FY06. Prospects are bright for the property development and property investment divisions due to-

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- ✓ **Strong sales for Cendana condominiums.** IGB's Cendana condominiums, located next to the Renaissance Hotel along Jalan Sultan Ismail in KL, has performed well from its launch in January-February this year. So far, the 144 units priced at RM550 psf or almost RM2m per unit has generated a commendable take up rate of 70%. Only 20 units remain unsold.
- ✓ **Good response to commercial launches at Mid-Valley.** The Mid Valley North Point launched 204 office suites at RM450 psf in October last year and 228 serviced apartments priced at RM390-RM400 psf in November 2004. The total GDV of the North Point project is RM311m. To date, all the office units have been sold out.

However, only 20% of the service apartments have been taken up due to the traffic congestion in the area. The residential sales are expected to improve when some infrastructure works have been completed towards the year-end.

- ✓ **Upcoming launches at Jalan Stonor and Jalan Madge.** In 4Q05, IGB plans to launch 2 projects in Jalan Stonor and Jalan Madge. The Jalan Stonor project, formerly on the Bon Ton restaurant land, will comprise a 28-storey condominium comprising 83 units with a GDV of 230m. These units will be priced at an average of RM750m psf or RM2.8m each.

The RM120m Jalan Madge project, near Jalan U-Thant, will comprise 58 apartment units worth RM2m/unit. This is a JV project where IGB will give up 24 units to the landowner.

- ✓ **Second phase of Megamall** expected to be completed by September 2007, with the second mall costing RM575m. Built on 12 acres, Phase 2 will add another net development area of 5.9m sq ft of mixed development, comprising 1.8m sq ft of up-market shopping mall called The Gardens with Isetan as the anchor tenant and 200 retail lots, a 5-star hotel, serviced apartments and offices. This is expected to increase Mid Valley's commercial space by 50% and car park bays by 80%.
- ✓ **Less than half of Mid Valley developed so far.** Only 41% of Mid Valley's total proposed gross built up area of 16m has been constructed to date. The completed portions comprise Phase 1 and 4. Phase 2, comprising The Gardens, offices and hotels, will be completed by 2007 while plans for Phase 3, possibly involving a convention centre, has not been finalised yet.
- ✓ **New mass transportation links at Mid Valley.** The group is negotiating for a new KL Monorail line to be extended from KL Sentral to the KTM station in Mid Valley. The cost to be borne by KL Monorail, the station is expected to be completed by 2007, just in time for the Second Phase to be launched. Also, the group is planning to link a pedestrian bridge from Phase 2 to PUTRA LRT's Bangsar station.
- ✓ **Infrastructure works to be completed by 2007.** The group is currently working hard to complete the roads around Mid-Valley, which is perpetually congested during weekends. The infrastructure works, costing RM100m, will comprise 2 tunnels and 2 fly-overs enabling faster access in and out of the complex from the inter-connecting Federal Highway and Jalan Meru.

- **Potential gains from Kris Components shares.** As IGB plans to distribute 77.7m Kris Component shares, Goldis could potentially get up to 21.7m Kris shares. Assuming a 20% discount to NTA of RM2.50, Goldis could reap investment gains of around RM40m. This is not incorporated into our forecasts for FY06. We understand that Keris shares are expected to be re-listed this month.

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- **Total investments at RM43.7m.** Goldis, essentially structured as a private equity investment company, has invested up to RM43.7m in companies involved in ICT, dermatological products, semi-conductor assembly, property investments & development in Malaysia and China as well as water treatment services. The group has indicated intentions to invest up to RM100m in local and overseas projects.
- **LA Residence project to commence next year.** The 2-acre LA Residence project in Jalan Tun Razak is expected to in September 2006. The GDV of the 31 storey office-cum-apartment, to be called Goldis Tower, is expected to be worth RM350m with a built up of 1m sq ft. We understand that the group plans to rent out the building first as an investment. However, the group may later dispose it to Mid-Valley City, which could be potentially turned into a REIT later.
- **Expansion plans for Macro Kiosk.** After the Securities Commission rejected the listing of SMS provider Macro Kiosk, Goldis plans to focus mainly into its expansion into China, Hong Kong, Indonesia and Thailand for its SMS-enabling services for content providers and telecommunication companies. We understand that the investment cost of up to RM10m will come from internal funds.
- **Finalising the terms of the first water and sewerage project in China.** 100%-owned Gold Water (Shanghai) Co. Ltd is finalising the terms of agreement with Tie Ling City, Liao Ning Provincial in China for the proposed takeover of a sewage plant. This involves an existing 100,000 tonne/day sewage treatment plant for RMB125m (RM57m) and plans to build a 50,000 tonne/day recycled water treatment plant on a 30-year concession.

The construction of the new plant may take up to 3 years to complete. We understand that the refurbishment of the existing sewage plant and construction cost of the water treatment plant could increase the total investment cost to RMB200m (RM91m).

As this is the group's first infrastructure project in China, Goldis may be prepared to accept a lower return for future jobs. Hence, we expect IRR of the project could be around 12%. Assuming interest costs of 6%, 50:50 debt to equity financing and 50% stake in the project, we estimate that the group's RNAV may be enhanced by 25 sen. Nevertheless, we have not factored contributions of this project into our RNAV computations.

This project should be EPS enhancing over the long term and may augur new investment opportunities for the group. Similar to the group's private equity model for other overseas operations, the group will be looking to list it overseas when this division becomes commercially viable.

- **Maintain our forecasts.** While 1H05 is likely to be weak, we expect subsequent 2 quarters to be stronger from higher progress billings from IGB, pick up in sales from Hoe Pharmaceuticals and Macro Kiosk. Hence, we maintain our forecasts for now.
- **Reiterate our BUY call.** The stock currently trades at an attractive 7.8x FY76 P/E of 6.6x 40% and a huge discount to our RNAV of RM2.22. Our target price of RM2.00, pegged to a FY07 P/E of 10x, offers a potential upside of 57%.

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Gold IS (RM1.27)								
Y/E Jan (RM'm)	Pretax Profit	Net Profit	EPS (sen)	EPS Chg (%)	P/E (x)	EV/EBITDA (x)	DPS (sen)	Yield (%)
2004	81.4	60.9	19.0	72	6.7	35.9	2.0	1.6
2005 *	59.6	44.4	13.9	(27)	9.2	18.2	2.5	2.0
2006E	73.7	55.0	17.1	24	7.4	17.3	4.0	3.1
2007E	85.7	64.4	20.1	17	6.3	15.0	5.0	3.9

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

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