

# A cheap undiscovered gem



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## Extremely deep value stock; 53% upside

We initiate coverage on Goldis with a Buy rating and RM3.05 price target. We like Goldis for its undemanding valuations and it provides a much cheaper exposure into IGB (BUY; RM3.00 price target). Goldis is the single largest shareholder of IGB with a 27.03% stake in the latter. Our target price is based on a 25% discount to Goldis' RNAV. We believe this is fair judging from IGB's trading history in 2006.

## Value of assets is worth much more

Goldis' most valuable assets are its stake in IGB (which account for two-thirds of Goldis' value) and a commercial project on a 1.95-acre piece of land known as Goldis Tower. If these assets were revalued to their fair value, Goldis would trade at a 51% discount to its RM4.09 RNAV / share. Its RNAV comprises RM3.03 BV/share, and respective revaluation surplus from IGB (RM0.60/Goldis share) and Goldis Tower (RM0.46/Goldis share).

## It does not get any cheaper than this

Although close to 100% of core earnings are derived from 27.03%-owned IGB, there is a huge disparity between the PE multiples of these two companies. IGB trades at 25x CY07E EPS while Goldis trades at only 10x CY07E EPS. Goldis' stake in IGB alone is worth RM3.09/Goldis share, that is to say, Goldis' market cap is only 65% of the market value of its stake in IGB.

## Catalyst lies in IGB's sustained re-rating

We believe the re-rating catalyst for Goldis lies in IGB's share price movements. If IGB's share price continues on its uptrend, the market is likely to take notice of Goldis' growing discount to its RNAV and ultimately there should be a positive adjustment to Goldis' stock price. Risks to our Buy rating are (1) sustained drop in IGB's share price; and (2) Goldis continually pumps money into its private equity investments that have little commercial viability.

## Estimates (Jan)

(RM)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	33	69	64	70	76
EPS	0.102	0.216	0.200	0.217	0.236
EPS Change (YoY)	NA	112.4%	-7.6%	8.9%	8.7%
Dividend / Share	0.025	0.020	0.025	0.025	0.025
Free Cash Flow / Share	(0.010)	0.110	0.199	(0.004)	(0.001)

## Valuation (Jan)

	2006A	2007A	2008E	2009E	2010E
P/E	19.66x	9.26x	10.02x	9.20x	8.46x
Dividend Yield	1.25%	1.00%	1.25%	1.25%	1.25%
EV / EBITDA*	12.72x	9.37x	7.69x	7.06x	6.46x
Free Cash Flow Yield*	-0.512%	5.51%	9.94%	-0.220%	-0.059%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 12.

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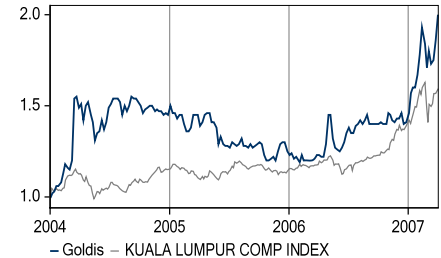
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Refer to important disclosures on page 13 to 14. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.

## Stock Data

Price	RM2.00
Price Objective	RM3.05
Date Established	5-Apr-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	RM1.20-RM2.06
Mrkt Val / Shares Out (mn)	US\$186 / 321.0
Average Daily Volume	222,043
ML Symbol / Exchange	XTODF / KLS
Bloomberg / Reuters	GOLD MK / GLIS.KL
ROE (2008E)	6.4%
Net Dbt to Eqty (Jan-2007A)	12.3%
Est. 5-Yr EPS / DPS Growth	23.5% / 0%
Free Float	40.9%



05 April 2007

# iQprofile<sup>SM</sup> Goldis Bhd.

Key Income Statement Data (Jan)	2006A	2007A	2008E	2009E	2010E
<b>(RM Millions)</b>					
Sales	183	216	248	285	328
Gross Profit	16	36	42	48	54
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	53	73	91	99	109
Net Interest & Other Income	(7)	(8)	(7)	(8)	(9)
Associates	42	43	53	56	60
Pretax Income	46	65	84	91	99
Tax (expense) / Benefit	(11)	2	(22)	(24)	(26)
Net Income (Adjusted)	33	69	64	70	76
Average Fully Diluted Shares Outstanding	321	321	321	321	321

## Key Cash Flow Statement Data

Net Income (Reported)	33	69	64	70	76
Depreciation & Amortization	5	5	5	5	5
Change in Working Capital	(35)	(53)	53	(15)	(17)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(22)	39	(49)	(51)	(53)
Cash Flow from Operations	(20)	60	74	9	11
Capital Expenditure	16	(24)	(10)	(11)	(12)
(Acquisition) / Disposal of Investments	0	(5)	0	0	0
Other Cash Inflow / (Outflow)	(24)	(18)	0	0	0
Cash Flow from Investing	(8)	(48)	(10)	(11)	(12)
Shares Issue / (Repurchase)	0	1	1	0	0
Cost of Dividends Paid	(7)	(6)	(7)	(7)	(7)
Cash Flow from Financing	58	(52)	1	17	18
Free Cash Flow	(3)	35	64	(1)	0
Net Debt	134	123	74	93	112
Change in Net Debt	39	(11)	(48)	19	19

## Key Balance Sheet Data

Property, Plant & Equipment	73	97	107	117	129
Other Non-Current Assets	889	874	925	979	1,036
Trade Receivables	128	183	136	156	180
Cash & Equivalents	62	23	84	97	112
Other Current Assets	13	14	24	27	32
Total Assets	1,164	1,190	1,276	1,377	1,488
Long-Term Debt	9	5	5	5	5
Other Non-Current Liabilities	0	0	0	0	0
Short-Term Debt	186	140	154	185	219
Other Current Liabilities	43	52	68	77	88
Total Liabilities	238	197	227	267	311
Total Equity	926	993	1,049	1,110	1,177
Total Equity & Liabilities	1,164	1,190	1,276	1,377	1,488

## iQmethod<sup>SM</sup> - Bus Performance\*

Return On Capital Employed	NA	5.8%	5.7%	5.9%	6.0%
Return On Equity	7.2%	7.4%	6.4%	6.6%	6.7%
Operating Margin	29.0%	34.0%	36.5%	34.8%	33.1%
EBITDA Margin	31.6%	36.4%	38.5%	36.5%	34.7%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	-0.6x	0.9x	1.1x	0.1x	0.1x
Asset Replacement Ratio	-3.5x	4.9x	1.9x	2.1x	2.3x
Tax Rate (Reported)	23.4%	NM	26.0%	26.0%	26.0%
Net Debt-to-Equity Ratio	14.5%	12.3%	7.1%	8.4%	9.5%
Interest Cover	7.7x	9.0x	13.3x	12.6x	11.7x

## Key Metrics

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 12.

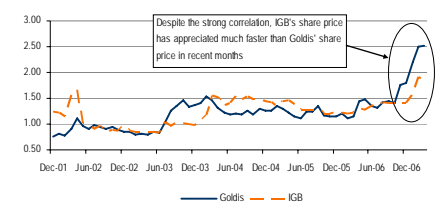
## Company Description

Goldis is a private equity investment company with investments in property, production and sale of dermatological products, the provision of mobile messaging services, paper manufacturing, aquaculture and water/wastewater treatment.

## Stock Data

Price to Book Value 0.6x

## Chart 1: Share price movement of Goldis and IGB



Source: Merrill Lynch, Bloomberg

## A property gem

The two most valuable landed assets in Goldis are its 27% stake in IGB Corporation (IGB) and its commercial property project in Kuala Lumpur under wholly-owned Goldis Tower.

Its stake in IGB accounts for the biggest chunk of Goldis' balance sheet, making up two-thirds of total BV of assets as at Jan 07. The land for Goldis Tower accounts for only 3.4% of total BV of assets. Although these assets are carried at historical cost, Goldis still trades at 0.7x Jan 07 BV.

Revaluing these assets to fair value, Goldis will be trading at a steep 51% discount to its RM4.09 base case RNAV/share. Goldis' stake in IGB alone accounts for 75.4% of our estimated RNAV while the revaluation surplus from Goldis Tower accounts for 11.2%.

**Table 1: Goldis: Revised net asset value (RNAV) estimate – Base case scenario**

	Base case (RMmn)	RM / Goldis share
Goldis BV as at Jan 07	972.6	3.03
Revaluation surplus from IGB (based on RM2.47 mkt price for IGB)*	193.7	0.60
PV of revaluation surplus from Goldis Tower**	147.7	0.46
<b>RNAV</b>	<b>1,348.8</b>	<b>4.09</b>
Existing share price (RM)		2.00
<b>Discount to RNAV</b>		<b>51.1%</b>

\*see Table 2

\*\*see Table 3

Source: Merrill Lynch, Company

## Cheaper indirect exposure to IGB

The single largest asset on Goldis' balance sheet is its 27% stake in IGB Corporation (IGB). This accounts for two-thirds of the BV of total assets as at Jan 07.

Goldis' stake in IGB alone is worth RM3.09/Goldis share, as against Goldis current price of RM2.00/share. To put it in another context, Goldis' market cap is only 65% of the market value of its stake in IGB.

Revaluing Goldis' stake in IGB up to its market price, we derive a revaluation surplus of RM0.60/Goldis share.

**Table 2: Goldis: Revaluation surplus from IGB**

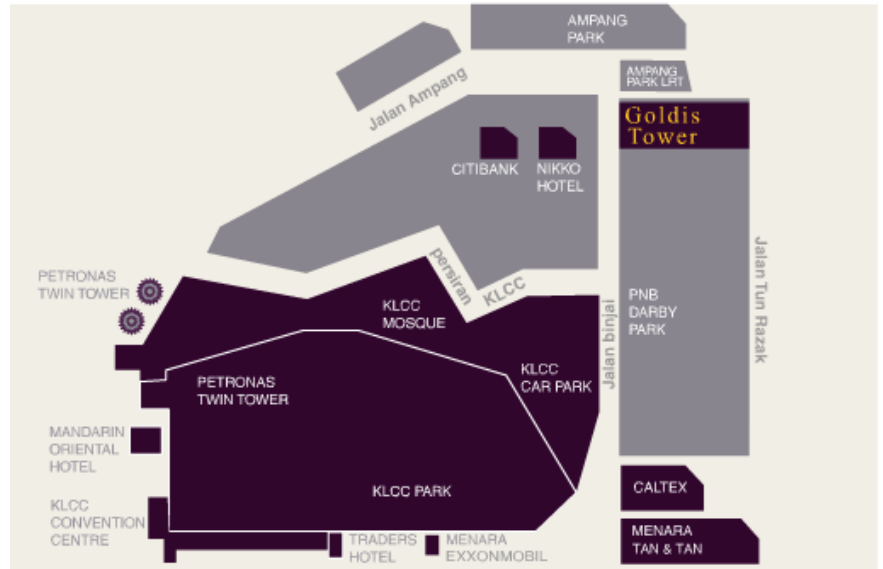
Stake in IGB (%)	27.03%
IGB's share base (mn)	1,483.7
No of IGB shares held (mn)	401
Holding cost of IGB / share (RM)	1.99
IGB share price (RM)	2.47
Goldis share base (mn)	321.0
Revaluation surplus from stake in IGB (RMmn)	193.7
<b>Revaluation surplus / Goldis share (RM)</b>	<b>0.60</b>

Source: Merrill Lynch, Company

## Goldis Tower: New CEO space at a prime location

Goldis is investing in a project on a 1.95-acre piece of land located at the intersection between Jalan Ampang and Jalan Tun Razak in the heart of Kuala Lumpur. The site is 15 minutes walk from Kuala Lumpur City Center.

Chart 2: Location map for Goldis Tower



Source: Merrill Lynch, Company

The project is a 30-storey office tower with an approved gross floor area of over 1mn sqf. Goldis carries the land at RM40.9mn and has budgeted over RM300mn to develop the site.

When the project is completed in 2009, Goldis plans to keep it for rental income. In the more distant future, we would not be surprised if Goldis decides to inject the tower into a REIT.

We estimate Goldis Tower to be worth RM510mn when completed. This implies a revaluation surplus of RM169.1mn. Discounting this back to present value at a 7% discount rate, we derive a revaluation surplus of RM0.46/Goldis share.

We have assumed an average rental rate of RM5 psf / month, 70% NPI margin, 100% occupancy and 7% net rental yield. The estimated RM510mn market value for Goldis Tower implies a value of RM600psf.

The most recent sale of office towers near Goldis Tower was in 2H06 when Macquarie Global Property Advisors bought Empire Tower for RM466psf of NLA. In other parts of Kuala Lumpur such as on Jalan Sultan Ismail, Kenanga International Building was sold at RM554psf.

Given the tight market conditions for prime office space in Kuala Lumpur, we believe that market values of office space can easily reach RM600psf by 2009.

**Table 3: Goldis: Revaluation surplus from Goldis Tower**

Rent (RM psf / month)	5.00
NLA (mn sqf)	0.85
NPI margin (%)	70%
Occupancy (%)	100%
Net rental revenue p.a. (RMmn)	35.7
Net rental yield (%)	7%
Goldis Tower market value (RMmn)	510.0
Holding cost of land (RMmn)	40.9
Construction cost (RMmn)	300
Est. BV of Goldis Tower (RMmn)	340.9
Revaluation surplus from Goldis Tower	169.1
Discount rate	7.0%
PV of revaluation surplus from Goldis Tower	147.7
Goldis share base (mn)	321.0
<b>PV of revaluation surplus / share (RM)</b>	<b>0.46</b>

\* Assumes 15% of 1mn sqf of gross floor area is not usable  
 Source: Merrill Lynch, Company

## Potential risks

We identify the following potential risks in the business:

### Private equity investments may require significant funding

Most of Goldis' private equity investments have yet to gain critical mass and many of them are still in the nascent stages of growth. This means they could require significant funding from Goldis before they are able to rely on their own cashflows. When Goldis provides the funding for these private equity investments, it may take a long time before these funds can be recouped.

We think this is a small risk as Goldis funds its investments in a drip feed manner. In other words, it injects small amounts of capital over time rather than injecting a significant lump sum of cash into its investments. This allows Goldis to limit its exposure and monitor its investments.

#### ■ Worst-case basis: Goldis would still trade at 33% discount to RNAV

Even on a worst-case basis, if we hypothetically write-off all of Goldis' assets save for its associate stake in IGB and its interest in Goldis Tower, we derive a worst case RNAV of RM3.00/Goldis share. Goldis trades at a 33% discount to this worst case RNAV.

**Table 4: Goldis: Revised net asset value (RNAV) estimate - Worst case scenario**

	Worst case	Per Goldis sh
Goldis BV as at Jan 07	972.6	3.03
Revaluation gain from IGB	193.7	0.60
PV of revaluation surplus from Goldis Tower	147.7	0.46
<b>RNAV</b>	<b>1,314.0</b>	<b>4.09</b>
Total assets (ex. Associates) written off*	(352.4)	(1.10)
<b>RNAV ass. all non-associate assets written off</b>	<b>961.6</b>	<b>3.00</b>
Existing share price (RM)		2.00
<b>Discount to NAV</b>		<b>33.2%</b>

\* (Total assets as at Jan 07 RM1,190.2mn) - (Investment in Associates RM796.832mn + Holding cost of Goldis Tower land RM40.9mn)

Source: Merrill Lynch, Company

### Funding mismatch on balance sheet

On a consolidated basis, a small part of Goldis' non-current assets are funded with current liabilities. Although this may present some short term liquidity problems in the event of a credit run, we think this can be easily resolved by Goldis terming out its short term debt. After all, it only has a net gearing of 10.7%.

## Recommendation and valuations

We initiate coverage on Goldis with a Buy rating and an RNAV-based RM3.05 price target. Our target price is based on a 25% discount to Goldis' RM4.09 base case RNAV / share. Judging from the trading history of IGB, we believe a 25% discount is justified.

Recall IGB was also trading at a steep 53.3% discount to its historical RM2.46 RNAV/share at the beginning of 2006. This discount narrowed considerably as research coverage of the stock improved throughout the year. Fundamentally, IGB's earnings profile was gaining more clarity resulting in a re-rating in its share price. By the end of 2006, the discount between IGB's stock price and its RNAV / share had narrowed from 53% to 27%.

Our RM3.05 price target implies 1x Jan 08E BV and 15x FY Jan 08E EPS.

### Exposure to our favorite commercial property play - IGB

In our view, Goldis stands out as one of the cheapest and most under-priced stocks. The stock also gives investors exposure to our favorite commercial property stock via its 27% associate stake in IGB. We have a Buy rating on IGB with a RM3.00 RNAV-based price target.

### Just plain cheap

Goldis trades at 0.7x Jan 07 BV and 10x FY Jan 08E EPS. More importantly, the stock trades at an unjustified 51% discount to its base case RNAV/share.

Although almost all of Goldis' core earnings are derived from 27%-owned IGB, there is a huge disparity between the PE multiples of these two companies. IGB trades at 25x CY07E EPS while Goldis trades at 10x CY07E EPS.

### Catalyst lies in IGB's re-rating

We believe the re-rating catalyst for Goldis lies in IGB's share price movements. If Goldis' share price stays where it is, the discount to its RNAV would only widen as IGB's share price increases. On a best-case basis, if IGB touches our RM3.00 RNAV-based price target, Goldis' discount to its RNAV would widen from 51% to 58%.

Table 5: Goldis: Revised net asset value (RNAV) estimate - Best case scenario

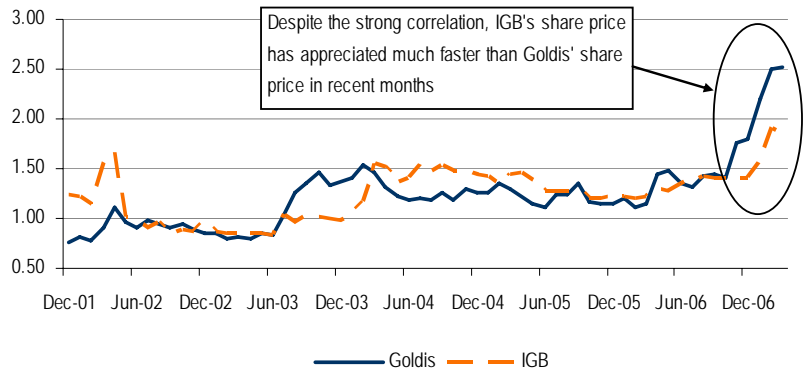
	Best case	Per Goldis sh
Goldis BV as at Jan 07	972.6	3.03
Revaluation surplus from IGB	406.3	1.27
PV of revaluation surplus from Goldis Tower	147.7	0.46
<b>RNAV</b>	<b>1,526.5</b>	<b>4.76</b>
Existing share price RM)		2.00
<b>Discount to NAV</b>		<b>-57.9%</b>

Source: Merrill Lynch, Company

In the long term, if IGB's share price continues on its uptrend, the market is likely to take notice of Goldis' growing discount to its RNAV and ultimately there should be a positive adjustment to Goldis' stock price.

The chart below indicates that there has been a strong correlation between the movement of IGB's share price and Goldis' share price in the past. However, in recent months, IGB's share price has appreciated much faster than Goldis'.

Chart 3: Share price movement of Goldis and IGB



Source: Merrill Lynch, Bloomberg

## Financials

The biggest earnings contributor is from 27%-owned associate IGB. Earnings from this division made up >100% of 2006 pre-tax earnings. Although most of the other divisions are profitable at the operating profit level, these divisions will only gain critical mass and start contributing to the bottom-line in a significant manner over the long term.

We expect associate contributions from IGB to be the main driver of earnings growth.

**Table 6: Goldis: Earnings forecast**

Yr-end Dec, RMmn	2007	2008E	2009E	2010E
Revenue	215.7	248.1	285.3	328.1
Operating profits	30.9	37.2	42.8	49.2
Finance costs	(8.2)	(6.8)	(7.9)	(9.3)
Associates	40.4	51.2	54.1	57.1
Jointly-controlled entities	2.1	2.2	2.3	2.4
Pre-tax earnings	65.3	83.7	91.3	99.4
Taxation	2.0	(21.8)	(23.7)	(25.8)
Minority interest	2.0	2.1	2.2	2.4
Net profit	69.4	64.1	69.8	75.9
<b>Ratios</b>				
Operating profit margin	14.3%	15.0%	15.0%	15.0%
PBT margin	30.3%	33.8%	32.0%	30.3%
Eff. Tax rate	-3.1%	26.0%	26.0%	26.0%

Source: Merrill Lynch, Company

**Table 7: Goldis: Balance sheet**

Yr-end Dec, RMmn	2007	2008E	2009E	2010E
Property, plant and equipment	97.1	106.8	117.5	129.2
Associates	796.8	848.0	902.1	959.2
Jointly-controlled entities	(0.6)	(0.6)	(0.6)	(0.6)
Unquoted investments	7.4	7.4	7.4	7.4
Deferred tax assets	3.2	3.2	3.2	3.2
Fixed assets	971.0	1,031.9	1,096.7	1,165.5
Inventories	13.7	23.8	27.4	31.5
Quoted investments	0.1	0.1	0.1	0.1
Due from associates	-	-	-	-
Receivables	182.8	135.9	156.3	179.8
Tax recoverable	-	-	-	-
Cash	22.6	84.4	97.0	111.6
Current assets	219.1	244.2	280.8	322.9
Payables	44.9	61.2	70.4	80.9
Due to related company	-	-	-	-
Bank borrowings	138.7	152.9	184.3	217.9
Bank overdrafts	0.8	0.8	0.8	0.8
Current tax liabilities	6.7	6.7	6.7	6.7
Current liabilities	191.6	221.6	262.2	306.3
Bank borrowings	5.0	5.0	5.0	5.0
Hire-purchase payables	0.2	0.2	0.2	0.2
Deferred tax liabilities	0.1	-	-	-
Non-current liabilities	5.2	5.1	5.1	5.1
Minority interest	20.8	18.7	16.4	14.1
Share capital	321.0	321.0	321.0	321.0
Reserves	552.5	553.5	554.5	555.5
Shareholders' equity	873.6	874.6	875.6	876.6
Net current assets	27.6	22.5	18.6	16.5
Net debt	122.1	74.5	93.2	112.3
BV / share (RM)	2.72	2.72	2.73	2.73
NTA / share (RM)	2.71	2.71	2.72	2.72
Net gearing (%)	14.0%	8.5%	10.6%	12.8%

Source: Merrill Lynch, Company

05 April 2007

**Table 8: Goldis: Cashflow statement**

Yr-end Dec, RMmn	2007	2008E	2009E	2010E
Pre-tax income	65.3	83.7	91.3	99.4
Depreciation	5.0	5.0	5.0	5.0
Interest expense	8.2	6.8	7.9	9.3
Exceptionals	-	-	-	-
Associates	(42.5)	(53.4)	(56.4)	(59.5)
Chg in working capital	(53.2)	53.1	(14.8)	(17.0)
Tax	2.0	(21.8)	(23.7)	(25.8)
Others	75.0	-	-	-
Cashflow from operations	59.7	73.5	9.3	11.4
Capex	(24.3)	(9.7)	(10.7)	(11.7)
Other investments	(5.5)	-	-	-
Loans to associates	-	-	-	-
Others	(17.7)	-	-	-
Cashflow from investing	(47.5)	(9.7)	(10.7)	(11.7)
Increase in equity	1.4	0.8	-	-
Change in ST debt	(45.8)	14.2	31.4	33.6
Change in LT debt	(4.1)	-	-	-
Interest expense	(8.2)	(6.8)	(7.9)	(9.3)
Dividends	(6.0)	(6.8)	(6.8)	(6.8)
Others	10.3	-	-	-
Cashflow from financing	(52.5)	1.3	16.8	17.5
Others	1.3	(3.3)	(2.7)	(2.6)
Net cashflows for the period	(39.0)	61.8	12.7	14.6
Cash at start	61.6	22.6	84.4	97.0
Cash at end	22.6	84.4	97.0	111.6

Source: Merrill Lynch, Company

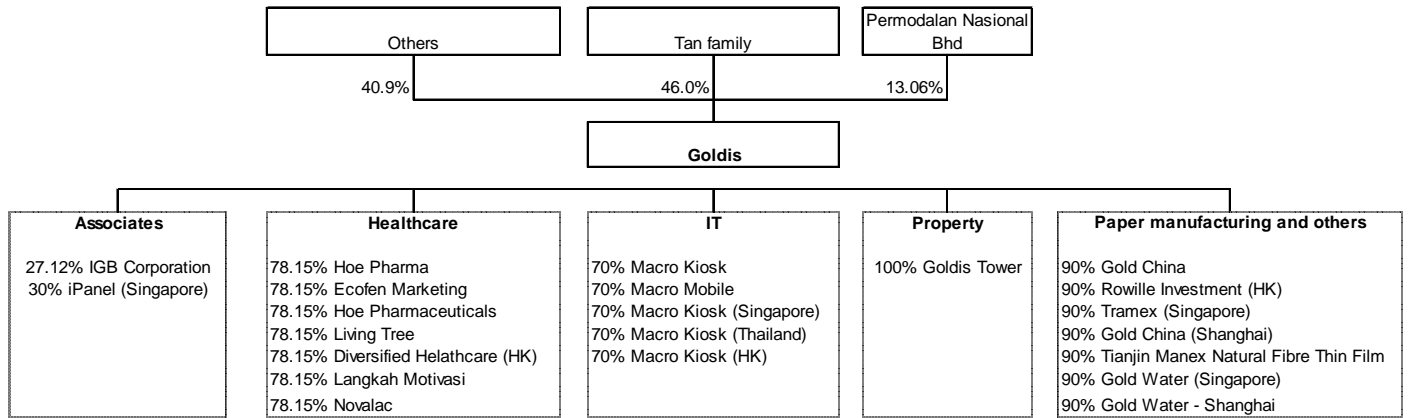
**Table 9: Goldis: Financial ratios and assumptions**

Yr-end Dec, RMmn	2007	2008E	2009E	2010E
<b>Profitability</b>				
Revenue growth	17.9%	15.0%	15.0%	15.0%
Operating profit margins	14.3%	15.0%	15.0%	15.0%
EBITDA margin	16.6%	17.0%	16.8%	16.5%
PBT margin	30.3%	33.8%	32.0%	30.3%
NP margin	32.1%	25.8%	24.5%	23.1%
Effective tax rate (%)	-3.1%	26.0%	26.0%	26.0%
Core earnings growth (%)	112.5%	-7.6%	8.9%	8.7%
Core ROE (%)	7.4%	6.4%	6.6%	6.7%
ROA (%)	5.9%	5.2%	5.3%	5.3%
ROTC (%)	6.7%	5.8%	5.9%	6.0%
Dividend payout ratio	8.7%	10.6%	9.7%	8.9%
<b>Liquidity</b>				
Net cash cycle (days)	145	145	145	145
Current ratio (x)	1.1	1.1	1.1	1.1
<b>Financial stability</b>				
Total debt (RMm)	144.7	158.8	190.2	223.8
Total debt / Equity (%)	14.9%	15.4%	17.4%	19.2%
Net cash / (debt) (RMm)	(122.1)	(74.5)	(93.2)	(112.3)
Net debt / Equity (%)	12.6%	7.2%	8.5%	9.7%
Leverage x	0.2	0.2	0.2	0.3

Source: Merrill Lynch, Company

## Appendix: Company description

Chart 4: Goldis: Group structure



Note: Stakes in subsidiaries and associates are based on effective shareholding  
 Source: Merrill Lynch, Company

Goldis is a private equity investment company with investments in property, production and sale of dermatological products, the provision of mobile messaging services, paper manufacturing, aquaculture and water / waste water treatment.

Table 10: Goldis' private equity investments aside from IGB and Goldis Tower

### Private equity investments in Malaysia

Company	Goldis stake (%)	Principal activity
HOE Pharma	78.15%	Dermatological and healthcare company
Macro Kiosk	70%	Mobile data communication technology provider
Macro Lynx	100%	Broadband solutions and service provider
Ecosem	100%	Semiconductor assembly, packaging and testing company. This has ceased operations

### Private equity investment in China

Company	Goldis stake (%)	Principal activity
Tianjin Manex Natural Fibre Thin Film	72%	Paper manufacturing
Gold Water - Shanghai	90%	Engineering services for pure water treatment plant
Gold Water - Singapore	90%	Provision of pure water and water treatment plants

Source: Merrill Lynch, Company

All of Goldis' investments (except for property investments) are in their nascent stages and have yet to gain critical mass. *Currently, close to 100% of earnings are derived from property investment. A quick glance at the balance sheet hints that >71% of its assets are property investments.*

In the short term, management expects the property division to be the main driver of growth. Over the long term, management believes its investments in other industries will start to contribute in a more significant manner.

## Management

Ms. Tan Lei Ching (50 years old) is the CEO of Goldis. She is the prime mover in identifying and developing projects that are in the growth industries. She has 27 years of experience in the property industry and the corporate sector. She is the daughter of Dato' Tan Chin Nam, who is a major shareholder of the company.

The founders and entrepreneurs of the private equity projects Goldis has invested in are still owners and are actively involved in the day-to-day operations of their respective businesses.

## Price Objective Basis & Risk

### Goldis

Our Buy recommendation and RM3.05 price target on Goldis is based on a 25% discount to our revised RNAV/share of RM4.09. We believe a 25% discount is justified judging from the trading history of IGB.

Our RNAV estimate values Goldis' 27% stake in IGB at IGB's current share price of RM2.47/IGB share. It also values Goldis Tower at RM510mn.

Risks to our recommendation : (1) a sustained negative movement in IGB's share price; and (2) the possibility of Goldis pumping money into its private equity investments that have little commercial viability.

### IGB Corporation (IGBCF, C-1-7, RM2.44)

Our RM3.00/share price target for IGB is based on the stock's RNAV/share. We believe the stock will be re-rated as (1) market awareness on the underlying value of its assets grows following the relisting of 74.9%-owned KrisAssets Holdings; and (2) its earnings momentum accelerates towards 3Q07.

Risks: Our Buy recommendation and price target hinges on the success of IGB's developments, especially its development in Mid Valley City.

## Analyst Certification

I, Kar Weng Loo, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

***iQmethod*<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

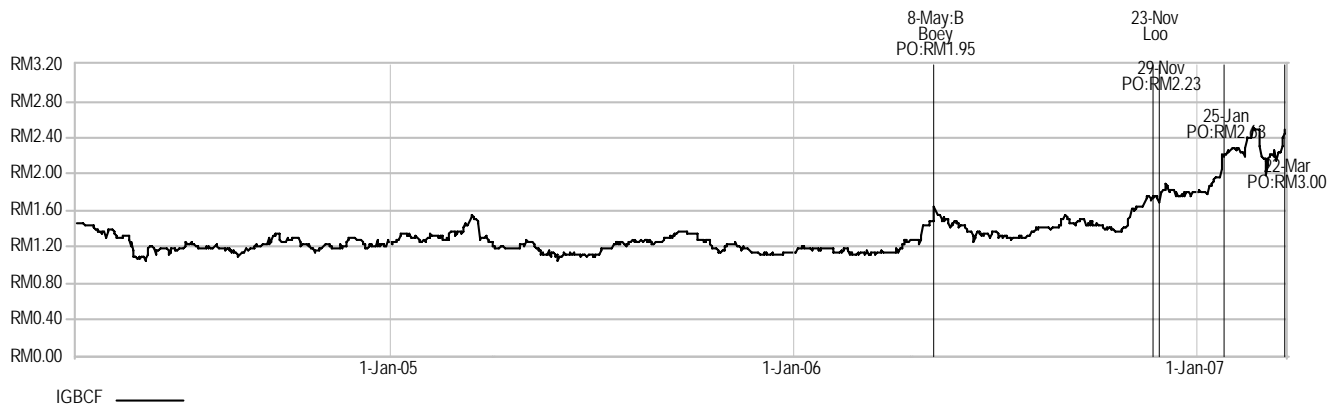
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## Important Disclosures

### IGBCF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of February 28, 2007 or such later date as indicated.

#### Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	46	58.97%	Buy	7	17.95%
Neutral	28	35.90%	Neutral	7	31.82%
Sell	4	5.13%	Sell	1	33.33%

#### Investment Rating Distribution: Real Estate/Property Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	48	44.04%	Buy	8	18.60%
Neutral	47	43.12%	Neutral	6	13.33%
Sell	14	12.84%	Sell	1	9.09%

#### Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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