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AFFIN RESEARCH

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Mudajaya Group

IPO price : RM1.28
Fair value: RM2.15

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Earnings forecast (RM'm)

Y/E: Dec	04E	05E
Net profit	24.2	27.9
Prospectus	*24.3*	-

Issued Cap (m shares)	136.0 (50sen)
Market Cap (RM'm)	174.1 (at RM1.28 IPO price)
3M Avg Daily Volume (shrs)	-
52wk High/Low (RM)	-
Net Cash / (Debt) (RM'm)	17.3 *
Net Gearing (x)	N/a
Book NTA (RM/share)	0.81 *
Free float (%)	28

Major s/holders
Dataran Sentral (M) (33.9%), United Flagship (20.4%), Tiararibu (17.3%)

* *Proforma as at 31 Oct 2003*

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Niche in power plant construction

Salient features and Recommendation

- Mudajaya Group Berhad is a construction group seeking a Main Board listing on the BMSB.
- It has a 39-year history with considerable experience in design-and-build jobs especially in power plant construction. Total completed jobs todate is about RM2.1bn.
- Outstanding order book for construction was RM673m as at 31 Oct 2003. Another RM710m new jobs are presently under negotiations.
- The group is also involved in property development. It is developing the Batu Kawah New Township in Kuching (265 acres and RM843m GDV) on a joint venture basis.
- Unbilled sales for property was approximately RM40m as at 31 Oct 2003. The group plans to launch RM135m new properties in 2004.
- Impressive track record – uninterrupted profits for the past 20-plus years. For FY04, we expect a 15% growth in net profit largely driven by existing jobs in hand.
- Balance sheet is healthy with a net cash of RM17.3m after its IPO. Its balance sheet has been well managed – zero gearing during the 1997/98 economic downturn.
- Target price of RM2.15 based on 12x P/E for FY04, our target for similar sized construction stocks. At its IPO price of RM1.28, Mudajaya shares are offered at an FY04 P/E of just 7.2x.

Listing highlights and background

- **Main Board listing.** Mudajaya Group Berhad is seeking a listing on the Bursa Malaysia Securities Bhd's Main Board on 7 May 2004. It is offering 15.4m new shares while its promoters are offering for sale 22.6m existing shares, both at RM1.28 each. The public portion of 8.6m shares had been oversubscribed by 54x.

IPO details

Issue size	m shares	Utilisation of proceeds	RM'm
New shares:		**Of new shares issue**	
Public	8.6	Working capital	17.2
Directors & employees	6.8	Listing expenses	2.5
Total	**15.4**	**Total**	**19.7**
Offer for sale:			
Bumiputera investors	13.1		
Identified investors	9.5		
Total	**22.6**		

- **Who is Mudajaya?** Mudajaya is a civil engineering and construction group that is also involved in property development, and concrete and precast manufacturing. It is a Class "A" contractor with Pusat Khidmat Kontraktor and is licenced under Grade G7 category with the Construction Industry Development Board.

- **Has a 39-year history.** Mudajaya started off in 1965 under the name of Chye Hin Construction Company Ltd. It was subsequently acquired by Tiararibu Sdn Bhd, a 100%-subsidiary of Mulpha International Bhd in 1993. In February 2003, Mulpha sold down its stake to 20% pursuant to a management buyout. Following the IPO, Mulpha's stake will be diluted to 17.3%.

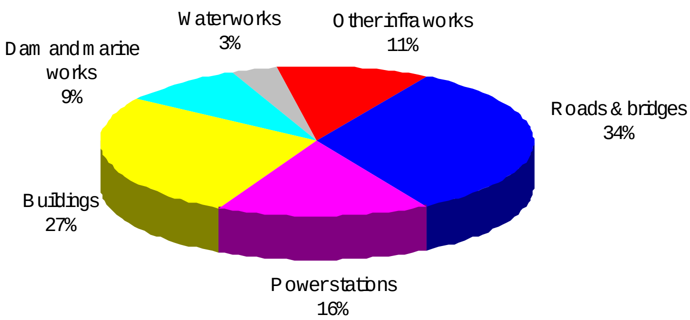
- **Shareholders.** Apart from Mulpha, Mudajaya's other major shareholders are Dataran Sentral (M) Sdn Bhd (33.9%) which is held by Wee Teck Nam (60%) and Ng Ying Loong (40%), and United Flagship Sdn Bhd (20.4%) which is owned by Datin Hasmah bin Abdul Rahman (53%) and Aminodin bin Ismail (47%). Dataran Sentral and United Flagship are vehicles for the management buyout in 2003.

- **Management.** Mudajaya's Managing Director is Ng Ying Loong, a position he has held since 1991. Ng joined Mudajaya as a site engineer in 1977 and has more than 25 years of experience in project management, contract planning and management, and business development. Mudajaya's other major shareholders, Wee Teck Nam (of engineering background) and Aminodin bin Ismail (of accounting background) are both executive directors of Mudajaya.

Construction activities

- **Completed RM2.1bn jobs.** Mudajaya's construction activities are undertaken by its 100%-subsidiaries, Mudajaya Corp Bhd and Mudajaya Power International Sdn Bhd. Over the years, the group has developed considerable experience in design-and-build jobs especially for power plants construction. In addition, the group is also experienced in roads, bridges, buildings, water, marine structure and other infrastructure works.

Mudajaya's Completed Construction Works (RM2.1bn)



Major Construction Works Completed

	Works type	Value (RM'm)	Completion
North-South Expressway – Packages 6B3, 8A-2	Construction	213.7	1993-94
Malaysia-Singapore Second Crossing – Packages 2C, 3	Construction	137.3	1997
Track Transit System for Aero Train at KLIA – Package PTC 3	Design-build	130.3	1998
Teluk Intan District Hospital, Perak	Design-build	94.4	1987
Shore protection works at Lumut Naval Base, Perak	Construction	88.9	1980
Sultan Salahuddin Abdul Aziz Power Station (Phase III – 1,000 MV), Selangor – civil & 180m high chimney	Design-build	77.0	1998
Sultan Salahuddin Abdul Aziz Power Station (Phase II – 600 MW), Selangor – civil & 175m high chimney	Design-build	75.3	1988
Lebuhraya Damansara-Puchong – Package II, Sec 3	Design-build	70.0	1998
Melaka combined cycle power plant – civil	Design-build	64.0	1998
Kulim High-Tech Park IPP, Kedah – civil & engineering	Design-build	61.0	2001
Prai combined cycle gas turbine power plant, Penang - civil	Construction	41.8	2002

- **Niche in power plant construction.** Mudajaya's involvement in power plants started in 1976. It has since completed civil works for 8 power plants in Malaysia. Mudajaya specialises in tall chimneys – it is said to be the only local contractor able to construct tall chimneys of at least 100m in height. Mudajaya's pride is the Sultan Salahuddin Abdul Aziz Power Station (Phase III), Kapar project where the chimney, at a height of 180m, is the second tallest reinforced concrete chimney structure in Malaysia today.

- **Outstanding order book of RM673m.** As at 31 Oct 2003, Mudajaya has a total contract value of RM951m of which RM673m (71%) were works not recognised. Outstanding works comprise roads and bridges (59%), buildings (39%) and others (2%).

  External works makes up 73% of total outstanding works while in-house works for the group's property development activities in Kuching, i.e. the Batu Kawah New Township, made up the remaining 27%. In terms of overseas exposure, road jobs in India makes up 19% of total outstanding works.

Mudajaya's Order Book

	Contract value (RM'm)	Outstanding at Oct 2003	Target completion
Pusa-Sesang Coastal Road, Sri Aman (Pkg 1)	85.8	38.3	Mar 2005
Pune-Solapur-Hyderabad Road, Maharashtra, India	61.4	50.8	June 2005
Oya-Mukah-Balingian to Persimpangan Kg Matadeng Road, Sarawak	229.0	217.8	Oct 2006
Pune-Nashik Road, Maharashtra, India	81.0	77.7	Sept 2005
Asian Inst of Medicine, Science & Tech, Kuala Muda - admin, great hall & medical faculty	33.2	24.5	Dec 2004
Apartments at Batu Kawah New Township	86.0	86.0	Aug 2006
Semi-D houses at Batu Kawah New Township	40.5	36.6	Jan 2005
Shops, offices, apartments at Batu Kawah New Township	48.2	48.2	Oct 2006
Marine Park Pulau Tioman upgrading works	20.3	20.3	Dec 2005
Others	265.4	73.2	2005
Total	**950.8**	**673.4**	

- **Negotiating for RM710m new works.** Potential new works comprise a mix of roads/highways, power plants, factories, institutions of higher learning and other building jobs. 90% of these potential jobs are local while the remaining 10% are overseas.

- **Has a presence in India.** Mudajaya has been in India since 1997 and is looking to set up a regional office there. It has todate completed one road job worth RM130m-plus, and is presently working on another two road jobs worth about RM140m in total. It remains optimistic on construction in India and is looking at new jobs relating to roads, power plants and properties.

Property development

- **Completed GDV of RM434m.** Mudajaya's property development activities are undertaken by its 70%-subsidiary, MJC City Development Sdn Bhd (MCity). The group ventured into properties in 1996 and has since completed 3,096 residential and commercial units with a total gross development value (GDV) of RM434m.

Mudajaya's maiden property project was the Villa Angsana Condominium in KL (RM162m GDV) which was completed in 1999. It is presently involved in the Batu Kawan New Township in Kuching – completed GDV is RM272m.

- **About the Batu Kawan New Township.** The project is a joint development with Amanah Saham Sarawak Berhad and is said to be the first integrated township development in Sarawak. Located 6km south of Kuching, the new township sits over 265 acres of land. Development period is over 19 years – from 1996 to 2015. Todate, 18% of the 265 acres has been developed, while another 10% is undergoing development.

- **24-61% take-ups for recent launches.** Earlier launches in the late-1990's had a high take-up rate of 95%. The response to recent launches varies from 24-61% take-ups. Management is not too concern over these seemingly 'low' take-ups as previous records had shown that buyers' responses tend to catch up a lot faster as construction works on the available units were nearing completion.

Recent launches at Batu Kawan New Township

Launch date	Types	GDV (RM'm)	Take-up todate
August 2002	Apartments, shops, offices	35	58%
June 2003	Semi-detached houses	36	24%
January 2004	Courtyard santuary apartments	29	61%

The average unit price for the recent launches are RM77,000 per apartment, RM375,000 per shop, RM390,000 per semi-detached house, and RM110,000 per courtyard apartment.

- **RM40m unbilled sales.** As at 31 Oct 2004, MCity has unbilled sales of RM40m out of a total locked-in sales value of RM47m coming from the Batu Kawah New Township development.

- **RM32m sales todate for 2004.** For 2004, MCity is planning to launch RM135m worth of properties in the Batu Kawan New Township comprising a mix of shops, offices, apartments and semi-detached houses. Sales todate for 2004 is believed to be around RM32m.

- **Expanding landbank.** In addition to its existing landbank, MCity has been given the first right of refusal to jointly develop an additional 265 acres of land located just beside the Batu Kawah New Township with Amanah Saham Sarawak Berhad. This should provide for the group's property activities in Kuching beyond 2015.

Other activities

- **Manufacturing of construction materials.** To support its construction and property development activities, Mudajaya has diversified into the production of ready-mixed concrete. It has also ventured into precast concrete and other related products such as pre-stressed concrete bridge beams, concrete sections and box culverts.

- **About the ready-mixed business.** Mudajaya's ready-mixed concrete activities are undertaken by its 100%-subsidiary, MJC Industries Sdn Bhd. Its plants are located in Batu Kawah (Kuching), Ijok and Kuala Langat (both in Selangor) and have a total capacity of 75,000 MT a year.

- **About the precast business.** Mudajaya's precast concrete activities are taken on by its 51%-subsidiary MJC Precast Sdn Bhd. Its plant is located in Ijok and has a capacity of 80,000 MT per annum, having expanded from 43,000 MT per annum in 2003.

  Contracts at hand now is about RM15m while it has submitted bids for another RM150m. With a presence in both Sarawak and India in terms of construction and property jobs, the group's plans are to set up precast plants in these two locations.

- **Trading of construction products.** Besides manufacturing, Mudajaya via its 100%-subsidiary, MJC Trading Sdn Bhd is also involved in the rental of sheet piles, construction plants and machinery.

Financials and valuation

- **Healthy balance sheet.** Mudajaya's balance sheet has been well managed – it was in zero gearing position during the 1997/98 economy downturn. As at 31 Oct 2003, Mudajaya has a net debt of RM0.7m but this is expected to turn into a net cash of RM17.3m after its IPO.

- **Impressive track record.** Mudajaya's profit track record has been impressive – uninterrupted profits over the past 20-plus years. For FY04, we expect a 15% growth in net profit largely driven by existing jobs in hand.

- **Construction to remain the major earnings contributor** – 75% to group pretax in FY02, an estimated 88% in FY03, and an estimated 84% in FY04. This would be followed by property development – estimated 15% to group pretax in FY04.

- **Construction margins to remain stable.** Mudajaya's past construction margins were above 10% for infrastructure jobs and around 7% for building jobs. Despite higher steel prices, near term margins are expected to remain stable as much of Mudajaya's ongoing jobs comprises infrastructure jobs where the steel content is low, while new building jobs have incorporated the higher steel prices.

- **Property margins to also maintain,** ranging from 15-25% for residential units and higher for commercial units. The margins are expected to be maintainable as higher cost of construction materials are expected to be passed on. Land cost for the Batu Kawah development is said to be RM3 plus psf.

- **Intends to pay 2.5sen gross dividend for FY04.** Based on its IPO price of RM1.28, this offers a gross yield of 2% (1.4% net).

- **Target price of RM2.15 based on 12x P/E for FY04.** At its IPO price of RM1.28, Mudajaya shares are being offered at a P/E of just 7.2x its potential FY04 earnings. Our 12x target for the stock represents our target for similar sized construction stocks.

Mudajaya Group (RM1.28)

Y/E Dec (RM'm)	Pretax Profit	Net Profit	EPS (sen)	EPS Chg (%)	P/E (x)	EV/EBITDA (x)	DPS (sen)	Yield (%)
2002	24.2	16.0	11.8	43	10.9	5.7	-	-
2003	31.3	21.0	15.4	31	8.3	4.5	-	-
2004E	35.4	24.2	17.8	15	7.2	4.0	2.5	2.0
2005E	41.8	41.8	20.5	15	6.2	3.4	2.5	2.0

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PROFIT AND LOSS Year End : Dec (RM'm)	1999	2000	2001	2002	2003E	2004E	2005E
Turnover	168.2	183.8	321.8	288.4	291.4	373.2	447.6
EBITDA	16.9	18.5	25.5	27.4	34.8	39.1	45.8
Depr & amort	(4.4)	(3.7)	(2.9)	(3.0)	(3.3)	(3.6)	(3.8)
Net int income/(exp)	(0.1)	(0.0)	0.0	(0.0)	(0.0)	(0.1)	(0.1)
Exceptional items	-	-	(3.6)	-	-	-	-
Share of assocs' profit	(1.4)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Pretax profit	**11.1**	**14.3**	**18.8**	**24.2**	**31.3**	**35.4**	**41.8**
Tax	(0.1)	(3.3)	(5.4)	(6.8)	(8.5)	(9.9)	(11.7)
MI	(0.6)	(1.6)	(2.3)	(1.3)	(1.9)	(1.3)	(2.2)
Net profit	**10.4**	**9.5**	**11.2**	**16.0**	**21.0**	**24.2**	**27.9**
EPS (sen)	7.6	6.9	8.2	11.8	15.4	17.8	20.5
EPS growth	245%	(9%)	18%	43%	31%	15%	15%
DPS (sen)	-	-	-	-	-	2.5	2.5
WA no. of shares	136.0	136.0	136.0	136.0	136.0	136.0	136.0

Segmental Breakdown	1999	2000	2001	2002	2003E	2004E	2005E
Construction	126.3	196.0	218.0	196.1	228.8	292.3	325.8
Property development	72.2	47.4	100.7	78.1	35.0	53.8	94.4
Trading	23.2	21.7	26.5	15.0	22.6	24.4	26.3
Manufacturing	14.7	14.0	7.1	12.0	18.0	19.4	21.0
Less: Consol adj	(68.0)	(95.3)	(30.5)	(12.8)	(13.0)	(16.6)	(19.9)
Total turnover	**168.2**	**183.8**	**321.8**	**288.4**	**291.4**	**373.2**	**447.6**
Construction	17.0	3.3	11.9	18.1	27.5	29.6	31.9
Property development	5.5	7.3	10.7	5.6	3.5	5.4	9.4
Trading	0.2	0.5	0.1	0.1	0.2	0.2	0.3
Manufacturing	1.2	0.7	0.1	0.6	0.4	0.4	0.4
Less: Consol adj	(11.5)	2.9	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Associates	(1.4)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Total pretax profit	**11.1**	**14.3**	**22.4**	**24.2**	**31.3**	**35.4**	**41.8**

Y-O-Y Chg	1999	2000	2001	2002	2003E	2004E	2005E
Turnover	23%	9%	75%	(10%)	1%	28%	20%
EBITDA	58%	9%	38%	8%	27%	12%	17%
Pretax profit	103%	29%	31%	29%	29%	13%	18%
Net profit	245%	(9%)	18%	43%	31%	15%	15%
EPS	245%	(9%)	18%	43%	31%	15%	15%

Assumptions & stats	1999	2000	2001	2002	2003E	2004E	2005E
Effective tax rate	1%	23%	29%	28%	27%	28%	28%
EBITDA margin	10%	10%	8%	10%	12%	10%	10%
Pretax margin	7%	8%	6%	8%	11%	9%	9%

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