

## Barakah-LA (NOT RATED)

COMPANY INSIGHT

INDUSTRY: OVERWEIGHT

January 9, 2014

Upside Potential: RM1.65-2.11

Current Price: RM1.34

### Cheaper Proxy with Higher Leverage...

#### Highlights

- **Convertible to ordinary shares...** Barakah-LA is a 5 years redeemable convertible unsecured loans stock (RCULS). Each RCULS holders shall have the right to convert RCULS into fully paid-up new ordinary shares in Barakah at par after the 1<sup>st</sup> anniversary of the issue date (which is on 25 October 2014) of the RCULS until maturity date (on 25 October 2018). The RCULS bear a 3.5% coupon rate per annum with semi-annual payment. The RCULS also come with an option to redeem by the company at par-value of RM0.20 per share.
- **Mispricing from the market creates buying opportunity...**
  - 1) Zero cost conversion:** Each Barakah-LA can be converted into Barakah shares after 25 Oct 2014 with **zero cost** by surrendering one RCULS of nominal value of RM0.20 each for every one new Barakah shares. This suggests Barakah-LA is currently trading at 18% discount to Barakah shares. We deemed the discount is too big to be justified as i) investors perceive that additional RM0.20 per share is required for conversion; and ii) short waiting period (around 10 months) to convert to Barakah shares (we used 10% discount instead).
  - 2) Almost zero possibility to redeem at par value of RM0.20:** We think it is almost zero possibility for the company to redeem Barakah-LA at RM0.20 per share due to: i) the main purpose for issuing RCULS is to refinancing debts for purchasing of pipe-laying barge; ii) major shareholders of company (lead by Nik Hamdan and Azman Shah have sizeable stake in Barakah-LA (>40% of total issued, very highly unlikely they will approve any redemption proposal); and iii) recent purchase of Barakah-LA by management on open market at RM1.16-1.20 reaffirms our thesis that Barakah-LA is a cheaper proxy to leverage on the company growth prospect.
- **Cheaper proxy and better leverage with upside potential of 23% to 58%...** Given 10% discount (instead of 18% currently) and average consensus target price for Barakah at RM1.85, the fair value for Barakah-LA should be RM1.65 (23% upside). Recently, market is talking about the company is close to secure T&I jobs in Middle East. We understand that this 5 years contract could worth over US\$1bn. If the company win the job, with assumption of net margin at 10% and 50% stake, we estimate that it will boost the consensus target price for Barakah to RM2.35. With 10% discount applied, fair value for Barakah-LA will hit RM2.11 (58% upside). **For investors who are willing to hold until conversion date (on 25 Oct 2014), the discount should become zero and will boost fair value for Barakah-La to RM1.83-RM2.35 (37% to 75% upside).**
- **How about downside risk?** Assume Barakah fail to secure any new contract with only 10x target PER (fall from 14x due to disappointment) and 10% discount applied, Barakah-LA fair value will be RM1.18 (~12% downside, inline with management recent's purchase at RM1.16-1.20).

#### Valuation

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#### Barakah-LA

Par value	RM0.20
Convertible Cost	Zero
1 <sup>st</sup> conversion date	27 Oct 2014
Discount to Barakah (%)	18%
Ratio	1 to 1
Coupon Rate (%)	3.5%
Maturity Date	25 October 2018

#### Scenario Analysis

	1	2
Barakah Fair Value	1.83	2.35
Discount (%)	10%	10%
<b>Barakah-LA Fair Value</b>	<b>1.65</b>	<b>2.11</b>
<b>Upside (%)</b>	<b>23%</b>	<b>58%</b>
Scenario 1: No oversea contract win.		
Scenario 2: Contract win from Middle East.		

	1	2
<b>If hold until conversion date</b>		
Barakah Fair Value	1.83	2.35
Discount (%)	0%	0%
<b>Barakah-LA Fair Value</b>	<b>1.83</b>	<b>2.35</b>
<b>Upside (%)</b>	<b>37%</b>	<b>75%</b>
Scenario 1: No oversea contract win.		
Scenario 2: Contract win from Middle East.		

#### Worst Case\*

Floor PER	10
Barakah Fair Value	1.31
Discount (%)	10%
Barakah-LA Fair Value	1.18
Downside (%)	-12%

\*No oversea contract win and due to disappointment

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