

Encorp Berhad

Cashing Out

By the Kenanga Research | research@kenanga.com.my

INVESTMENT MERIT

- Outperformed benchmark indices.** Recall that we had issued a Trading Buy note on ENCORP on 6 August 2013 due to our belief that its shares were undervalued. Since then, the stock has been performing well with a Total Return of 19.3%. It has also outperformed both FBMKLCI and FBMEMAS by wide margins of 15.9% and 16.6%, respectively.
- Latest developments.** Over slightly the past one year, we saw a series of corporate developments and shareholding changes. In 6 May 2014, it was reported that the investment arm of the Federal Land Development Authority (Felda) bought ENCORP's common shares, equity warrants and 5-year 6% Redeemable Convertible Secured Loan Stocks (RCSLs) from Lavista and Pegang Impian Holdings. Back then, Lavista owned 29.85% of ENCORP while Pegang Impian holds 19.60%. With such acquisition, Felda had also made a Mandatory General Offer (MGO) for the remaining ENCORP shares at RM1.55/share, RM0.55/warrant and RM1.55/RCSLs. Based on latest filing, ENCORP is now 72.27%-owned by Felda Investment Corporation S/B (FIC).
- Eyeing the Top 10 position.** With the changes in share holdings, ENCORP is aimed to be one of the Top 10 players in property development and construction industry in Malaysia in the next 10-15 years. Thus far, ENCORP has 5 signature development projects currently (Encorp Strand in Kota Damansara, Encorp Cahaya Alam in Shah Alam, Enclave Seaview Residences in Batu Feringgi Penang, Encorp Marina Puteri harbour in Nusajaya Johor and Residences on McCallum lane in Perth Australia) with a total Gross Development Value (GDV) of RM3.4b, which will last until 2017. Total undeveloped land bank is recorded at 22.34ha. It is understood that the acquisition of FIC into ENCORP was one of the steps taken in an effort to build the capacity of FIC and spread its wings in property development. This strategic move is also inline with FIC's objective to unlock the value of its land bank across prime areas in Malaysia. As for its construction division, Encorp Construction S/B has also received a Letter of Acceptance issued by LT Leong Sekutu on behalf of Aikbee Timbers S/B for the main contract to build a 25-storey mixed development in Jalan Kelang Lama, KL. The contract is worth RM101.67m.
- Latest financials.** According to ENCORP's 2Q14/6M14 unaudited quarterly results, revenue increased 28% QoQ (to RM119.1m from RM98.3m) but PBT decreased c.58% (to RM6.6m in 2Q14 from RM15.5m in 1Q14). The decline in profitability was due to the recognition of fair value gains of RM7.3m from completed investment property in 1Q14. Nonetheless, excluding this one-off gain, PBT margin was lower. As for 1H14 vs. 1H13 comparison, the Group also saw a decrease in revenue of c.9% (from RM233.7m to RM212.4m) due to lower sales and progress achieved by property division. Consequently, PBT of the Group also declined to RM22.1m in 1H14 as compared to RM26.0m for 1H13, representing a 15% decline.
- Addressing its public shareholding issue.** As at 20 August 2014, the public shareholding spread of ENCORP was 12.84%, which is still below the minimum public shareholding spread requirement of 25.0%. While the Group was granted an approval for extension of time of 6 months until 9 January 2015 for the Company to comply with the requirement, the Group may be required to address this shortfall via private placement of new shares and/or secondary placement of existing shares by certain shareholders.
- Take Profit.** As the share price of ENCORP has performed well since our recommendation coupled with the weaker set of recent financial results as well as dilution from potential private placement of new shares, we believe now could be a good time to Take Profit. Hence, we are downgrading our rating from TRADING BUY to NOT RATED. As for fair value, we employ the earlier MGO price of RM1.55 as a benchmark.

	Rating	Fair Value
Last Price	-	RM1.39
Kenanga	Not Rated	RM1.55
Consensus	-	-

Stock Information

Stock Name	ENCORP BHD
CAT Code	6076
Industry	Engineering & Construction
Industry Sub-sector	Building & Construct-Misc
YTD stock price chg	40.40%
Market Cap (RM m)	379.83
Issued shares (m)	273.26
52-week range (Hi)	1.88
52-week range (Low)	0.955
3-mth avg daily vol:	123434.4
Free Float	7.0%
Beta	0.91
Altman's Z-score	1.00

Major Shareholders

FELDA INVESTMENT COR	72.27%
ANJAKAN MASYHUR SDN	14.64%
NORGES BANK INVESTME	2.21%

Financials

FYE Dec (RM'm)	2011A	2012A	2013A
Revenue	289.9	396.5	538.7
EBIT	119.6	158.3	234.4
PBT	12.1	42.2	115.6
Net Profit (NP)	24.6	7.1	61.1
EPS (sen)	11.0	3.2	27.9
EPS growth (%)	228%	-71%	780%
NDPS (sen)	0.0	0.0	0.0
BVPS (RM)	1.6	1.6	1.5
PER (x)	12.6	43.9	5.0
PBV (x)	0.9	0.9	0.9
Net Gearing (x)	3.4	3.9	4.0
Net Div. Yield (%)	NA	NA	NA

Quarterly Financial Data (RMm)

	4Q13	1Q14	2Q14
Revenue	136.4	93.3	119.1
Revenue Growth (QoQ)	-19.1%	-31.6%	27.7%
EBIT	108.6	43.0	37.0
OP Margin	79.7%	46.1%	31.1%
Core NP	46.7	7.4	1.5
EPS (sen)	15.1	2.8	0.7
EPS Growth (QoQ)	409.5%	-81.6%	-76.6%

Peers Comparisons	PER (FY13)	Div. Yld (%)	Mkt Cap (RM'm)
GOB	6.9	N.A.	201.2
TAMBUN	9.3	4.4%	906.7
LBS	12.7	6.1%	823.9
Average	9.6	3.5	-

FBMKLCI	16.3	3.3	1.02T
---------	------	-----	-------

* Index Level





Comment: Technically, ENCORP share price was in consolidation mode since mid-July with latest closing price of RM1.39 still below all its SMA line in amid of the thin trading volume. However, its trend looks neutral to slightly positive according to the MACD indicator, which stayed above the signal line. Meanwhile, positive buying momentum appears to be recovering with the Stochastic indicator seen rebounding from the oversold territory, but the RSI indicator was flattish with the sideways movement. Further sideways trading is expected barring the occurrence of catalyst with resistance level in sight at the RM1.48 (R1) and the immediate support level set at RM1.38 (S1).

Source: Kenanga Research

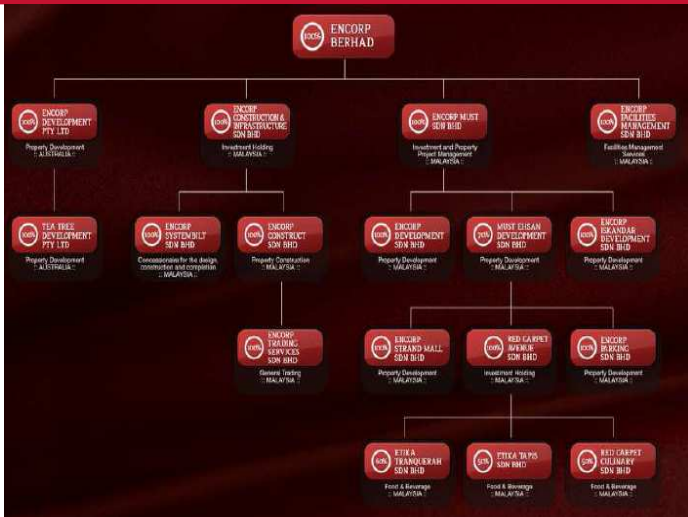
About the stock:

Name : Encorp Berhad
 Bursa Code : ENCORP
 CAT Code : 6076

Key Support & Resistance level

Resistance : RM1.48 (R1) RM1.61 (R2) RM1.81 (R3)
 Support : RM1.38 (S1) RM1.28 (S2) RM1.16 (S3)
 Outlook : Neutral

CORPORATE STRUCTURE BUSINESS OVERVIEW



Encorp was listed on the Main Board of KLSE on 11 February 2003 upon completion of the reverse take-over of Great Wall Plastics Industries Berhad (GWPI). It is an investment holding company which engages in property development and construction management activities primarily in Malaysia and Australia. The company constructs and develops residential and commercial properties and provides general management support services. It is also involved in property investment and property project management, general trading, facilities management and food and beverage businesses. In addition, the company serves as a concessionaire for the design, construction, and completion of 10,000 units of teachers' quarters to the Government of Malaysia. Encorp is based in Petaling Jaya, Malaysia.

KEY ON-GOING PROJECTS

- **Property Development:** Encorp has five signature property development project which are strategically located at (i) Encorp Cahaya Alam, Shah Alam, (ii) Encorp Strand, Kota Damansara, (iii) Batu Feringghi, Penang, (iv) Nusajaya, Johor; and (v) Perth, Australia
- **Construction Projects:** Encorp Cahaya Alam, Shah Alam – Lotus, Encorp Marina Iskandar Malaysia, Kuala Lumpur Gateway Sub-structure works (pile-cap and 6-storey car park), Mansion Park Cyberjaya Housing, The Manhattan Residence Kuala Lumpur

This page is intentionally left blank.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenanga.com.my



Chan Ken Yew
Head of Research