

PP7004/4/2008

20 June 2007

Sarawak Concrete Industries Berhad Company Update Analyst: Lim Ee Kar / Teoh Cheng Guan		Price:	RM0.560
		Market Capitalisation:	RM41.2m
		Board:	Main
		Sector:	Industrial Products
Stock Code:	9237	Recommendation:	HOLD

Table 1: Key Stock Statistics

<u>Key Stock Statistics</u>	2007E	2008F
EPS (sen.)	-3.7	0.6
P/E (x.)	N/M	93.9
Dividend/Share (sen)	0.00	
NTA/Share (RM)	1.11	
Book Value/Share (RM)	1.11	
Issued Capital (mil shares)	73.6	
52-weeks Share Price Range	RM0.400 - 0885	
<u>Major Shareholders:</u>	%	
Pacific Unit	12.51	
Hydrostar	11.59	
Sarawak Economic Development Corp	8.81	
Oricor	7.62	

Table 2: Per Share Data

<u>Per Share Data</u>	2005	2006	2007E	2008F
Book Value (RM)	1.14	1.11	1.07	1.07
Cash Flow (sen)	3.1	3.7	4.5	7.7
Earnings (sen)	-2.5	-3.9	-3.7	0.6
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio	0.0	0.0	0.0	0.0
P/E (x)	N/M	N/M	N/M	93.9
P/Cash Flow (x)	18.1	15.2	12.4	7.3
P/Book Value (x)	0.5	0.5	0.5	0.5
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-0.8	-3.5	-3.4	0.6
Net Gearing (%)	20.0	40.4	36.9	35.4

Table 3: P&L Analysis

<u>P&L Analysis (RM mil)</u>	2005	2006	2007E	2008F
Year-end: 31 March				
Revenue	24.8	27.6	27.5	35.9
Operating Profit	-1.0	-2.2	-0.8	2.6
Depreciation	-4.2	-5.6	-6.0	-5.2
Interest Expenses	-0.4	-0.8	-2.0	-2.0
Pre-tax Profit	-2.6	-3.0	-2.8	0.6
Effective Tax Rate (%)	N/M	N/M	N/M	25.0
Net Profit	-1.9	-2.9	-2.7	0.4
Operating Margin (%)	-3.9	-8.0	-3.1	7.2
Pre-tax Margin (%)	-10.4	-10.9	-10.3	1.6
Net-Margin (%)	-7.6	-10.5	-9.8	1.2

Figure 1: Share Price Chart


Source: QuickChart

1. Highlights:

- We are lowering our FY07 turnover estimate for Sarawak Concrete Industries Berhad (“SCIB”) by 9.5% to RM27.5m, but raising FY07 pre-tax loss and net loss estimates by 5.6% and 5.9% to RM2.8m and RM2.7m, respectively, to reflect zero contribution from the property division as a result of sluggish property market in Kuching. SCIB has yet to book in any property sales YTD.
- We are introducing our FY08 forecasts under which turnover, PBT and net profit are projected to recover to RM35.9m, RM0.6m and RM0.4m, respectively. We assume the Group’s concrete manufacturing division will drive a much-needed earnings turnaround on the back of the 9th Malaysian Plan (“9MP”) projects in Sarawak, most of which were awarded recently. The local construction sector and demand for concrete products are expected to receive meaningful medium term boosts, and SCIB should benefit accordingly.
- We are maintaining our HOLD-rating on SCIB with a revised 12-month target price of RM0.62 (-3.4% from RM0.64 earlier) based on a P/NTA of 0.6x. We believe downside risk is rather limited as the stock is trading near the bottom of the past 5-years’ P/NTA range barring further significant and unexpected deterioration in its earnings outlook.

2. Earnings outlook

We are not incorporating any revenue contribution from SCIB's property division in our FY07 and FY08 forecasts in view of a sluggish property market in Kuching. The Group has failed to book in any property sales YTD. It remains to be seen if related parties will honour the buy-back provision (at the same price) for the unsold Santubong apartment units after October 2007.

The Petra Waterside project has been put on hold. Management indicated that the SCIB might opt to divest its property investments to bring down group gearing and raise funds for its manufacturing arm.

SCIB enjoys a market share of about 70.0% for concrete products in Sarawak with competition coming mainly from small local competitors. Its plants, which have combined production capacity of 10,000 tonnes per month on two shifts, are currently operating at average capacity utilization rate of around 85.0%.

Most of the group's contracts on Industrialized Building Systems ("IBS") are either still under negotiation or bidding. We expect relatively insignificant revenue contribution from IBS in FY07 and FY08.

We are lowering our FY07 turnover estimate by 9.5% to RM27.5m, but raising our FY07 pre-tax loss and net profit estimates by 5.6% and 5.9% to RM2.8m and RM2.7m, respectively, to reflect zero contribution from the property division. We are introducing our FY08 forecasts under which turnover, PBT and net profit are projected to recover to RM35.9m, RM0.6m and RM0.4m, respectively.

3. Recent Development

NS Water Konsortium Sdn Bhd ("NS Water") and two individuals have made a claim against a director of SCIB for breach of fiduciary duties. The Plaintiffs claimed that Zecon Engineering Bhd ("ZEB") obtained certain contract works relating to NS Water's water privatisation project in Negeri Sembilan due mainly to ZEB's access to confidential information via the said SCIB director, who also owns a 5.67% stake in ZEB. The outcome and compensation of the claim are currently indeterminable.

4. Valuation and Recommendation

We are maintaining our HOLD-rating on SCIB with a revised 12-month target price of RM0.62 (-3.1% from RM0.64 earlier) based on a P/NTA of 0.6x. We believe downside risk is rather limited as the stock is trading near the bottom of the past 5-years' P/NTA range (See Table 4) barring further significant and unexpected deterioration in its earnings outlook. SCIB's poor ROA and ROE explain why it is trading at a low P/NTA of just 0.54x – a substantial 39.3% discount to its peers'.

Table 4: Historical SCIB's P/NTA range

FYE	Price/NTA-Range
2002	0.8 -1.2
2003	0.6 -3.7
2004	1.6 - 3.0
2005	0.6 - 2.3
2006	0.4 - 0.9

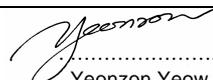
Source: Bloomberg

Key risks to our recommendation include: (1) better-than-expected property market in Kuching; (2) higher-than-expected revenue contribution from IBS; and (3) lower-than-expected raw material costs for its concrete manufacturing division.

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