Bursa-CMDF Research

AFFIN INVESTMENT BANK

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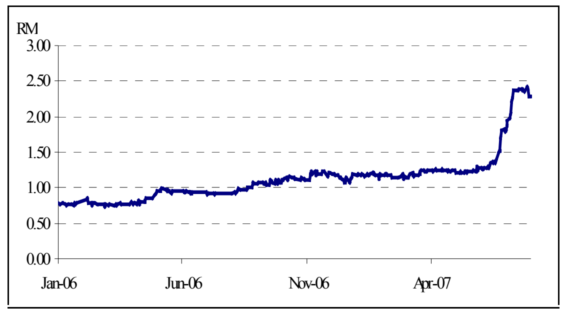
Progressive Impact Corporation Berhad		***Price:***	*RM2.29*
		Market Capitalisation:	*RM215.3m*
Company Update		***Board:***	*Second*
		Sector:	*Trading/Services*
Stock Code:	7201	***Recommendation:***	*Maintain BUY*

Key Stock Statistics	**2006**	**2007F**
EPS (sen)	13.0	16.2
PER (x)	17.7	14.1
Dividend/Share (sen)	7.9	8.6
NTA/Share (RM)	0.59	0.66
Book Value/Share (RM)	0.74	0.80
Issued Capital (m)	94.00	
52-weeks Price Range (RM)	2.44/0.90	

Major Shareholders	
Zaiyadal Kelaurga Sdn Bhd	38.80%
Haji Zaid bin Hj Abdullah	20.30%

Share Price Chart



Per Share Data	**FY05**	**FY06**	**FY07F**	**FY08F**
Book Value (RM)	0.67	0.74	0.81	0.92
Op Cash Flow (sen)	14.2	17.7	22.3	26.8
EPS (sen)	9.2	12.9	16.2	20.3
Dividend (sen)	5.7	7.9	8.6	10.6
Payout Ratio (%)	44%	47%	44%	44%
PER (x)	24.8	17.7	14.1	11.3
P/Cashflow (x)	16.16	12.95	10.28	8.55
P/Book Value (x)	3.43	3.11	2.84	2.49
Dividend Yield (%)	2.5	3.4	3.7	4.6
ROE (%)	14%	18%	20%	22%
Net Gearing (%)	-	-	-	-

P&L Analysis	**FY05**	**FY06**	**FY07F**	**FY08F**
FYE Dec (RMm)				
Revenue	42.4	55.3	65.5	76.5
Ebitda	20.1	28.4	32.1	38.8
Depreciation & amort	(4.6)	(4.5)	(5.7)	(6.1)
Net int income/(exp)	(0.3)	(0.3)	0.0	0.0
Exceptional item	0.0	0.0	0.0	0.0
Share of assoc's profits	0.0	0.0	0.0	0.0
Pre-Tax Profit	15.1	22.0	26.5	32.8
Taxation	(4.4)	(6.7)	(7.7)	(9.2)
Minority Interest	(2.0)	(3.2)	(3.5)	(4.5)
Net Profit	8.7	12.2	15.3	19.1
Pre-Tax Margin	36%	40%	40%	43%
Net Profit Margin (%)	20%	22%	23%	25%
Tax rate	29%	30%	29%	28%

Recent Developments

Bidding for contract to upgrade road tunnels in Mecca. Progressive has recently submitted a pre-qualification proposal to the Saudi Arabian government for the upgrading and maintenance of 60 road tunnels in Mecca in the areas of sewerage management, air pollution and air quality monitoring. Since then, the mayor of Mecca has visited Progressive's offices in Malaysia to assess the company's capability of providing the services to the city. A typical contract in Saudi Arabia will be for a duration of 5 years and is normally renewable upon expiry. We understand that if awarded, the contract would contribute positively to Progressive's earnings from FY08 onwards, given the bulk of the contract is for operation and maintenance works, providing recurring income and high margins. Management is optimistic of securing the contract through its JV vehicle in Saudi Arabia, Saudi ASMA Environmental Solutions (SAES) as its strength lies in its cost competitiveness. Progressive has a 49% stake in SAES.

So far, no details of the contract have been disclosed but an indicative value of the contract is around RM60m (RM1m per tunnel). This may seem slightly higher compared to Progressive's current concession with the DOE, which works out to be RM470,000 per station, but we view this as reasonable given the higher operating costs involved. Further assuming margins of 20%, potential net earnings enhancement from this road tunnel project is around RM4m. Nonetheless, we are taking a prudent view and have not imputed any earnings contribution from this contract into our forecast.

Tapping into Middle East markets. Progressive's JV vehicle, SAES, provides the company with a platform to venture into the Middle East market and enables Progressive to provide competitive, cost-effective total environmental solutions. SAES is 51% owned by Saudi national Dr Fadhil Fouad Basyyoni while Progressive holds the remaining 49%. With the JV vehicle, Progressive is confident of securing environmental consulting contracts in Saudi Arabia given: 1) there are only a handful of local environmental consulting companies in Saudi Arabia and, 2) Progressive is more cost competitive compared to the larger MNCs that are currently operating there like Environmental Resource Management (ERM) and ENSR.

Earnings Outlook

Strong contribution from lab testing division. Progressive's lab testing division, ALS Technichem's (ALST) growth has been commendable with FY06 revenue growing 48% yoy. For FY07, we are projecting ALST's revenue to improve to RM23.6m (+30% yoy) driven by new lab testing services, continuous demand from its existing client base as well as increased contribution from its Indonesian operations, PT ALS Indonesia (ALSI). ALSI caters to MNCs operating in Indonesia like Caltex and French oil giant Total.

Moving into environmental engineering. Going forward, another area of growth for Progressive would be venturing into environmental engineering, which involves designing and constructing structures to solve environmental problems. Environmental engineering is a progression from Progressive's current services of environmental consultancy and diagnostic. However, management indicated that Progressive is still pursuing environmental engineering projects and nothing concrete has come onstream yet.

Bright prospects for Progressive. We believe Progressive is operating in a sunrise industry as more attention is given to environmental issues globally. Therefore, we see continued strong demand for Progressive's services, especially from MNCs, as they strive to comply with the Environmental Quality Act (EQA) as set out by the DOE and their own corporate environmental policy. Also, Progressive's 20+5-year concession with the DOE, which commenced in 1995, provides it with an annual recurring revenue of RM24m for another 8 years.

Maintain FY07 forecasts, raising FY08 projections. We maintain our FY07 revenue and net profit forecasts of RM65.5m (+18% yoy) and RM15.3m (+26% yoy). After factoring in higher potential new contracts to be secured in FY08, our FY08 revenue and net profit have been raised to RM76.5m (+8%) and RM19.1m (+15%). We understand that Progressive is currently tendering around RM20m worth of jobs in Jeddah in addition to the road tunnel project in Mecca and is also in negotiations to secure contracts in Qatar and Brunei.

Valuation & Recommendation

Share price has risen by some 89% since we upgraded Progressive to a BUY from a HOLD in May 2007. We are still positive on the stock given its strong earnings growth and earnings enhancement potential from the road tunnel contract. We are maintaining our **BUY** recommendation with an upgraded SOP-based target price of **RM2.69** (was RM1.57 previously). At RM2.69, the stock will trade at an implied FY08 PE of 13.2x.

Our previous SOP-based target price was derived using DCF to value the concession earnings and pegging a 9x PE (15% discount to historical average of 10.6x) to the non-concession earnings. However, given the strong earnings growth potential (3-year EPS CAGR of 25%), we feel a PE of 9x is too conservative and have instead applied a PE of 16x (equivalent to market PE) to the non-concession earnings to derive our new target price of RM2.69. Our DCF valuation (WACC of 7%) for the concession earnings remains unchanged. Also, the recently proposed bonus issue and share split exercise will likely improve stock liquidity and the proposed transfer of listing to Main Board will draw increased investor participation.

Note that we have only imputed concession earnings up till 2015 in our DCF valuation. Assuming the concession is renewed for an additional 5 years upon expiry, which we believe is likely given that Progressive owns all the environmental equipment used and has an established track record with the DOE, our RNAV estimate will increase to RM2.89. We believe share price is further supported by Progressive's policy of distributing no less than 40% of its earnings to shareholders, translating into dividend yields of around 4-5%.

Fig 1: RNAV valuation

		RM/share
Assuming concession ends at 2015		
Concession	DCF derived, WACC of 7%	0.51
Non-concession	PE of 16x	1.82
Net cash	As at 1QFY07	0.36
Sum of parts		**2.69**
Assuming concession is extended an additional 5 years to 2020		
Concession	DCF derived, WACC of 7%	0.72
Non-concession	PE of 16x	1.82
Net cash	As at 1QFY07	0.36
Sum of parts		**2.89**

Source: Company, Affin estimates