MORNING CALL

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Mayban Securities
(165630-M)

MALAYSIA EQUITY RESEARCH

Monday, 24 May 2004

Listing Today

IPO: Metronic Global Bhd

Counter	:	MESDAQ
IPO Price	:	RM0.21
Enlarged paid-up capital	:	283.5m
Public issue	:	71m shares
Listing PE	:	PER04 8.1x (forecast)
NTA/share post listing	:	RM0.12
Nature of business	:	Metronic Global Bhd is an investment holding company with 2 wholly-owned subsidiaries, MESB and MISSB. The group's core business activity is involved in the design, supply , installation and maintenance of the following:

- Intelligent Building Management System
- Integrated Security Management System
- Java Based Control Monitoring Software
- E-Project Management of Mechanical & Electrical Services

The core business of the group is to assist its clients, mainly building owners and building management companies to reduce consumption, to improve safety and security as well as to increase comfort for the occupants of the buildings.

AWC Facility Solutions Berhad (Second Board, Trading/ Services) is the only listed company on KLSE that shares a similar business with Metronic Global Berhad. Nonetheless, unlike Metronic Global, AWC Facility is involved more in the 'hardware' aspect of the building management rather than the integration of hardware and software. Besides that, the valuation

Trading Idea

Chemical Company of Malaysia Berhad (RM2.20)

Support: RM2.14-RM2.04; Resistance: RM2.35-RM2.45

Chemical Company of Malaysia Berhad (CCM) rose 2 sen last Friday. In 1Q04, CCM reported a 10.7%yoy growth in turnover to RM158.9m while net profit swelled by more than 1000% to RM84.0m. The astronomical rise in net profit was attributable to profit on sale of investments and better operational profits earned by the Fertilizers and Healthcare Division. CCM has been trading above the 200-day EMA. Positive crossover from Stochastic and MACD indicators signifying an uptrend while rising RSI will prevent CCM from reversing south. Traders should accumulate on weakness at RM2.14-RM2.04 and sell into strength at RM2.35-RM2.45

Previous trading day market performance

Indices	Close	+ / -	1-d%	1-m%	ytd %
KL Composite	791.53	2.66	0.34	(9.59)	(0.30)
KL Emas	193.10	0.85	0.44	(10.10)	(1.26)
KL Second Board	118.73	1.60	1.37	(10.45)	(15.58)
Dow Jones	9,966.74	29.10	0.29	(4.83)	(4.66)
Nasdaq	1,912.09	15.50	0.82	(6.72)	(4.56)
Nikkei	11,070.25	208.21	1.92	(8.67)	3.69
Hang Seng	11,576.01	236.39	2.09	(6.52)	(7.95)
Straits Times	1,767.23	25.66	1.47	(5.38)	0.15

Source: Bloomberg

Most Actives (Main Board)	Close	Change	1-d%	Volume
FURQAN BUSINESS ORGANIZATION	0.44	0.05	12.82	13,647,500
SCOMI GROUP BHD	1.46	0.06	4.29	9,304,900
PUBLIC BANK BHD	2.75	0.01	0.37	8,119,300
DIALOG GROUP BHD	0.49	0.02	3.19	7,409,000
MALAYSIAN PLANTATIONS BHD	2.15	(0.01)	(0.46)	5,821,900
COMMERCE ASSET-HLDG BHD	4.64	(0.08)	(1.70)	4,622,300
LION INDUSTRIES CORP BHD	0.95	0.01	1.06	4,481,700

Source: Bloomberg

KLCI Current PER	
1 Day ago	14.4
1-month ago	15.9

of AWC Facility is rich given that the stock is trading at PE multiple of 21.3X. We peg Metronic Global to the market PE of 16.1X deriving a fair value of 42 sen. Nonetheless, under the current market condition and depressed performance of MESDAQ conters, we do not expect Metronic Global to close above 0.40sen today.

Economics

Oil prices

WTI fell below USD40 pb for the first time in two weeks. The benchmark US crude oil WTI Cushing closed to below USD40 pb for the first time in two weeks when the market closed on Friday. The WTI Cushing fell almost a full dollar to USD39.93 pb on Friday from USD40.92 pb the day before. *(Source: Bloomberg)*

Comments: This is after Saudi Arabia which produces 11% of the total world crude oil output said that it will go ahead to increase its oil output up to the maximum capacity of 10.35m bpd if necessary prior to OPEC's decision on the matter on June 3. The G-7 has also pressed for OPEC to raise its output quotas over the weekend. We believe that oil prices had topped the previous two weeks and will now move on a downtrend, particualrly as the Northern Hemisphere heads into summer. We also believe that oil prices had been pushed beyond their fair prices by hedge funds which had divested from the equity markets including Asia, recently. One of the evidences is the fact that medium term contracts for oil prices inthe forward market number four times as high as the short term contracts on the NYMEX. Once the hedge funds realise that their bets on the crude oil prices rising higher have finally ended, they may move into other assets, including the equities market. This augur well for the global bourses. The DJIA rose 29.1 point to 9,966.74 points on Friday.

In the News

Liquidity

Private pension funds to release RM100b into the markets? The government said recently that it wants to encourage more private pension funds to ensure retirees have additional retirement income besides their savings in EPF and to allow these funds to invest in the stock and bond markets to improve liquidity. Based on this, Watson Wyatt's MD, Danny Quant, estimated that this will potentially release RM100b into the stock and bond markets. However, this will only be possible if the Inland Revenue Board changes several guidelines with regards to private pension funds. *(Source: BTimes)*.

Property

Government mulls 'build then sell' concept. The government is studying the possibility of making property developers build houses first before selling. This is to ensure that property developers have adequate funds before embarking on housing projects and not depend on house buyers for funding. *(Source: Bernama)*

Developers concerned on new proposal. Property developers are concerned that the proposed 'build then sell' concept would raise house prices and borrowing margins. The Real Estate and Housing Developers' Association (Rehda) said that not all developers have the required funds to complete a project and such a move may dampen the property industry in the country. Under the current system, property developers bear 15-25% of construction cost but the new proposal will cause developers to bear full construction cost. Borrowing cost may also rise in tandem with higher risks to the banks. *(Source: Business Times)*

Comments: We share the concern of industry players as the 'build then sell' concept would have significant repermissions on both property developers and possibly to the consumers. We expect property development companies to be faced with:

- Higher borrowings for working capital, thus inflating gearing ratios.
- Higher borrowing cost to offset the higher risk by the banks.
- Lower margins from the higher financing cost.
- Slower pace of launches as developers can only sell when property has been completed.
- Tighter cash flow which would hamper landbank expansion plans for the property companies.

The new concept is positive to consumers as it reduces the risk of abandoned projects and poor quality houses. Nonetheless, we believe that property buyers would likely be burdened by other factors such as:

- Higher property prices as property companies raise prices to preserve margins.
- Shortfall in supply of new properties from a decline in new launches.
- Defect liability period of up to 18 months may no longer apply.

We are optimistic that the government's initiative to improve the property industry would bring long-term benefits. Nonetheless, property development companies would require time to adopt this new approach and may have to rely on the government for cheaper funding alternative. We believe that the government would balance the predicament of property companies and the needs of the 'rakyat'. As such, the new concept may require in depth study before it comes into force to ensure a win-win situation to all parties. **Maintain OVERWEIGHT on the sector.**

SAAG Consolidated (M) Bhd (RM3.80)

Eyeing RM240b deals in Malaysia and India. SAAG Bhd wants to capture the lion's share of the estimated RM240 billion worth of contracts up for grabs in Malaysia's and India's oil and gas sector. According to SAAG's Chief Executive Officer, Ajeet Ahluwalia, the company can only achieve this via smart partnerships and acquisitions. Currently, SAAG has teamed up with Ecodrill Sdn Bhd and Embah Engineering Sdn Bhd, which deal in engineering, construction, commissioning and maintenance of gas pipelines. This gives them a leeway to capture a major share in the estimated RM50 billion contracts which are up for grabs in the next five years in the Malaysian oil and gas sector. The company is also targeting a piece of the RM190 billion contracts offered by India's oil and gas sector through its joint effort with India's construction firm, RR Infra Ltd. *(Source: BTimes)* **Not rated (52W Hi-Low: RM5.30-RM1.70)**

PLUS (RM2.22) UEM Builders (RM1.17)

RM1b bond issue to fund NSE expansion. PLUS Expressways Bhd is planning to raise RM1b via an Islamic bond issue in the next 12 months for upgrading the North South Expressway (NSE). The bonds would have tenure of 7 to 10 years and would be issued directly by PLUS or via a special purpose vehicle. Three particular stretches would be given emphasis: (1) Seremban-Ayer Keroh (2) Rawang-Tanjung Malim (3) Ipoh Selatan-Jelapang. *(Source: StarBiz)*

Comments: It appears that PLUS may have decided on the best option to fund the NSE upgrading plans, which has long been mulled because of traffic congestion problems. Nonetheless, PLUS is still discussing with the Finance Ministry on this issue and is probably negotiating a revised concession terms. This would be PLUS' 3rd bond issue following the RM5.1b and RM1.5b issues it made in 2002 to replace expensive borrowings. We expect a favorable outcome on this proposed project to PLUS as well as its sister company UEM Builders, the likely contractor for the RM900m upgrading project. We believe that the group is also discussing with the government on the proposed Penang bridge expansion program, which may cost approximately RM200m for an additional motorcycle lane or RM400m for an additional vehicle lane. Pending positive announcement on these proposals, **maintain BUY on PLUS and UEM Builders.**

PLUS (52w Hi-Low: RM2.68-RM2.17; FV=RM3.00)

UEM Builders (52w Hi-Low: RM1.79-RM0.88; FV=RM2.30)

Kulim (M) Bhd (RM2.45)

Optimistic of prospects in PNG. Kulim (M) Bhd, which is aggressively expanding abroad, sees bright prospects for its oil palm plantations in Papua New Guinea (PNG) through its 80% owned subsidiary New Britain Palm Oil Ltd. The company is expected to increase its total estate hectarage to 75,000ha in the next five to 10 years from about 30,000ha currently. According to Kulim's chief operating officer, Zulkilfi Ibrahim, PNG stood at the top of the list with regard to its expansion plans. Kulim has about 140,000ha of plantations in Malaysia, Indonesia and PNG. PNG operations contributed about 40% of Kulim's pre-tax profit in the financial year ended December 31 2003. *(Source: BTimes)* **Not rated (52w Hi-Low: RM3.12-RM2.02)**

Pharmaniaga (RM5.30)

Targets RM1b sales. Pharmaniaga Bhd is aiming for RM1b revenue next year on the back of improved contribution from local and overseas operations. The group is targeting revenue growth between 8 to 12% from its local operations. Currently, it is commanding a 30% share of the RM1.8b local pharmaceutical market. The company is aggressively promoting its business overseas by initially covering countries in Asean, Middle East and Africa. To help boost its presence overseas, Pharmaniaga would be investing RM90m to start a new plant to produce injectibles, Construction work works on the 17.5-acre site in Puchong is due to start next month and should commence production in 2006. The company is also looking at getting this new factory to be US Food and Drug Administration (FDA)-certified, so that the products could be exported to the US, Australia and Europe. *(Source: StarBiz)* **Not rated (52w Hi-Low: RM6.30-RM4.22)**

Automotive

April 2004 sales numbers. Total industry volume (TIV) rose 1.1%mom to 38,697 units mainly driven by commercial vehicles (+9.2%mom). Sales of passenger cars declined 1%mom. Nevertheless, vehicle sales in April was 12.7% higher compared to the same period last year, also driven by commercial vehicles (+29.7%yoy). TIV stood at 140,454 units for the first four months of the year.

Vehicle sales

Total Ind. Vol.	Month-on-month			Year-on-year		Cumulative		
	Apr-04	Mar-04	% chg	Apr-03	% chg	YTD 04	YTD 03	% chg
Pass. Cars	29,925	30,222	-1.0%	27,558	8.6%	108,787	108,886	-0.1%
Comm. Vehicles	8,772	8,036	9.2%	6,764	29.7%	31,667	25,477	24.3%
Total Vehicles	**38,697**	**38,258**	**1.1%**	**34,322**	**12.7%**	**140,454**	**134,363**	**4.5%**

Pass. car sales	Month-on-month			Year-on-year		Cumulative		
	Apr-04	Mar-04	% chg	Apr-03	% chg	YTD 04	YTD 03	% chg
National cars	24,294	24,135	0.7%	24,786	-2.0%	87,617	97,075	-9.7%
Non-national cars	5,631	6,087	-7.5%	2,772	103.1%	21,170	11,811	79.2%
Total pass. cars	**29,925**	**30,222**	**-1.0%**	**27,558**	**8.6%**	**108,787**	**108,886**	**-0.1%**

Passenger Car market s	Apr-04	Mar-04	Apr-03	YTD 04	YTD 03
National cars	79.9%	79.9%	89.9%	80.5%	89.2%
Non-nationals	20.1%	20.1%	10.1%	19.5%	10.8%

Source: Malaysian Automotive Association

Sales of national cars rose a marginal 0.7%mom and declined 2%yoy. In April, sales of non-national cars fell 7.5%mom. Nevertheless, sales of non-national cars rose an impressive 103.1%yoy. In the first four months of 2004, non-nationals remained the best selling segment (+79.2%yoy) compared to national cars (-9.7%yoy).

Comments: The continued demand for vehicles in Malaysia is underpinned by the healthy economic situation, higher business activities, increased consumer confidence, friendly credit environment, and introduction of new models at attractive prices and designs. We maintain our TIV forecast of 425,000 units for 2004. We expect sales in 2H04 to be stronger as more new models hit the roads. Although we are **NEUTRAL** on the sector, we are selective on our stock picks. Our top pick in the sector are **Proton** and **UMW**. *(Source: Malaysian Aotomotive Association)*

KNM Group (RM3.80)

Acquiring a Dubai-based company. KNM's wholly-owned subsidiary, KNM International Sdn Bhd (KNMI) had entered into a JV through a Share Sale and Shareholders Agreement with FBM-Hudson Italiana SpA (FBM) for the acquisition of 50% equity interest in FBM's manufacturing plant in Jebel Ali Free Zone, Dubai (FBM-KNM FZCo) for Euro10m (=RM45.6m based on the exchange rate RM1.00: Euro0.2191). In addition, KNMI and FBM shall subscribe equally for a total of Euro4m (=RM18.3m) in shares in FBM-KNM FZCo. The plant manufactures aircooled heat exchangers, shell and tube exchanges, reactors, pressure vessels, condensers and desalination equipment for the oil and gas industry.

As part of the agreement, FBM guarantees that KNMI shall receive a cash dividend of Euro1.8m (=RM8.2m), Euro2m (=RM9.1m) and Euro2.3m (=RM10.3m) respectively for the next 3 years from the date of completion of the agreement.

KNMI has also signed a Commercial Co-operation Agreement (CCA) with FBM for joint and exclusive marketing and manufacturing of FBM's process equipment within the Asean and China regions.

Comments: We are optimistic on this development. FBM is one of the top two global companies for aircooled heat exchangers. The JV and CCA would enable KNM to expand its global manufacturing reach to the Middle East, North Africa, Asean and China. Furthermore, KNM would be able to tap the technical expertise of FBM. We also view this as an opportunity for KNM to increase its product range by offering higher value added products in the process equipment engineering industry. With this JV, KNM has key manufacturing facilities in the Middle East, China, and Malaysia. The cash dividends offer an attractive yield of 17% to 22%.

We view FY04 as a consolidation year for KNM. Its China plant commenced operations early 2004 and this arrangement with FBM is expected to be completed by 3Q04. Therefore, the full impact on earnings would be felt in FY05. KNM is trading at PER05 of 16.3X, based on EPS05 of 23.3sen. We like KNM for its 1) dominant position in the process equipment industry in Malaysia, 2) ability to secure overseas projects (i.e not dependent on domestic jobs) and 3) strong management team. Re-affirm **BUY (52W Hi-Low: RM4.92-RM1.48, FV=RM5.00)** *(Source: Bursa Malaysia)*

DISCLAIMER

General:

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Mayban Securities uses the following rating system:

BUY	Price appreciation in excess of 20% expected in the next 12 months
SELL	Price depreciation in excess of 20% expected in the next 12 months
TRADING BUY/SELL	Significant price movement expected in the next 3-months arising from positive/negative newsflow. Eg:- Mergers and acquisition, corporate restructuring, and potential of obtaining new projects.
AVOID	Uncertainty in newsflow.

Applicability of Ratings:

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

P = price
PE/PER = price earnings/ PE ratio
PEG = PE ratio to growth
FV = fair value
BV = book value
EV = enterprise value
DCF = discounted cashflow
FCF = free cashflow
CAGR = compounded annual growth rate
WACC = weighted average cost of capital

PBT/PAT = Profit before tax/Profit after tax
NTA = net tangile asset
NAV = net asset value
EBIT= Earnings before interest, tax
EBITDA= EBIT, depreciation and amortisation
ROE = return on equity
ROA = return on asset
ROS = return on shareholders' funds
EPS = earnings per share
DPS = dividend per share

mom = month-on-month
yoy = year-on-year
qoq = quarter-on-quarter
ytd = year-to-date
FY/FYE = financial year/ financial year end
CY = calendar year
capex = capital expenditure
adex = advertising expenditure
p.a = per annum

Mayban Securities

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