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First Quarter Results Review

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Automotive

The latest quarterly results for the automotive companies were mixed. Companies that performed above expectations were MBM, Oriental and Proton. MBM's performance improved due to higher contribution from its manufacturing segment as well as higher contribution from associates while Oriental's performance was strong probably due to buyers' locking into their purchases before the expected price increase in June 2005. Proton enjoyed tax rebates which boosted its bottomline.

APM, Ingress and Tan Chong's results came in within expectations.

UMW, Tractors, DRB and EON's results were below expectation.

Expect the auto sector to remain extremely competitive. Proton has been losing market share to foreign competitors. Its market share cumulative to April was approximately 30%. However, this could improve with the newly launched Savvy which seems to be well-received. Nonetheless, we expect Perodua's Myvi to capture a larger portion of the low-engined market segment due to wider choices (availability of automatic transmission, safety options, colour choices) available currently. In addition, Perodua also enjoys better reputation for quality compared to Proton despite the latter's effort to improve perception of its quality by auditing its part suppliers. Hence, we expect UMW and MBM to enjoy higher contribution from associate Perodua. However, since Myvi was only launched in end-May, we expect the higher associates' contribution to be reflected only in 2HFY05.

Competition would continue to pressure profit margins. Higher cost of sales in the form of advertising and promotion costs, product warranties and freebies would be incurred. Hence, earnings growth would remain weak despite our moderate total industry volume projection growth of 526,000 units. Remain **neutral** on the sector.

Banking

The earnings performance for the quarter ended 31 March 2005 was relatively mixed, and generally below that registered in the previous quarter. Four companies registered earnings below our expectations, namely AMMB Holdings, RHB Capital, EON Capital and Southern Bank. Hong Leong Bank, Maybank and Public Bank were within expectations (Maybank based on consensus). Even though Affin, CIMB and Commerce Asset performed better than expected, the results for both Commerce Asset and CIMB were skewed by a one-off exceptional item emanating from CIMB.

On the whole, total revenue for the sector only grew by 4%yoy during the quarter and saw a contraction of 2% compared to the previous quarter (as at end-Dec 2004). Net interest income continued to be compressed by narrower margins and stiffer competition within the sector. This was despite stronger loan growth for the sector of above 8% during the first three months of 2005. Total non-interest income grew by a moderate pace of 7%yoy while income from Islamic banking operations grew by 20%yoy. Pre-tax profit for the sector grew by 5% during the quarter compared to a year ago. The earnings improvement however was driven mainly by a reduction in loan loss provision by 12%yoy and 33%qoq, following the implementation of more prudent provisioning measures by the banks towards the end of 2004.

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Construction

Construction companies under our universe turned in their worst ever performance in the recent quarter. Only two of the seven companies under our coverage met our expectation. This is partly attributed to seasonal factor, as the first quarter performance is normally affected by (1) lower number of working days (2) festive season. Nonetheless, we believe that construction progress was severely affected by the labour shortage due to repatriation of illegal workers. In addition, it is conceivable that slower order book replenishment could have inspired some of the companies to decelerate profit recognition and save some for the coming years. The deteriorating margin trend was still evident in the recent quarter (except for WCT Engineering) due to cost pressures and razor-thin profit margins from open tender projects.

The construction index has shed -12.6% year to date compared to the KLCI's -3.1%, reflecting the weak sentiment on the sector. The recent allocation of RM2.6b brought forward from the Ninth Malaysia Plan and RM2.5b for the Police housing is not significant to have any meaningful impact on the sector. This is more of a life support system to the smaller contractors. We believe that the outlook for the sector would remain subdued for the rest of the year. The announcement of the Ninth Malaysia Plan (9MP) expected in September may bring some cheer to the sector, but implementation may only take place from 2006 onwards. Top-tier construction companies are diversifying earnings in a move to reduce dependence on construction companies. We are less positive on overseas ventures as the risk premium is higher and margins are barely visible due to competition. However, we continue to like IJM for its order book replenishment ability and its stronghold in India. The steep valuation discount justifies our BUY recommendation on Gamuda. Meanwhile, we have raised MTD Capital to a Trading BUY due to its capital repayment exercise. We remain NEUTRAL on the sector as prospect for re-rating in the medium term is clouded by slower domestic spending and increasingly tough operating environment.

Consumer Products

The consumer sector was hit by generally high raw material prices. This has resulted in a need to increase selling prices to protect profit margin. In the tobacco and brewery segment, downtrading to illegal products remains a concern. The price war in the tobacco industry was generally detrimental to the companies.

Food & beverage: Fraser & Neave performed within expectation while Nestle came in above expectation. Generally high raw material prices has affected F&N's PBT in 2QFY05, especially in its dairy segment. However, the recent 10-sen price hike of its soft drinks should enable it to contain increased cost. Nestle experienced strong sales in the quarter, and would also increase some product prices in June 2005 to offset increased raw material prices.

Brewery: Industry volume growth was slower than expected. This could be attributable to higher beer prices after the tax hike in Budget 2005 causing consumers to switch to illegal beer. We lowered industry volume growth by 1% point to 1%. Carlsberg and Guinness' EPS05 were revised to 29.8 sen (-4.8%) and 34.9 sen (-7.6%) respectively with a **HOLD** recommendation for both.

Tobacco: JT International performed above expectation due to the conclusion of its spending in compliance to the Control of Tobacco Products Regulation (CTPR) 2004 as well as timing of marketing expenditure. However, its flagship value-brand, Winston, lost market share due to the price war in March, to Next (Philip Morris' new brand) and Pall Mall (BAT's value-brand). BAT's performance was within expectation and its profit margin was predictably lower due to aggressive brand-spend to protect its market share.

Gaming

The three number forecast operators (NFOs) posted mediocre performance during the last quarter. As expected, Tanjong's NFO revenue outperformed its rivals with average sales per draw growth of 5.6%yoy thanks to the success of its IBox and marketing programmes such as Star Club. BToto's sales per draw meanwhile grew by 4.2% during the quarter while Magnum's remained largely unchanged. Interestingly, Magnum's prize payout normalized during the quarter after four consecutive quarters of abnormally high prize payouts. Both Tanjong's and BToto's payout ratios have hovered around their theoretical levels. The subdued growth in the NFO segment can be attributed to the existence of thriving illegal gaming operations, departure of illegal foreign workers during the amnesty period and weaker consumer sentiment affecting discretionary spending.

The country's sole casino operator, Resorts World posted commendable first quarter results however. The completion of numerous new gaming and leisure facilities, not to mention effective marketing and branding exercises have brought in record number of visitors to the hilltop resort. Quarter on quarter topline growth was also boosted by a normalisation of luck factor. Unfortunately, operating margins contracted to 33.5% from 36.8% a year ago as the proportion of contribution from the lower-margin premium segment increases. The strong quarterly results was also partly attributed to a turnaround in associate, Star Cruises' operations where Resorts' share of Star Cruises' profits stood at RM6.2m during the quarter as compared to share of losses of RM41.1m and RM5.8m in 4Q04 and 1Q04 respectively.

Media

The media companies' results during the first quarter ranged from within to slightly below expectation. As expected, year-on-year adex growth during 1Q05 was unspectacular at 5% (Source: Zenith Optimedia). This was way below 1Q04's 22% growth which was boosted primarily by election-related advertising.

ASTRO and Star Publications' results came in within our expectations. In the case of ASTRO, quarter-on-quarter subscription revenue grew steadily on the back of positive net household subscriber additions thanks to seasonal factors and a virtual wipe out of piracy after the completion of the smartcard swap exercise. However, revenue growth continued to be offset by declining ARPU due to changing subscriber mix towards the Malay and mass urban markets. Star Publications meanwhile benefited from strong volumes of newspaper ad spending especially in March at the height of the telco war. Star's EBITDA margins for the quarter however eased slightly year-on-year due to higher newsprint costs.

Conversely, NSTP and Media Prima's results were below expectations. This was mainly due to the loss of insurance revenue following the disposal of AMI Insurance Bhd. In addition, although readership and circulation numbers of the NST have improved since the launch of the compact edition, NST's turnaround especially on the adex front is nevertheless still below our expectation. This can be explained by NST's far higher effective ad-rates relative to the Star. Fortunately, NSTP's stable of Malay papers continued to provide the necessary buffer and source of adex growth for the group. Similarly, Media Prima's earnings growth continued to be driven by the success of its two free-to-air TV channels in capturing TV adex with adex share rising to 58% in 1Q05 from 53% in 2004.

Oil & Gas

Results came broadly within expectations. Nevertheless, KNM reported an impressive 1Q05 numbers. Industry earnings are expected to remain strong in the next three quarters as the companies replenish their order books. 1Q05 is normally a weak quarter for the upstream O&G players such as Scomi and SapuraCrest as the weather conditions tends to be bad during the period. Nevertheless, both companies have confirmed that activities are ongoing as usual staring March 2005.

EPS growth 2005: 17.5%

Plantation

Of the five plantation companies under our coverage, IOI Corp earnings came in above, PPB Oil and KL Kepong earnings were within while Golden Hope and Kumpulan Guthrie's results came in below our expectations for the financial reporting period ended 1Q05.

Plantation companies had a poor showing in the 1Q05 due the seasonally lower production period which was further aggravated by softer palm product prices. Crude palm oil (CPO) averaged RM1,350 per tonne in 1Q05 compared against RM1,450 per tonne in the preceeding quarter (4Q04) and RM1,890 per tonne in the same period last year (1Q04). However, the impact of softer palm product prices in 1Q05 was partially mitigated by relatively stronger FFB production (year-on-year comparison, with the exception of Kumpulan Guthrie). Table 1 illustrates the FFB production of the plantation companies under our coverage.

Table 1: FFB production trend

('000 Tonnes)	1Q05	4Q04	Chg	1Q04	Chg
Golden Hope	777.9	765.5	1.6%	493.0	57.8%
IOI Corp	792.2	1,018.2	- 22.2%	573.6	38.1%
KL Kepong	529.0	548.5	- 3.6%	446.9	18.4%
Kump Guthrie	806.5	851.3	- 5.3%	846.1	- 4.7%
PPB Oil Palms	315.1	377.4	- 16.5%	238.4	32.2%
Malaysia	3,417.3	3,935.90	- 13.2%	2,679.79	27.5%

Source: Companies, Mayban Securities

Key Highlights

Golden Hope Plantations - 3QFY05 (Below)

While the inclusion of Austral Enterprises' results improved the group earnings significantly, Golden Hope's 3QFY05 results came in below our expectation largely due to the lower than expected palm oil prices in 1Q05 coupled with lower property earnings due to provision for litigation cases stemming from Negara Properties. Maintain **TRADING BUY** with fair value of **RM4.50**.

IOI Corporation - 3QFY05 (Above)

The group's 3QFY05 results were ahead of ours but in line with consensus estimates. The better performance was due to higher-than-expected contribution from its plantation and resource-based manufacturing segment, coupled with tax incentives granted by MIDA in relations to the Loders Croklaan acquisition. Upgraded our recommendation to a **BUY** with a fair value of **RM10.20**.

KL Kepong - 1HFY05 (Within)

The group's results for 1HFY05 came in within ours and consensus estimates. The plantation division remains the key turnover and earnings driver for the group, contributing 41.1% and 75.0% respectively. Retail earnings remain lacklustre due to the seasonality of Crabtree & Evelyn sales. Property segment remains unexciting due to lack of new property launches. Yule-Catto (which ceased to be an associate of KLK as at June 2005) continues to be affected by rising raw material cost and heightened competition as a result of the patent expiry on the Omeprazole (drug use to treat stomach ulcers) in the US market. Maintain **BUY** with a fair value of **RM7.60**.

Kumpulan Guthrie - 1QFY05 (Below)

The group turned in losses for the quarter stemming from seasonally lower production and severe drought condition experienced in the group's Indonesian plantation in the early part of the year which reduced yields, and softer palm product prices. Management indicated that it is currently in the midst of discussions with one of the four companies that have offerred the most attractive bid for the Guthrie Corridor Expressway. Maintaining our earnings forecast at the moment with the view to downgrade but maintain our HOLD recommendation.

PPB Oil Palms - 1QFY05 (Within)

No surprises for the quarter. The decline in turnover during the quarter was largely attributable to the lower seasonal production as well as lower palm product prices realised, coupled with lower contributions from its associates (PGEO Group, Saratok Palm Oil Mill and Agri-Sabah Fertilisers). We are not overly concerned that PPB Oil Palm may possibly realise lower palm product prices this year given the strong production growth (our estimates +10%; management estimates +15% growth in CPO production) due to the rise maturing acreage and improvement in oil extraction rates (OER), which may be able to defend softer prices. Maintains our **top pick for the sector**, with a fair value of **RM3.70** and attractive dividend yields of 4.5%.

Power

Malakoff's and YTL Power's results came in within expectations. Any earnings enhancement would come from future M&A exercises. Currently, impact of all acquisitions (e.g Jawa Power in the case of YTL Power) has already been accounted for in the earnings forecast.

EPS growth 2005: 32.9% (mainly due to inclusion of Jawa Power in YTL Power's earnings)

Property

Result of property companies in the first quarter was uninspiring. Half of the 6 property companies under our coverage reported lower-than-expected earnings. This was mainly due to slower progress billings as construction progress was affected by labour shortage and lower property launches due to moderating demand. In addition, top-line sales growth was moderated by the lower take-up rates in recent months, as consumer sentiment is dampened by the slower economy. Delays in construction could give rise to liquidated ascertained damages (LADs) claims, with MK Land bearing the highest risk. Results of two big names in the property sector, SP Setia and IOI Properties, were in line with expectation. Their strong branding, innovative marketing and value-for-money products sets these companies apart from the rest. A surprise out performance came from Sime UEP, which benefited from land sale.

The longer-term outlook of the property sector is healthy, as demand would be underpinned by the young population age profile, rising disposable income and flush liquidity. Nonetheless, many anticipate interest rates, a key driver for property demand, to rise sooner than later. Likewise, short-term demand could be dampened by concerns over construction delays (due to labour crunch) and the current weak market condition. The recent Ringgit peg speculation generated interest from foreign investors but this quickly diminished as the rumour was dispelled. Another overhanging concern is the rising number of unsold properties, as the demand-supply mismatch is expected to widen if the current situation persist. Our top pick for the sector is still SP Setia, which has time and again delivered in line with expectations. IOI Properties remains on our BUY list due to the privatization speculation and attractive dividends. We remain NEUTRAL on the sector, as we believe that the 'good times' for property developers has ended as demand weakened and earnings risk raised from slower progress billings. Potential catalyst could stem from a strong recovery in the stock market.

Retail

The first quarter performance of the retailers were generally within our expectations. According to Retail Group Malaysia, the retail industry slowed down in 1Q05 registering moderate growth of only 4.8% compared to 5.9% in 1Q04 and growth of 8% for the whole of 2004. The generally lackluster performance of the fashion and fashion accessories as well as specialty store retailers was due to a relatively quiet Chinese New Year shopping season and the absence of the Mega Sale Carnival in March this year, not to mention the prevailing weak consumer sentiment.

However, the department stores cum supermarket sub-sector performed noticeably better registering average sales growth of 10.7%. Hence, both AEON and The Store, the country's second and third largest retailers registered double digit sales growth of 17% and 11% although we wish to highlight that AEON's numbers are for the period between December and February, and therefore may be positively skewed given the presence of two festivities (Chinese New Year and Christmas) during the period. However, taking same store sales growth, we estimate that AEON and The Store only registered growth in the low to middle single digits, a reflection of the extremely tough and competitive operating environment. This has led to higher advertising and promotion expenses that resulted in margin erosion for the retailers. AEON nevertheless managed to stand out of the crowd by posting a remarkable 20% net profit growth despite the challenges while The Store's net profit contracted 22%.

In the case of Courts Mammoth, both revenue and net profit actually contracted year-on-year due to fierce competition in the furniture and electrical retailing sub-sector and the slowdown in outlet expansion in Malaysia. Profit margins continued to contract which management has attributed to declining prices of electrical products, spike in bad debt provisioning and start-up costs of its Indonesian stores. Amway's performance during the quarter was similarly uninspiring with turnover increasing by a marginal 3.6% yoy on the back of sluggish growth in its core distributor force (CDF). Amway's net profit meanwhile declined 8% yoy, its bottomline severely affected by a combination of high incentive and non-cash awards made to distributors and spike in advertising and promotion expenses.

Telecommunication

Two out of three telco companies (i.e. Telekom and Digi.com) reported results below our expectations while Maxis' results were within expectations.

For Telekom, the lower than expected results was attributable to lower contribution from all services (except from cellular segment) and higher operating costs as a result of accrual of Voluntary Separation Scheme (VSS) of RM145.4m.

Digi.com reported results below our expectations despite a strong top line and net addition of 222,000 new subscribers. Prifit below expectations was attributable to:

1. imputation of higher depreciation rate and amortisation rates in line with its holding company, Telenor ASA,
2. partial prepayment of borrowings amount to RM300.0m,
3. decline in postpaid and prepaid ARPU to RM142 (4Q04: RM143) and RM51 (4Q04: RM54) respectively, and 4) growing proportion of prepaid customers that generate lower ARPU.

Maxis' results were in line with expectations with a 4.8% and 17.4% increase in revenue and PBT respectively. The 12% improvement in mobile data revenue totaling RM239m was one of the reasons for the stronger numbers. Nonetheless, it shares the same fate as Digi.com which saw ARPU for postpaid and prepaid decline to RM155 (4Q04: RM163) and RM57 (4Q04: RM60) respectively.

Comments: Despite the recent developments showing that competition in telco industry has intensified, we are still maintaining our overweight stance on the sector given:

1. attractive valuations for all the three counters under our coverage. Our fair value on Telekom, Maxis and Digi.com is based on a prospective PER06 of 18.0X, 15.6X and 13.6X respectively.
2. mobile penetration, at 55.9% as at end-December 2004 (Source: MCMC), which is still below a potential penetration rate of around 75% in 2007.

Transportation

Aviation

Malaysian Airline: 4QFY05 (Within)

MAS full year earnings exceeded our expectation mainly due to gains recognised on the sale of two freighter aircraft in 4QFY05 amounting to RM25.75m, coupled with a writeback of impairment losses on the group's investment in Redeemable Preference Shares of LSG Sky Chefs-Brahim's amounting to RM47.7m. Stripping off these items, the adjusted earnings of RM252.6m was within our FY05 net profit forecast of RM253.3m. MAS's turnover (net of transfer to PMB) however, exceeding our estimates by approximately 15%.

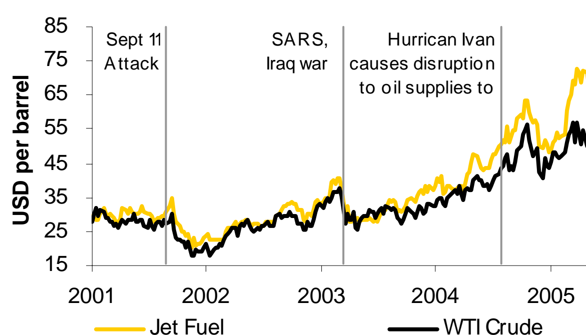
The airline continues to be burdended by high fuel costs, now comprising of 34% of the airline's operating expenditure versus 27.0% the previous year. In addition, we expect staff costs (which have risen 18.5% mainly related to about 45% increase in cabin crew allowance formalised in Mar 2005) to rise further going forward as the airline may potentially raise the wages for pilots which has not kept up with international norms and has been a major contention between MAS and the Malaysia Airlines Employees Union (MAEU). It was believed that MAS pilots are paid on average between RM10 - 20k a month, while other international airlines are paying between 1.5x - 2.0x of that amount. Staff cost is currently the third largest cost component and comprises of 17% of the airline's operating expenditure.

Management indicated that the group has hedged 61%, 54% and 49% of the airline's fuel requirements for the next three quarters at an average price of USD61.50 per barrel. It is also currently in discussions with the Ministry of Transport to get clearance for a formula-based fuel surcharge to partially offset the higher fuel prices.

Operational statistics remain encouraging, with passenger traffic and cargo volumes growing by 14.1% and 23.0% respectively on the back of strong international passenger traffic and the buoyant China cargo market.

We are maintaining our fair value of **RM4.40** (based on DCF estimates), which implies a PER05 and PER06 of 15.8x and 11.0x respectively. Nevertheless, we are maintaining our **HOLD** recommendation given the susceptibility of MAS' earnings to fluctuations in fuel prices.

Table 1: Fuel vs crude oil prices



Source: Bloomberg, Mayban Securities

Malaysia Airports: 1QFY05 (Within)

Earnings for the airport improved significantly with the suspension of the lease rental payment in respect of the KLIA that took effect in 4QFY04.The new scheme of payments is currently formulated pending the finalisation of the ongoing negotiations with the government and MAHB on the proposed corporate and financial restructuring of the group. Earnings from airport services continue to perform encouragingly while the performance of the other divisions remained mediocre.

Maintain our fair value for MAHB of **RM1.85** based on DCF estimates and **TRADING BUY** recommendation on MAHB. We believe sentiment on the stock should improve going forward given the government's willingness to reconsider the KLIA lease rental charges–which have been a bane to MAHB's earnings–and further spurred by Khazanah's goal to hasten the revitalisation of the GLCs.

Shipping

Performance of shipping companies under our coverage in 1Q05 remains mixed. While dry bulk rates and tanker rates softened, the performance of shipping companies varied due to gains on sale of vessels, as well as the ability to lock in rates under period charters.

Malaysian Bulk Carriers: 1QFY05 (Within)

The group registered a significant increase in earnings as a result of a RM294m gain recognised on the disposal of four Panamax tankers during the quarter. Excluding the gains, earnings from shipping dropped marginally despite softer freight rates as the group was able to lock-in favourable rates for period charters earlier. Maintain **BUY** recommendation with a fair value of **RM2.80**.

Halim Mazmin: 1QFY05 (Within)

The decline in turnover and earnings (stripping of gains of RM64.6m from the disposal of the *Meridian Polaris* recognised during the quarter) for the group in 1QFY05 is not surprising due to the loss of revenue due to vessel disposal. Earnings are expected to be lower in FY05 due to the lower operating fleet size of 5 vessels against 7 vessels in FY04. The group is currently sitting on a cash horde of close to RM400m, awaiting for the opportune time to expand its fleet. However, given the still relatively high prices of vessels, we do not expect the group to undertake any vessel acquisition this year. Maintain our **BUY** recommendation with a fair value of **RM1.00**.

Hubline: 1HFY05 (Above)

The group recorded a rise in shipping revenue due to imrproved freight rates and liftings during the quarter, while earnings were hampered by lower associate contribution stemming from its Thailand association due to the drydocking of several vessels during the quarter and the absense of gain on vessel disposal in the 1QFY05. We expect Hubline to enjoy firm freight rates going forward due to the shortages in ships, especially in the smaller capacity segment where Hubline has carved a niche, and the buoyant shipping industry backed by strong exports and intra-Asian trade. Previously, the group has been able to comamnd good rates given the limited supply of ships in the smaller-sized segments (below 2,000 TEUs). Maintain our **BUY** recommendation with a fair value of **RM3.10**.

Ports

No real excitement in the performance of the ports sector in the 1QFY05. Results for port operators under our coverage performed broadly in line with our expectations after taking into consideration seasonality factors.

NCB Holdings: 1QFY05 (Within)

Annualised earnings for 1QFY05 were below our earnings estimates, but we believe this is largely due to seasonality factors. Turnover improved marginally (1.0%) due to the increase in marine charges which more than offset the 3.3% decline in port throughput during the quarter. The decline in port throughput was essentially attributed to the rescheduling of port of call by some shipping lines, resulting in some ports being bypassed. The group haulage business also experienced a decline in throughput due to stiff competition from the increase in number of operators in the market. Nevertheless, earnings improved due to significant reduction in operating costs.

Port operations will continue to remain the key earnings driver for the group, while management is attempting to turn around its haulage division. Kontena Nasional is currently looking to rationalise its operations and may venture into new logistic services such as warehousing and distribution to improve on earnings prospects. The potential merger of Northport and Westport could be a catalyst for re-rating of the stock. Maintain **BUY** with a fair value of **RM3.10**.

Johor Port: 1QFY05 (Within)

The group's 1QFY05 results were within our expectation. Turnover declined by 26.7% during the quarter due to seasonally lower cargo throughput. The significant improvement in earnings was largely attributable to the full-writing off of goodwill arising from the acquistion of Bernas Logistics amounting to RM5.7m and higher financing costs in the preceeding quarter.

The overhanging concern on the injection of Seaport Worldwide (SWW) into Johor Port continues to affect sentiment on the stock. In late February this year, the Minority Shareholder Watchdog Group (MSWG) urged minority shareholders to oppose the deal as it saw the plan as an attempt to settle the interest-bearing inter-company loan amouting to RM182.1m. Should the proposal be rejected, sentiments should improve. We maintain our DCF-derived fair value of **RM2.78** and our **BUY** recommendation.

Integrax: 1QFY05 (Within)

The group's topline remained flattish, while operating and pretax earnings improved remarkably on a year-on-year basis. Earnings were boosted by higher share of associate profits relating to the sale of industrial land and decreased financing costs following the redemption of Lumut Maritime Terminal (LMT) RPS.

Dry bulk segment throughput (LMT and Lekir Bulk Terminal) was significantly lower as the preceeding quarter's throughput was abnormally high making up for the unexpectedly slower 3QFY04 throughputs. Energy sector also declined significantly due to lower consumption for power generation. Other sectors remained buoyant.

Maintain **BUY** recommendation with a fair value of **RM1.52**. Shares are trading at an undemanding PER05 of 8.9x. Dividends may flow in this year.

Water

Results of PBA and Ranhill Utilities came in within expectations. We have seen EBITDA margins erosion for PBA Holdings. The company has cited an increase in production costs as the main factor and has thus proposed for a tariff review. The last tariff review was done in 2001.

Puncak Niaga's 1Q05 numbers incorporated for the first time the operations of SYABAS. The acquisition of the 70% stake in SYABAS was completed on 1 January 2005. We have also consolidate SYABAS into Puncak Niaga's forecast. In addition, as part of the privatisation exercise, we have imputed a 15% tariff increase to take effect in January 2006 and assumed further increases every three years until the end of the concession in 2030. We have also imputed improvement in non-revenue water to 34% by 1 Jan 2006 and 25% by 2009.

EPS growth 2005: 48.2% (mainly due to adjustment on Puncak Niaga's bottomline)

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BUY	Price appreciation in excess of 10% expected in the next 12 months
SELL	Price depreciation in excess of 10% 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
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
value CY = calendar year
capex = capital expenditure
adex = advertising expenditure
p.a = per annum

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