

15 May 2013
Analyst
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Listing details

Retail offer price (RM)	2.20
Listing sought	Main market
Listing date	28 May
Opening date of the IPO	8 May
Closing date of IPO	15 May

Key stock information

Syariah-compliant?	Yes
Market cap at IPO price (RM m)	660.0
Share capital (m)	300.0
Estimated free float (%)	44.1
Par value (RM)	1.00
NTA per share (post IPO)	1.58

Utilisation of proceeds

Working capital (RM m)	55.0
Infrastructure and facilities (RM m)	55.0
Construction of clubhouse (RM m)	10.0
Repayment of borrowings (RM m)	11.0
Listing expenses (RM m)	6.5
Total (RM m)	137.5

Major shareholders

	%
Dato' Lee Tian Hock	48.5
Ho Koon Soon	7.4

Matrix Concepts Holdings
Property
Bloomberg Ticker: MCH MK | Bursa Code: 5236
Non-rated

A matrix of hidden value

Matrix Concepts Holdings is a Negeri Sembilan-based property developer which focuses on affordable housing. Given low land cost and rising property demand, the group enjoys above industry development margin and ROE. We anticipate earnings to grow strongly at a 3-year CAGR of 36.7%. Based on a dividend payout policy of 40%, we estimate an attractive CY13 net dividend yield of 8.4%. At the IPO price, Matrix Concept trades at 49% discount to RNAV of RM4.32. We derived a fair value of RM3.02 by tagging a 30% discount to our RNAV estimate.

Bandar Sri Sendayan, an integrated township in the making

- The group's flagship township Bandar Sri Sendayan (BSS) span over 1,942.2 acres with a total GDV of RM5.0bn. Presently, the township has a remaining GDV of RM4.4bn, which represents 68% of the group's remaining GDV from all its development projects.
- Notably, the price of industrial plots within the township has increased by 2.4x from RM12.50psf for its initial phase to RM30psf for the most recent transaction.
- The group also plans to set up an international school in BSS providing primary, secondary and post-secondary education. The first intake is expected to be in 2015.
- The group is also planning to develop Sendayan Icon Park, a 116.4 acres mixed development project with a potential GDV of RM1.1bn. This development is not included in BSS estimated GDV as its development plan has not been finalised.

Likely to benefit from My First Home Scheme

- My First Home Scheme (MFHS) enables young adults to purchase their first home priced below RM400,000 without the need of paying any downpayment.
- We believe this scheme will drive the demand for affordable residential properties going forward, benefiting property developers with a focus on affordable housing.
- Given steep property prices in urban areas such as downtown Klang Valley, young adults are likely to look for their first homes in suburban areas such as BSS which is more affordable.

Earnings prospect to shine brightly

- The group's gross margin has doubled from 22.7% in FY09 to 42.3% in FY12, driven mainly by the increase in BSS property price.
- We expect the group's revenue to increase at a 3-year revenue CAGR of 33.5% from RM456.1m in FY12 to RM1,085.2m in FY15, driven by (1) increasing property prices and (2) increasing property launches and sales. We expect this to translate into a 3-year earnings CAGR of 36.7% from RM95.8m in FY12 to RM244.8m in FY15.
- Based on management's policy to pay 40% of its earnings as dividends, we expect the group to pay a net DPS of 18.4 sen in CY13, translating into a 8.4% dividend yield.

IPO at 49% discount to RNAV of RM4.32

- The indicative IPO price of RM2.20 represents a 49% discount to our RNAV estimate of RM4.32. We opined this discount to be unjustifiably steep.
- We believe a 30% discount to be more appropriate due to (1) short timeframe of 6 years to realise the value of its development projects, (2) strong margins and (3) upside to our RNAV estimate which has not account for several other projects.
- Our fair value implies (1) CY13 dividend yield of 6.1%, (2) 6.6x CY13 P/E ratio and, (3) 1.6x CY13 BVPS. This valuation multiple will still compares Matrix Concepts favourably to its peers.
- Key investment risks include (1) tighter housing loan policies by BNM, (2) unexpected increase in building material prices and (3) delay in the launch of development projects.



SNAPSHOT OF FINANCIAL AND VALUATION METRICS

Figure 1 : Key financial data

FYE 31 Dec	FY09	FY10	FY11	FY12P*
Revenue (RM m)	204.0	195.6	624.3	456.1
EBITDA (RM m)	26.8	32.8	108.9	146.1
EBIT (RM m)	24.9	31.0	106.9	143.8
Pretax profit (RM m)	24.4	30.0	106.3	142.8
Reported net profit (RM m)	18.6	20.5	69.4	103.5
Core net profit (RM m)	18.6	20.5	39.8	95.8
EPS (sen)	6.2	6.8	23.1	34.5
Core EPS (sen)	6.2	6.8	13.3	31.9
Core EPS growth (%)		10.6	94.0	140.9
P/E (x)	35.6	32.2	16.6	6.9
EV/EBITDA (x)	36.7	29.8	6.1	4.0
ROE (%)	10.2	10.1	29.2	21.9
Net gearing (%)	178.0	155.6	1.4	Net Cash
Net DPS (sen)	-	-	60.5	-
Net dividend yield (%)	-	-	27.5	-
BV/share (RM)	0.61	0.68	0.79	1.58
P/B (x)	3.62	3.25	2.78	1.40

*Proforma figures are used for FY2012 and 300m shares are assumed to be outstanding since FY2009

Source: Alliance Research, Bloomberg

Figure 2 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
					CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
KSL Holdings	N/R	N/R	2.20	850.1	2.9	10.9	6.3	5.7	N/A	N/A	11.2	11.1	1.5	1.5
Crescendo Corporation	N/R	N/R	2.98	580.5	19.0	21.9	9.0	7.4	0.9	0.9	11.5	13.2	4.4	5.3
Huayang	N/R	N/R	2.65	524.7	24.6	18.2	6.0	5.1	1.2	N/A	21.4	22.1	5.2	5.4
Tambun Indah Land	N/R	N/R	1.22	380.7	7.4	6.3	7.6	7.2	N/A	N/A	19.5	19.4	5.4	6.4
Average					14.1	17.6	7.0	6.0	1.1	0.9	14.9	15.5	3.7	4.1
Matrix Concepts	N/R	N/R	2.20	660.0	44.3	26.6	4.8	3.8	1.2	1.0	24.9	26.5	8.4	10.6

Forecasts are based on Bloomberg's consensus

Source: Alliance Research, Bloomberg

Share price date: 14 May 2013

Figure 3 : Listing scheme

Category of issuance	Number of shares (m)	Percentage of enlarged share base (%)
Public issue		
• public, companies, societies, cooperatives and institutions by way of balloting	10.0	3.3
• Eligible directors, employees and persons who have contributed to the success of the group	8.8	2.9
• private placement to eligible identified investors	43.7	14.6
Offer for sale		
• private placement to Bumiputera investors	32.5	10.8
• private placement to selected investors	5.0	1.7

Source: Company



COMPANY BACKGROUND

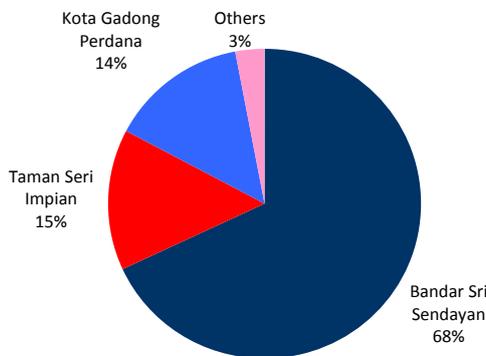
Introduction

A Negeri Sembilan based property developer with a focus on affordable properties

Matrix Concepts Holdings is a Negeri Sembilan-based property developer which focuses on developing affordable mass-market properties catering to the middle-income segment. The group's flagship projects comprise of Bandar Sri Sendayan (BSS) (GDV: RM5.0bn) in Seremban, Negeri Sembilan and Taman Seri Impian (GDV: RM1.3bn) in Kluang, Johor. The group's other development projects are Kota Gadong Perdana (located 3km from BSS), Third 9 Residence and Lobak Commercial Centre Phase 1.

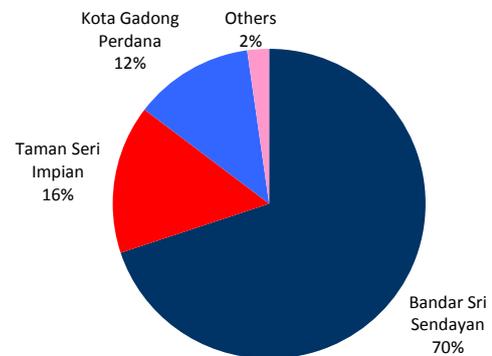
The group is currently helmed by its group managing director, Dato' Lee Tian Hock who founded the company in 1996. He is supported by the group deputy managing director, Mr. Ho Kong Soon. Meanwhile, the board of director is chaired by Dato' Haji Mohamad Haslah bin Mohamad Amin who is currently the CEO of MBI, a Negeri Sembilan state-owned entity.

Figure 4 : Remaining GDV breakdown (on-going and future projects)



Source: Company

Figure 5 : Landbank breakdown (on-going and future projects)



Source: Company

Flagship township development project #1: Bandar Sri Sendayan

BSS is a new integrated township located in Seremban, Negeri Sembilan. BSS lies within the Kuala Lumpur Conurbation as it is located between Seremban and Port Dickson. Located 72km from Kuala Lumpur City Centre (KLCC), it will take approximately 1-hour to travel from BSS to KLCC via the North-South Expressway.

BSS span over an area of 1,942.2 acres with an estimated GDV of RM5.0bn, of which RM497.0m has been completed. GDV relating to on-going and future projects amount to RM1,243.1m and RM3,186.9m respectively. The township is expected to be completed in 2018.

Besides affordable housing, the BSS masterplan also includes a 685-acre industrial zone, the Sendayan TechValley (STV). Targeted industries for the industrial zone include automotive, aerospace, ICT, biotechnology, medical and electronics. These industries will provide high-tech industrial jobs for the residents of the township.

Over the last few years, Matrix Concepts has sold some land parcels in BSS to the federal government. The Royal Malaysian Air Force will build a new training base on a 750-acre land to replace its airbase in Sungai Besi, Kuala Lumpur. In addition, the Negeri Sembilan state government plans to relocate its state administrative centre to a 55-acre plot in BSS. The new Syariah State Court Complex in BSS is expected to be occupied by 3Q13. The relocation of civil servants to BSS should drive the demands for residential properties in BSS.

Total and remaining GDV of BSS at RM5.0bn and RM4.4bn respectively

STV located within BSS targets high-tech industries

Relocation of state administrative centre and RMAF training base to BSS to drive demand for residential properties

An international school will be set up in BSS to cater to needs of the residents

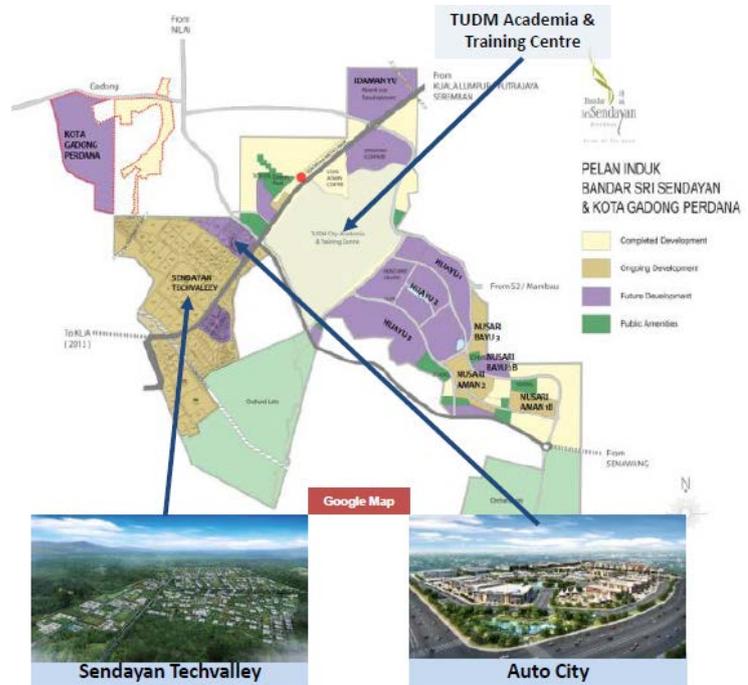
In addition to the government school (SMK Bandar Sri Sendayan) currently being built, the group intends to set up a private educational institution to provide primary, secondary and post-secondary education services in BSS. The group has already secured the approval from the Ministry of Education to set up an international school in BSS. The development of Phase 1 of the international school is expected to commence by 3Q13 and completed by 2Q15.

Figure 6 : Kuala Lumpur Conurbation



Source: Company

Figure 7 : Bandar Sri Sendayan masterplan



Source: Company

Flagship township development project #2: Taman Seri Impian

Taman Seri Impian is located in Kluang, Johor. Located 120km from Johor Bahru, it is estimated to take 1 hour and 20 minutes to travel from Taman Seri Impian to Johor Bahru.

Total and remaining GDV of RM1.3bn and RM958.6m respectively

Taman Seri Impian has a total acreage of 636.6 acres with an estimated GDV of RM1.3bn, of which RM340.6m had already been completed. GDV relating to on-going and future projects amount to RM147.7m and RM810.9m respectively. The entire township is estimated to be completed by 2019.

Figure 8 : Tama Seri Sendayan Masterplan



Source: Company

INVESTMENT MERITS

Accessibility and relatively cheaper property price to drive migration to BSS

BSS lies within the KL Conurbation, one of the 4 main Conurbation listed under the National Physical Plan. A conurbation is defined as a polycentric urban agglomeration, in which transportation has developed to link areas to create a single urban labour market or travel to work area.

BSS accessibility will be augmented by the construction of new highways and rail networks

BSS can be accessed via several major highways, namely (1) Seremban-Port Dickson Expressway, (2) North-South Expressway, (3) the proposed Senawang-KLIA Expressway and (4) the proposed West Coast Expressway. In addition, BSS is also in close proximity to various planned development of transportation networks such as (1) centralised transportation hub in Seremban which aims to provide convenience to residents travelling to and from Klang Valley, (2) KTM station in Bandar Ainsdale and (3) Seremban-Gemas Electrified Double Track project.

Figure 9 : Land and rail transportation networks surrounding BSS



Source: Company

BSS residential properties priced at below RM200 psf

In addition, BSS residential properties (i.e. double-storey terrace) are priced at below RM200 psf which is significantly cheaper than the residential properties in the Greater Klang Valley. As such, we believe potential home buyers in the Greater Klang Valley who want a bigger home for their family will be enticed to move further away from the KL city centre to suburban areas such as Seremban.

Sendayan TechValley to drive demand for BSS

The group has managed to attract various prominent foreign investors to invest in Sendayan TechValley, the industrial zone within BSS. Examples of foreign investors are Hino Motor, Messier-Bugatti-Dowty, Akashi-Kikkai Industry and Nippon Kayaku. The resulting jobs created in Sendayan TechValley will drive migration of workers to BSS.

Proximity to KLIA and LCCT to attract companies in aerospace industry to STV

BSS's proximity (with 30-minute drive) to Kuala Lumpur International Airport (KLIA) and Low Cost Carrier Terminal (LCCT) is also expected to attract companies within the aerospace industry, especially those who have businesses in KLIA and LCCT.

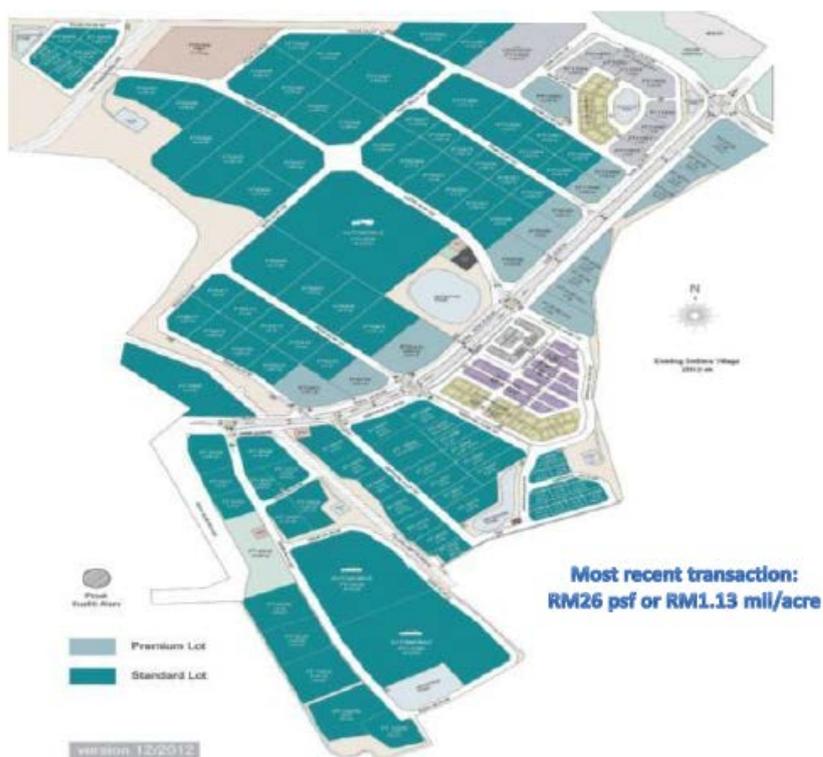
Figure 10 : Prominent foreign investors in STV



Source: Company



Figure 11 : STV Masterplan



Source: Company

Likely to benefit from My First Home Scheme

MFHS enables young adults to purchase their first home without any downpayment

My First Home Scheme (MFHS) was first announced in the 2011 Budget to assist young adults to purchase their first home. The scheme allows young adults to obtain up to 100% financing from financial institutions with the maximum value of the house capped at RM400,000 (after 2013 Budget). During the recent announcement of the 2013 Budget, the government has increased the monthly income eligibility to RM5,000 for individuals (RM10,000 for couples).

In addition, the government has extended the current 50% stamp duty exemption on the purchase of first residential property to 31 December 2014 (from December 31 2012). The government has also increased the upper limit for eligible properties for this exemption from RM350,000 to RM400,000.

As such, young adults will be encouraged to purchase affordable landed properties priced below RM400,000 in suburban areas

The aforementioned government measures are expected to spur the demands for affordable residential properties. Coupled with the current low interest rate environment, many young adults will be encouraged to purchase their first residential property. Given the astronomical property prices in the KL city centre and the allure of owning a landed property, home buyers tend to move out to the suburban areas in order to find their dream home that matches their budget. This will directly benefits property developers such as Matrix Concepts which focus on developing affordable residential properties.

Hidden value in Sendayan Icon Park

Sendayan Icon Park to be a mixed development

The total estimated GDV of BSS excludes the potential GDV of Sendayan Icon Park. Based on current plans, Sendayan Icon Park will be developed on a 116.4-acre land in BSS. The planned development will comprise of small office home office (SoHo) units, a trade and exhibition centre, 2 floating restaurants separated by a lake and a cultural village. The group intends to retain ownership of the trade and exhibition centre, while outlets within the exhibition centre will be leased out to various targeted businesses.

Potential GDV of RM1.1bn for Sendayan Icon Park

During the IPO briefing, the managing director guided that the potential GDV of Sendayan Icon Park could hit RM10.0m per acre. This translates into a potential GDV of RM1.1bn for the project, potentially increasing the group’s remaining GDV by 17%. However, he declined to guide when the group plans to launch the project and said that further changes may be made to the project. As such, our RNAV estimates do not include this project.

Figure 12 : Artist impression of Sendayan Icon Park



Source: Company

FINANCIAL HIGHLIGHTS

Margins trending up due to increasing property prices

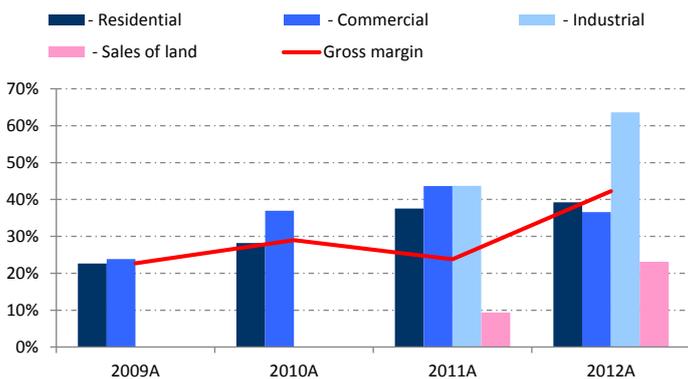
Gross margin doubled from FY09 to FY12, driven by increasing property price

The group’s gross margin has doubled from 22.7% in FY09 to 42.3% in FY12. This was driven by increase in property prices in BSS. We note that the dip in gross margin in FY11 was mainly caused by one-off sale of development land measuring 750 acres to 1Malaysia Development Bhd (1MDB) at RM9.00psf. The transaction was done at a low price as it was sold on “as is” basis.

The price of industrial plots at STV has increased by 2.4x from RM12.50psf to RM30.00psf

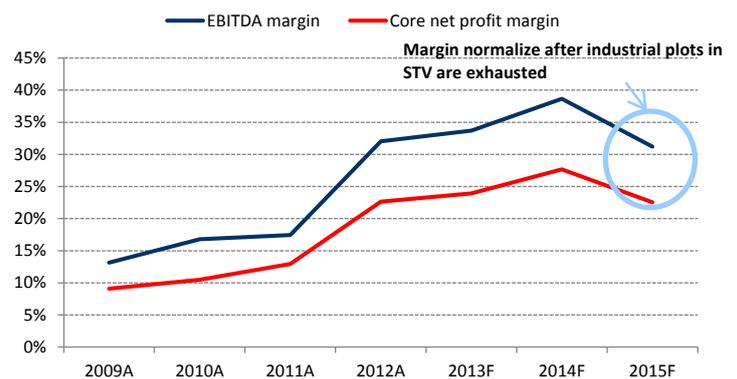
Notably, industrial properties recorded the highest increase in gross margins from 43.7% in FY11 to 63.6% in FY12. During the initial phase of STV, the industrial plots were transacted at RM12.50psf. It rose to RM26.00psf in the later phase of STV which was launched in FY2012. Most encouragingly, the most recent transaction was done at RM30psf.

Figure 13 : Gross margin



Source: Company

Figure 14 : EBITDA and core net profit margin



Source: Company, Alliance Research



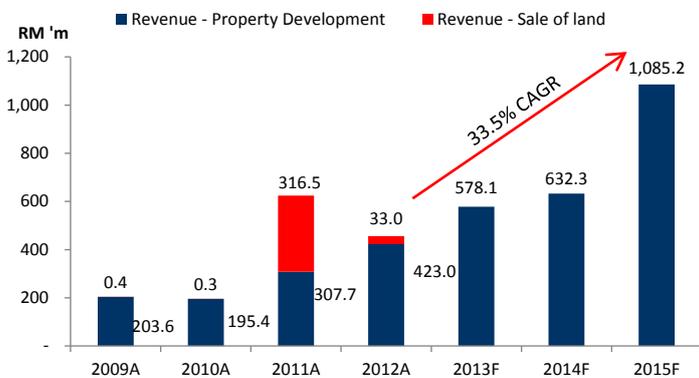
New property launches to drive revenue and earnings growth

Core earnings to increase by a 3-year CAGR of 36.7%

Matrix Concepts has reported a 3-year revenue CAGR of 27.6% from FY09 to FY12. Going forward, we expect the revenue growth to increase by a 3-year CAGR of 33.5% from RM456.1m in FY12 to RM1,085.2m in FY15 due to (1) increase in property prices and (2) increase in property launches and sales. Earnings growth is also underpinned by unbilled sales of RM445.6m which is equivalent to 1.05x of property revenue in FY12. We project the property sales for the group to rise from RM466m in FY13 to RM1.6bn to FY15. We believe this to be achievable due to (1) aggressive property launch guidance in FY14 onwards, (2) rising demand for affordable housing, and (3) completion of the industrial park and state administrative centre in 2015 which act as a pull-factor for migration to BSS.

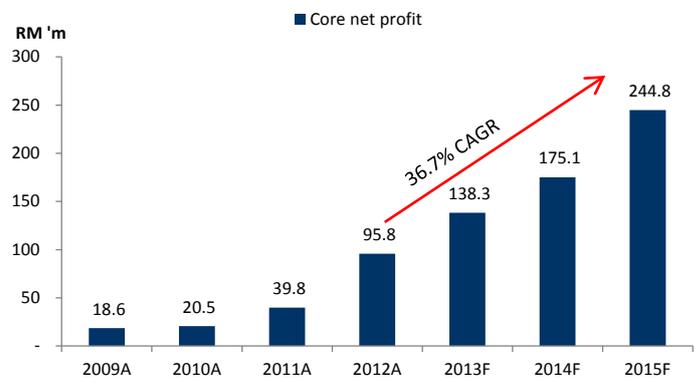
As a result, we expect the group's core earnings to increase at a 3-year CAGR of 36.7% from RM95.8m in FY12 to RM244.8m in FY15. Our forecast does not take into account any possible earnings contribution from the Sendayan Clubhouse, international school and Sendayan Icon Park.

Figure 15 : Revenue



Source: Company, Alliance Research

Figure 16 : Core earnings (excluding sale of land)



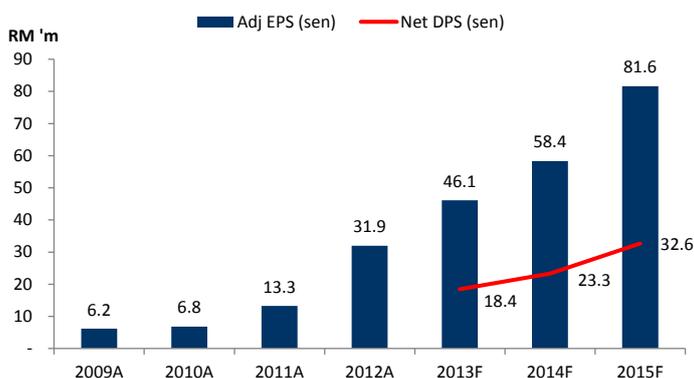
Source: Company, Alliance Research

CY13 dividend yields at 8.4%

8.4% CY13 dividend yield

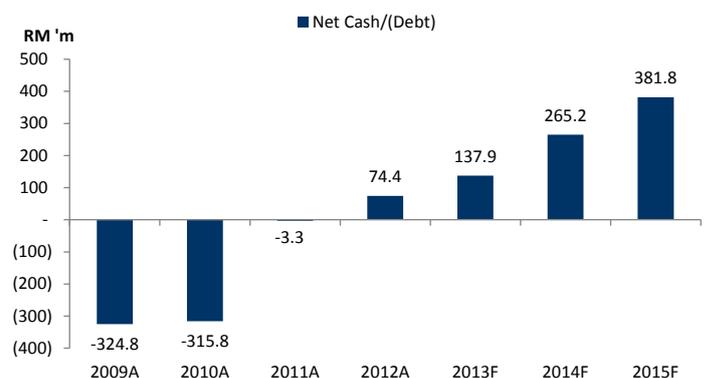
Management has announced a policy of paying at least 40% of the group's earnings as dividends. Based on our earnings estimates, this will translate into a net DPS of 18.4 sen in FY13 or a 8.4% yield based on IPO price. Despite this generous dividend pay-out, we expect its net cash position to grow substantially to RM381.8m in FY15, representing about RM1.27 per share.

Figure 17 : EPS and DPS



Source: Company, Alliance Research

Figure 18 : Net cash/(debt) position



Source: Company, Alliance Research



VALUATION

We estimate Matrix Concepts' RNAV at RM4.32 per share. Our key assumptions are (1) 25% EBIT margin for Taman Seri Impian, (2) 50% EBIT margin for STV, (3) 30% EBIT margin for BSS and (4) 8.1% WACC.

IPO price implies a 49% discount to RNAV

Matrix Concepts' IPO price of RM2.20 implies a 49% discount to our RNAV estimate. We opined this to be steep given the company's financial performance i.e. strong earnings growth and high ROE. As such, we believe a 30% discount to be more appropriate due to (1) the short timeframe of 6 years needed to realise the value of all its pipeline development projects, (2) strong margins, and (3) potential upside to our RNAV estimate which excludes the Sendayan Icon Park, BSS international school, Taman Seri Impian 2 and Impian Casa 2 (Stage 2).

FV of RM3.02 derived by tagging a 30% discount to RNAV

By tagging a 30% discount to its RNAV, we derived a fair value of RM3.02 for Matrix Concepts. Our fair value implies (1) CY13 dividend yield of 6.1%, (2) 6.6x CY13 P/E ratio and, (3) 1.6x CY13 BVPS. Although we note that the BVPS multiple may seem high when compared to its peers, we believe it is justified as the lands located in Negeri Sembilan are currently carried in the book at significantly below market price.

Figure 19 : RNAV estimates

	Landbank (acres)	GDV (RM m)		Value (RM m)
		Total	Remaining	
On-going projects (NPV)				
Bandar Sri Sendayan	1,942.2	4,927.0	4,430.0	875.1
Taman Seri Impian	610.5	1,299.1	958.5	183.8
Taman Desa PD 3	4.3	5.5	5.5	1.0
Third 9 Residence	41.8	144.7	144.7	26.4
Lobak Commercial Centre Phase 1	7.3	45.5	45.5	7.6
Kota Gadong Perdana	294.6	926.4	926.4	175.8
				1,269.7
Other Lands (at market value)				
Lot No. 769, Mukim Pasir Panjang	20.1			1.9
Lot No. 847, Mukim Pasir Panjang	15.0			1.4
				3.3
Other assets (at book value)				
Investment properties				1.4
Property, plant & equipment				21.5
Net current liabilities (ex cash, debt and property development cost)				-73.4
Net cash after IPO				74.4
RNAV				1,296.9
Number of shares after IPO (m)				300.0
RNAV per share				RM4.32

Source: Alliance Research



Figure 20 : Peer comparison

Company	Call	Target price (RM)	Share price (RM)	Mkt Cap (RM m)	EPS Growth (%)		P/E (x)		P/BV (x)		ROE (%)		Net Dividend Yield (%)	
					CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14	CY13	CY14
KSL Holdings	N/R	N/R	2.20	850.1	2.9	10.9	6.3	5.7	N/A	N/A	11.2	11.1	1.5	1.5
Crescendo Corporation	N/R	N/R	2.98	580.5	19.0	21.9	9.0	7.4	0.9	0.9	11.5	13.2	4.4	5.3
Huayang	N/R	N/R	2.65	524.7	24.6	18.2	6.0	5.1	1.2	N/A	21.4	22.1	5.2	5.4
Tambun Indah Land	N/R	N/R	1.22	380.7	7.4	6.3	7.6	7.2	N/A	N/A	19.5	19.4	5.4	6.4
Average					14.1	17.6	7.0	6.0	1.1	0.9	14.9	15.5	3.7	4.1
Matrix Concepts	N/R	N/R	2.20	660.0	44.3	26.6	4.8	3.8	1.2	1.0	24.9	26.5	8.4	10.6

Forecasts are based on Bloomberg's consensus

Source: Alliance Research, Bloomberg

Share price date: 14 May 2013

KEY INVESTMENT RISKS

Tighter housing policies will result in slowdown in demand for residential properties

- **Tighter housing loan policies** – Bank Negara Malaysia (BNM) has implemented a maximum loan-to-value (LTV) ratio of 70% in 2010, which is applicable to financing facilities taken by borrowers on their 3rd residential properties onwards. In addition, the requirement for financial institutions to assess borrowers' net income and existing debt obligations was also implemented in 2012. If BNM decides to further tighten mortgage lending rules, the property sector could see a slowdown in demand. However, we believe Matrix Concepts to be relatively sheltered due to its focus on affordable properties which continue to enjoy strong demand due to My First Home Scheme.

Unexpected increase in building material prices will erode development margins

- **Unexpected increase in building material prices** – The group's financial performance may be adversely affected by increase in building material prices. Given that selling price of properties is locked in once the sales and purchase agreement is signed, any unexpected increase in building materials price will lead to margin erosion. However, we view the risk to be mitigated by Matrix Concepts' high development gross margin.

Any delay in the launch of development projects will adversely impact the group's financial performance

- **Delays in the launch of development projects** – Delays in the launch of development projects will adversely impact the group's financial performance going forward. However, we believe this risk is mitigated by (1) a cordial relationship with the authorities will enable the group to obtain the necessary approvals in a timely manner and (2) favourable macro-economic conditions to ensure continue demand for properties.



DISCLOSURE

Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 15% or more
- Neutral - Expected 12-month total return between -15% and 15%
- Sell - Expected 12-month total return of -15% or less
- Trading buy - Expected 3-month total return of 15% or more arising from positive newsflow. However, upside may not be sustainable

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date



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