BCT Asia advisory

BURSA MidS

UPDATE REPORT **20 December 2018**

Name of PLC: *ENRA Group Bhd*		***PLC Website:*** *www.enra.com.my*	
Business Summary: *Principally involved in property development and oil & gas services*			
Top Three Shareholders as of 29 June 2018: *Dato' Kamaluddin Abdullah and deemed interest* 39.73% *Dato' Mazlin Md Junid and deemed interest* 20.31%			
Market / Sector:	*Main / Properties*	***Stock Code:*** ***Bloomberg Ticker:***	*8613* *ENRA MK*
Market Capitalisation:	*RM 223.38m*	***Recommendation:***	*HOLD*
Target Price:	*RM 1.60*	***Expected Capital Gain:***	*-3.0%*
Current Price:	*RM 1.65*	***Expected Div Yield:*** ***Expected Total Return:***	*0.0%* *-3.0%*

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Key Stock Statistics	**2017**	**2018**	**2019F**	**2020F**
EPS (sen)	(53.4)	0.02	2.4	3.4
P/E (x)	(3.7)	n.m.	68.1	48.4
EPS ex-EI (sen)	9.2	(6.0)	2.4	3.4
P/E ex-EI (x)	17.9	(27.6)	68.1	48.4
Net Dividend/Share (sen)	-	4.5	-	-
NTA/Share (RM)	1.13	1.06	1.03	1.06
Book Value/Share (RM)	1.13	1.13	1.15	1.18
Issued Capital (mil shares)	135.0	134.9	134.9	134.9
52-weeks Share Price Range (RM)				1.53-3.04
Estimated free float				20.7%
Average volume (shares)				13.8k

Per Share Data	**2017**	**2018**	**2019F**	**2020F**
Year-end 31 Mar				
Book Value/Share (RM)	1.13	1.13	1.15	1.18
Operating CF/Share (sen)	27.4	(16.1)	13.9	17.9
EPS (sen)	(53.4)	0.02	2.4	3.4
Net Dividend/Share (sen)	-	4.5	-	-
P/E (x)	(3.7)	n.m.	68.1	48.4
P/Cash Flow (x)	6.0	(10.2)	11.7	9.2
P/Book Value (x)	1.5	1.5	1.4	1.4
Dividend Yield (%)	-	2.7	-	-
Payout Ratio (%)	-	n.m.	-	-
ROE (%)	(37.2)	0.01	2.1	2.9
Net Gearing (%)	(0.6)	19.5	(38.6)	(46.9)

P&L Analysis (RM mil)	**2017**	**2018**	**2019F**	**2020F**
Revenue	179.3	75.3	166.2	137.6
EBITDA	30.1	0.2	14.1	17.9
Depreciation & amort	(1.1)	(1.3)	(1.8)	(2.7)
Pre-tax Profit	(55.5)	1.4	7.8	10.9
Core Profit	12.4	(8.0)	3.3	4.6
EBITDA Margin (%)	16.8	0.2	8.5	13.0
Pre-tax Margin (%)	(30.9)	1.9	4.7	7.9
Core-Margin (%)	6.9	(10.7)	2.0	3.3

1. Investment Highlights/Summary

- We recently met up with management for an update and came away with a less optimistic outlook on its short to medium earnings.
- Near-term earnings visibility will be largely supported by ENRA Kimia, where growth remains resilient - boosted by organic growth and contribution from the new petrochemical projects in Johor. Meanwhile, we expect ENRA SPM, a 60%-stake subsidiary to also contribute positively to the group.
- Property development segment is expected to be lacklustre due to the absence of new projects, declining revenue - from a high of RM120m in FY17.
- The Company aims to continue seeking out M&A opportunities and new ventures to expand its business scope and strengthen its longer-term prospects. That said, potential running cost can be high in the near term before new operations start contributing.
- Hence, we are revising our FY19-20 core earnings estimates lower from RM8.8m-RM9.2m to RM3.3-RM4.6m.
- We maintain our HOLD recommendation but downgrade the TP from RM2.00 to RM1.60. Our new TP is based on new SOP valuation as compared to previous PER methodology. Post earnings revision, the stock is expensive on near-term estimates without new growth based on PER of 68.2-48.4x over EPS of FY19-20E and price-to-book of 1.4x. Re-rating catalyst in the longer term is possible depending on a more sizeable and value-accretive M&As and a sustained recovery trend in oil prices.

2. Corporate Updates

- Enra Group Berhad (ENRA) was incorporated in 1992 under the name of Orlando Holdings Berhad and was first listed on the second board of Bursa Securities in 1992. Subsequently, the Company changed its name to Formis (Malaysia) Berhad in 2000 before being transferred to the Main Board. Its name was changed from Perduren (M) Berhad in 2015 when the current new major shareholders took over. The current management is actively pursuing business opportunities that will increase its sustainable profits and introduce new sources of growth. The Company started in the oil & gas sector by virtue of the major shareholders' business interest and experience, where they have a track record in trading and services, as well as niche real estate developments.

- Thus far, ENRA has successfully built a sizeable downstream specialty chemical business through ENRA Kimia S/B, which currently contributes the most to the group. In 1HFY19, it contributed RM74.7m revenue to the group or equivalent to 72.5% of overall revenue. This segment is typically supported by recurring business, although 1HFY19 performance was boosted by one-off trade mainly from Petronas' turnaround works. We believe the growth for this segment is resilient, supported by organic growth and contribution from the completion of the petrochemical projects in Pengerang Integrated Complex in Johor, which is slated for commercial operation in 2H19.

  The group also targets to add 2 more principals on top of its existing 12 to enlarge the existing business of specialty chemicals & catalysts products. Meanwhile, it has also planned to venture into upstream chemicals in order to be a major catalyst supplier for the Malaysia O&G market. The ultimate goal is to increase its regional footprint and minimize its dependence on key Malaysian clients. Its 100% interest in International Chemicals Engineering Pty Ltd (ICE), a chemical products and gas odorant trading company based in Australia, was completed on 24 July 2018. It made its maiden contribution of RM0.3m to the Group's 2QFY19 PBT, which is in-line with the vendor guarantee of AUD0.5m EBITDA per year for the next 3 years. This platform will allow the Group to cross-sell its existing products and is expected to provide growth prospects in the coming years.

- Meanwhile, ENRA also provided the maiden floating storage (FSS) and offloading solution for one of Petroliam Nasional Berhad's gas fields in Myanmar. The USD48m contract has started contributing since May 2018 for a duration of four years. Approximately RM100m leasing liabilities have also been committed for the facilities. The Company is dedicated to develop a track record in providing cost effective solutions and services to the industry and looks forward to securing more opportunities to demonstrate its capabilities.

- The property development segment is expected to remain lacklustre due to the absence of new projects. The Company is currently left with 16 units of Shamelin Star serviced apartments that were completed in 2016. Of which, 5 units were sold with sales & purchase agreement (SPA) signed and 2 bookings were received. Its first London project namely 93 Great Titchfield street is completing in December 2018. Although the project has been delayed due to tedious authority approval, its appointed agent has reactivated the marketing of the total four units worth GDV of GBP10.9m. Currently, one unit (third floor) worth GBP 2.0m has been booked pending signing of SPA, with keen interests seen on two other units that are valued at GBP4.5m in total. To-date, the Company has not recognized any contribution from the development. Hence, any locked-in sales will contribute positively to its earnings and cash flows. The management intends to further explore developments in London, focusing on niche property opportunities. Meanwhile, the Company is also actively hunting for pocket landbank in the Klang Valley for future expansion.

- In 1HFY19, the Group recorded a lower net profit of RM1.7m as compared to RM4.4m in 1HFY18, while revenue saw a jump of 129.4% from RM44.9m in 1HFY18, mainly attributable to a one-off special catalyst from ENRA Kimia and ENRA SPM's FSS. The lower income was mainly due to a lower margin strategy to boost sales as well as additional cost incurred for fees spent on disposal of asset and overhead cost on new business developments.

3. Earnings Outlook

- Following the below par performance on earnings delivery, we are revising our FY19-20 estimates to reflect: a. The delay in the recognition earnings of the London property project b. higher running cost for new business developments.

- Thus, we lower our FY19-20 net profit from RM8.8m-RM9.2m to RM3.3-RM4.6m. We opine that the earnings outlook FY19-20 are less optimistic as the Company is still in early stage of cultivating new businesses while there is no new property development to boost earnings.

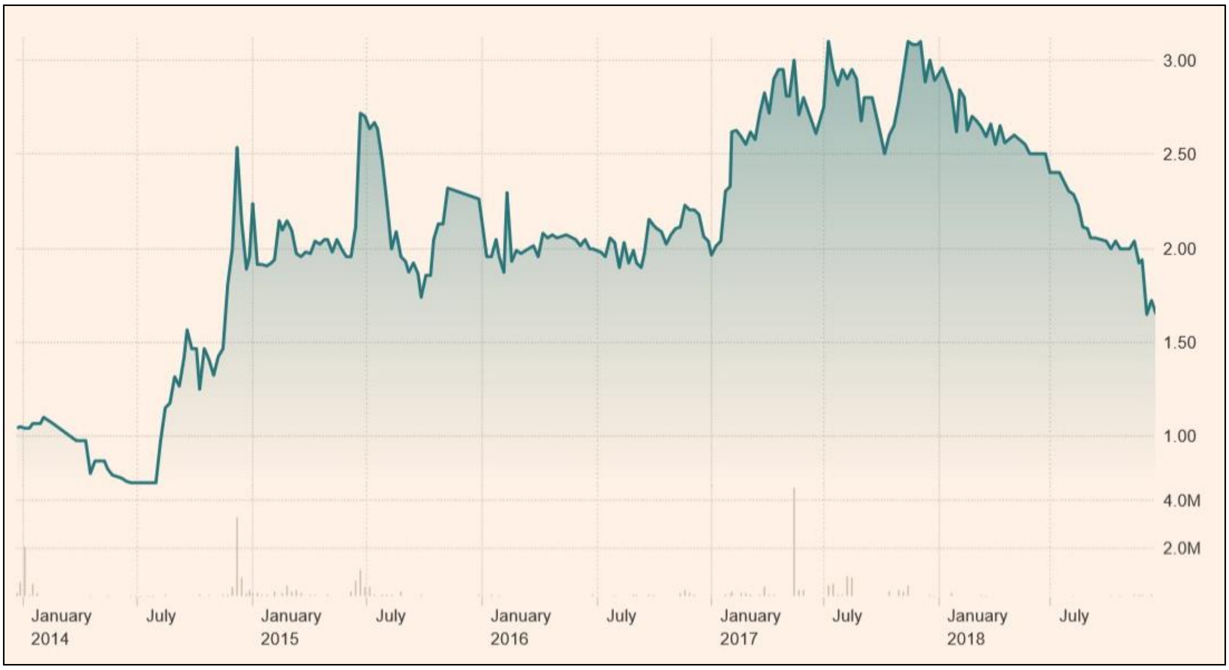
4. Valuation and Recommendation

- The Company has now reduced its gearing to a net cash position post completion of the sale of investment properties in July 2018 and disposal of 70% in LZSB. With that, we believe ENRA is in a stronger position to pursue further M&A opportunities and new ventures to expand its business scope and strengthen its longer-term prospects. That said, potential running cost can be high in the near term before new operations start contributing.

- The current small earnings base does not fully reflect the Company's full potential. Relative valuations are lofty against market benchmark valuations, particularly given the fact that earnings visibility remains low in the near term. Macro factors such as depressed oil prices and overall poor market sentiment towards small and illiquid companies also serve to undermine the Company's prospects. For now, we maintain our HOLD recommendation. Post earnings revision, the stock is expensive on near-term estimates without new growth based on PER of 68.2-48.4x over EPS of FY19-20E and price-to-book of 1.4x. We are downgrading our TP from RM2.00 to RM1.60. Our new TP is based on new SOP valuation as shown below as compared to previous PER methodology. Re-rating catalysts in the longer term are possible depending on potentially more sizeable and value-accretive M&As that it can secure, as well as a sustained recovery trend in oil prices to support the next capex cycle.

Sum-of-Parts Valuation	Stake	Value (RM'm)	Methodology
Energy services	Various	188.4	FY20E PER of 13x
Engineering, construction and fabrication	Various	Minimal	
Shamelin Star	100%	10.10	Revised Book Value
93 Great Titchfield Street, London	75%	7.25	RNAV
Assets held for sales		5.16	Book Value
Total Value		**210.9**	
Share base		134.9	
SOP per share		1.6	

Share Price Chart



Disclosures/Disclaimer

Investment ratings:
Buy (generally >10% upside over the next 12 months)
Hold (generally negative 10% downside to positive 10% upside over the next 12 months)
Sell (generally >10% downside over the next 12 months)

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