Seremban Engineering

3Q12 above expectations

OUTPERFORM ↔

Price: **RM0.44**

Target Price: **RM0.61** ↑

Period
- 3Q12/9M12

Actual vs. Expectations
- Seremban Engineering ("SEB") posted 3Q12 net earnings of RM2.1m, which brought its 9M12 net earnings to RM5.6m.
- The overall 9M12 net earnings already met our FY12 full year estimate and hence, we have upgraded our earnings estimates accordingly.

Dividends
- No dividend was announced.

Key Results Highlights
- The 3Q12 net earnings surged by 41% QoQ to RM2.1m from RM1.5m, which was in line with the better sales registered and improved net margin of 6.9%. Additionally, the cost overrun incurred in the last quarter was not seen in 3Q12 as the projects were completed timely.
- The revenue saw a 14% QoQ growth to RM30.6m from RM26.9m in the preceding quarter. This was mainly driven by domestic sales, which improved by 67% while its overseas markets posted a flattish sales growth.
- YTD, the 9M12 net earnings of RM5.6m was more than double from that of RM2.5m in 9M11 due mainly to the growth in the revenue by 45%. This was attributable to higher overseas fabrication jobs demand, particularly for palm oil refineries in Indonesia. In fact, the overseas sales expanded by 115% during the period.

Outlook
- According to *Oil World* data, palm oil production in Indonesia is estimated to enjoy an annual growth of 5.8% in CY13, which we believe will help to boost SEB's FY13E revenue and earnings.
- As guided by management, the company is targeting to commence its fabrication operation facility in the newly acquired land in Lumut by 2H13.
- We continue to like SEB for its positive prospects on the back of increasing activities for its process equipment business and its diversification plan into the O&G sector.

Change to Forecasts
- We are adjusting our FY12-13E net earnings higher to RM6.3m-RM7.5m (from RM5.6m-RM6.7m) after factoring in a higher revenue growth assumption of 8% YoY and an operating margin of ~10%.

Rating

MAINTAIN OUTPERFORM

Valuation
- Our OUTPERFORM rating is reiterated with a new target price of RM0.61 based on 6.5x FY13 PER.
- Our applied PER is in line with the stock's average PER of 6.9x for the past one year.

Risks
- Delays in projects execution or contracts award.

Share Price Performance

KLCI	1,624.20
YTD KLCI chg	6.1%
YTD stock price chg	6.1%

Stock Information

Bloomberg Ticker	SERES MK Equity
Market Cap (RM m)	34.8
Issued shares	80.0
52-week range (H)	0.54
52-week range (L)	0.40
3-mth avg daily vol:	5,927
Free Float	29%
Beta	0.8

Major Shareholders

SUCCESS TRANSFORMER	65.0%
OMEGA ATTRACTION SDN	5.1%
WTECH HOLDINGS SDN B	1.2%

Summary Earnings Table

FYE Dec (RM m)	2012E	2013E	2014E
Turnover	92.6	100.1	110.9
EBIT	8.9	10.4	12.8
PBT	8.4	9.9	12.3
Net Profit (NP)	6.3	7.5	9.4
Core Net Profit	6.3	7.5	9.4
Consensus (NP)	5.6	6.7	9.4
Earnings Revision (%)	13.0	11.3	-
Core EPS (sen)	7.9	9.4	11.7
Core EPS growth (%)	58.7	18.0	24.9
GDPS (sen)	4.00	4.00	4.00
NTA/Share (RM)	0.78	0.84	0.91
Core PER	5.5	4.6	3.7
Price/NTA (x)	0.56	0.52	0.48
Gearing (%)	0.0	0.0	0.0
Dividend Yield (%)	9.2	9.2	9.2

The Research Team
research@kenanga.com.my
Tel: 603-2713 2292

Income Statement

FYE: Dec (RM'000)	3Q FY12	2Q FY12	Q-o-Q Chg	3Q FY11	Y-o-Y Chg	9M FY12	9M FY11	Y-o-Y Chg
Turnover	30,554.87	26,861.75	14%	18,676.19	64%	78,697.58	54,406.13	45%
EBITDA	3,093.99	2,609.33	19%	1,527.98	102%	8,579.17	4,056.36	111%
EBIT	3,092.59	2,136.09	45%	1,158.75	167%	7,660.01	2,965.68	158%
Interest expense	-356.23	-275.94	29%	-235.87	51%	-935.25	-714.94	31%
Associates	-21.29	-26.08	18%	0.00	N.A.	-42.72	-1.45	-3056%
Pretax profit	2,857.31	2,148.10	33%	1,318.64	117%	7,368.22	3,076.75	139%
Taxation	-625.68	-746.73	-16%	-304.78	105%	-1,650.26	-650.79	154%
Profit after tax	2,231.63	1,401.37	59%	1,013.86	120%	5,717.96	2,425.96	136%
Minority interest	-131.72	90.01	-246%	-8.29	1489%	-88.16	53.79	-264%
Net profit	2,099.92	1,491.38	41%	1,005.57	109%	5,629.81	2,479.75	127%
EPS (sen)	2.62	1.86	41%	1.26	109%	7.04	3.10	127%
DPS (sen)	0	0	N.A.	0	N.A.	0	0.00	N.A.
NTA/share (RM)	0.80	0.76	5%	0	N.A.	0.80	0.76	5%
EBITDA margin	10.13%	9.71%		8.18%		10.90%	7.46%	
EBIT margin	10.12%	7.95%		6.20%		9.73%	5.45%	
Pretax margin	9.35%	8.00%		7.06%		9.36%	5.66%	
Net margin	6.87%	5.55%		5.38%		7.15%	4.56%	
Effective tax rate	-21.90%	-34.76%		-23.11%		-22.40%	-21.15%	

Source: Company, Bursa, Kenanga Research

Malaysian Oil & Gas Sector Comparisons

Company	Price (RM)	Market Cap (RM'm)	PER(x)			Est. Div. Yld.	His. ROE	His. P/BV	NP Growth (%)		Target Price (RM)	Rating
			CY11	CY12	CY13	(%)	(%)	(x)	CY12	CY13		
ALAM	0.67	523.5	40.5	9.6	7.3	0.8	5.9	1.2	319.8	32.8	0.92	OP
COASTAL	2.03	981.0	5.1	6.6	6.0	3.1	27.8	1.3	-22.3	9.8	2.53	OP
DIALOG	2.41	5,794.7	35.2	29.7	26.7	2.0	28.7	8.4	18.4	11.5	2.79	OP
GASMSIA	2.68	3,344.6	14.5	21.5	18.8	6.2	22.7	9.8	-32.6	14.5	2.94	OP
KNM	0.48	715.2	-8.6	11.7	8.2	1.0	-3.5	5.6	173.0	43.3	0.53	MP
MHB	4.82	7,712.0	23.1	37.7	21.6	2.8	8.7	3.5	-38.8	74.6	4.02	UP
PANTECH	0.70	347.8	13.7	9.0	7.4	5.9	10.5	0.7	51.6	21.3	0.81	OP
PCHEM	6.31	50,480.0	14.2	13.4	13.1	5.0	14.1	3.0	6.3	2.2	6.99	OP
PERISAI	1.14	971.1	45.6	10.9	10.6	0.0	7.6	2.0	318.8	2.9	1.48	OP
PETGAS	19.04	37,675.1	26.8	27.5	24.6	2.8	16.9	2.7	-2.5	11.9	19.90	MP
SKPETRO	2.87	14,362.5	32.5	30.7	20.6	0.0	25.7	4.3	5.8	49.3	3.42	OP
SEB	0.44	34.8	8.7	5.5	4.6	3.4	6.0	0.6	58.7	18.0	0.61	OP
WASEONG	1.79	1,355.6	11.2	15.3	12.5	2.8	11.4	1.7	-26.5	22.1	1.99	OP
UZMA	1.51	132.9	10.4	6.0	4.4	0.0	22.4	2.8	72.1	36.4	2.04	OP
YINSON	1.84	368.6	13.8	13.4	8.0	1.0	19.6	1.3	3.5	66.5	2.68	OP
Simple Average			**21.1**	**16.6**	**13.0**							

Source: Kenanga Research

Income Statement

FY Dec (RM'm)	2010A	2011A	2012E	2013E	2014E
Turnover	**50.7**	**85.3**	**92.6**	**100.1**	**110.9**
EBITDA	**5.4**	**7.1**	**10.8**	**13.0**	**15.5**
Depreciation	-1.3	-1.5	-1.9	-2.5	-2.7
EBIT	**4.1**	**5.5**	**8.9**	**10.4**	**12.8**
Interest Expense	-0.2	-0.6	-0.7	-0.7	-0.7
JCE	0.0	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.1	0.2	0.2
Ex. Items	0.0	0.0	0.0	0.0	0.0
PBT	**3.9**	**4.9**	**8.4**	**9.9**	**12.3**
Taxation	-0.9	-0.8	-1.9	-2.3	-2.8
PAT	**3.0**	**4.0**	**6.4**	**7.6**	**9.5**
Minority Interest	-0.1	0.0	-0.1	-0.1	-0.1
Net Profit	**3.0**	**4.0**	**6.3**	**7.5**	**9.4**
Core Net Profit	**3.0**	**4.0**	**6.3**	**7.5**	**9.4**

Balance Sheet

FY Dec (RM'm)	2010A	2011A	2012E	2013E	2014E
Fixed Assets	29.4	37.7	45.8	43.2	49.4
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Other FA	0.0	0.0	0.1	0.3	0.5
Inventories	17.3	26.5	28.7	31.0	34.3
Receivables	26.6	27.4	29.7	32.1	35.6
Other CA	2.6	0.0	0.0	0.0	0.0
Cash	16.9	24.5	17.8	22.8	20.0
Total Assets	92.9	116.0	122.1	129.3	139.8
Payables	7.5	33.0	35.8	38.7	42.8
ST Borrowings	12.7	14.4	14.4	14.4	14.4
Other ST Liability	9.2	0.0	0.0	0.0	0.0
LT Borrowings	4.3	5.6	5.6	5.6	5.6
Other LT Liability	2.5	2.7	2.7	2.7	2.7
Minorities Int.	0.6	1.0	1.1	1.2	1.4
Net Assets	**56.2**	**59.4**	**62.5**	**66.8**	**73.0**
Share Capital	45.6	45.6	45.6	45.6	45.6
Reserves	10.6	13.8	16.9	21.2	27.4
Equity	**56.2**	**59.4**	**62.5**	**66.8**	**73.0**

Cashflow Statement

FY Dec (RM m)	2010A	2011A	2012E	2013E	2014E
Operating CF	-6.9	14.6	7.3	9.0	10.2
Investing CF	-4.1	-6.6	-10.0	0.1	-8.9
Financing CF	16.3	-3.4	-3.9	-3.9	-3.9
Change In Cash	5.4	4.6	-6.6	5.1	-2.6
Free CF	-11.0	8.0	-2.7	9.0	1.3
CAPEX	4.2	6.9	10.0	0.0	8.9

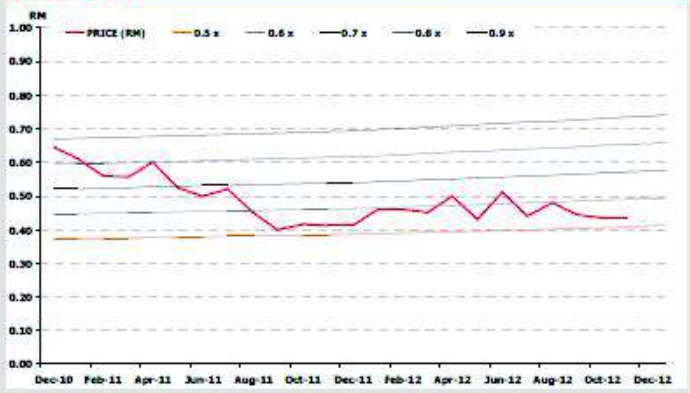
Financial Data & Ratios

FY Dec (RM m)	2010A	2011A	2012E	2013E	2014E
Growth					
Turnover (%)	-26.5	68.1	8.6	8.1	10.8
EBITDA (%)	-61.5	36.5	53.7	19.4	19.9
Operating Profit (%)	-67.9	41.3	61.7	16.7	22.8
PBT (%)	-67.8	24.1	71.9	18.0	24.9
Core Net Profit (%)	-67.2	35.2	58.7	18.0	24.9
Profitability (%)					
EBITDA Margin	10.7	8.3	11.7	12.9	14.0
Operating Margin	8.2	6.5	9.7	10.4	11.5
PBT Margin	7.7	5.7	9.0	9.9	11.1
Core Net Margin	5.8	4.7	6.9	7.5	8.4
Effective Tax Rate	23.0	17.0	23.0	23.0	23.0
ROA	3.6	3.8	5.3	6.0	7.0
ROE	6.0	6.9	10.4	11.6	13.4
DuPont Analysis					
Net Margin (%)	5.8	4.7	6.9	7.5	8.4
Assets Turnover (x)	0.5	0.7	0.8	0.8	0.8
Leverage Factor (x)	1.7	2.0	2.0	1.9	1.9
ROE (%)	5.3	6.7	10.1	11.2	12.8
Leverage					
Debt/Asset (x)	0.2	0.2	0.2	0.2	0.1
Debt/Equity (x)	0.3	0.3	0.3	0.3	0.3
Net Cash/(Debt)	0.0	4.5	-2.2	2.8	0.0
Net Debt/Equity (x)	0.0	-0.1	0.0	0.0	0.0
Valuations					
EPS (sen)	3.7	5.0	7.9	9.4	11.7
GDPS (sen)	0.0	1.0	4.0	4.0	4.0
NTA (RM)	0.70	0.74	0.78	0.84	0.91
PER (x)	11.8	8.7	5.5	4.6	3.7
Gross Div. Yield (%)	0.0	2.3	9.2	9.2	9.2
P/NTA (x)	0.6	0.6	0.6	0.5	0.5
EV/EBITDA (x)	3.8	5.2	3.2	3.3	2.9

Source: Kenanga Research

Forward PER

Forward PBV



Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
MARKET PERFORM	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERPERFORM	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

OVERWEIGHT	:	A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
NEUTRAL	:	A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT	:	A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
8th Floor, Kenanga International, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia
Telephone: (603) 2166 6822 Facsimile: (603) 2166 6823 Website: www.kenangaresearch.com

Chan Ken Yew
Head of Research