

09 August 2017 | Corporate Update

Vivocom Holdings International Berhad

ECER News Vitalising Airport Bid

Maintain BUY
Target Price (TP): RM0.40


INVESTMENT HIGHLIGHTS

- **Flurry of ECER/ECRL related news is vitalising to Vivocom's airport bid**
- **Airport passenger traffic outpaced capacity**
- **Positive impact to earnings in FYE18**
- **Nonetheless, we maintain our BUY call with a TP of RM0.40 per share**

Flurry of ECER and ECRL related news is vitalising to Vivocom's airport bid. The recent flurry of news on the East Coast Economic Region (ECER) investment inflow is a vitalising sign of potential construction projects picking up pace. Particularly, in Kelantan where the East Coast Railway Link (ECRL) would make its last stop – Sultan Ismail Petra Airport (SIPA). We are expecting China Railway Construction Corp Ltd. (CRCC) to clinch RM450m worth of job the job to expand SIPA due to China Construction Communication Company's (CCCC) involvement in the construction of ECRL. Moreover, Export-Import Bank of China would be able to provide soft loans. Hence, this would create another opportunity for Vivocom to undertake the potential subcontracting job.

Airport passenger traffic outpaced capacity. For the past 5 years, SIPA passengers have grown +10.37% (CAGR) annually (Figure 1). In 2016, its passenger amounted to 2.06m but the airport has the capacity of handling 1.45m passengers. Thus, it is crucial that the airport upgrade for 4.0m passengers capacity must be concluded before ECRL is completed in 2024. The proposed upgrades include (a) apron expansion, (b) enlargement of runway/taxiway, and (c) construction of new terminal, i.e. contact pier finger terminals. We reckon that the packages will not be segmented; consequently, subcontractors such as Vivocom could end up taking up the entire package.

Positive impact to earnings in FYE18. The impact on Vivocom's earning would be positive as it would amount to 75% of our target orderbook replenishment rate for FYE18 on the back of 12.0% margin. We are not foreseeing any margin compression as the current SIPA design is based on open apron and its upgrade will not change the original layout but merely upgrading its service capacity.

Recommendation. Altogether, we maintain our BUY call with a TP of RM0.40 per share based on discounted cash flow (DCF) with WACC of 7.4%. Our target price implies an enticing +325% upside backed by an undemanding current PER of 10.32X. 

RETURN STATS	
Price (08 Aug 2017)	RM0.13
Target Price	RM0.40
Expected Share Price Return	+325%
Expected Dividend Yield	+0.0%
Expected Total Return	+325%

STOCK INFO	
KLCI	1,781
Bursa / Bloomberg	0069/VIVO MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	2587
Par Value (RM)	1.00
Market cap. (RM'm)	421.6
Price over NA	0.958
52-wk price Range	RM0.11– RM0.24
Beta (against KLCI)	0.465
3-mth Avg Daily Vol	18.8
3-mth Avg Daily Value	RM2.53m
Major Shareholders (%)	
Golden Oasis S/B	23.4
Ang Li Hann	10.5
JP Morgan Chase	2.1
Soo Ching Kung	1.4

SOP VALUATION

Segments	Basis	Indicative Value (RM'm)	Per Share (RM)
Construction	DCF at 7.4%	806.85	0.249
Aluminium Manufacturing	DCF at 7.4%	192	0.059
Telecommunication Assets	DCF at 7.4%	240	0.074
Total Sum of Parts		1382	0.383
Net Cash (Current)		47	0.0145
SOP Per Share			0.398
No of Shares (mil)			3234

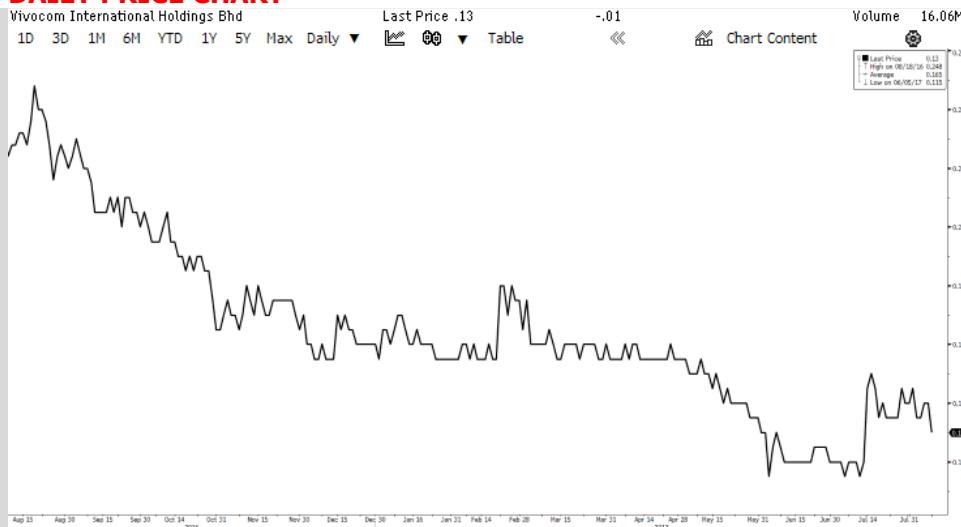
Source: MIDFR

INVESTMENT STATISTICS

FYE DEC (RM m)	2014	2015	2016	2017F	2018F
Revenue	66	182	365	908.1	650
Gross Profit	13.9	46.7	104.2	378	165.5
Net Profit	3.7	12.5	53.9	99.9	78
EPS (Sen)	0.01	0.02	0.024	0.034	0.024
EPS (Growth)(%)	-86	100	20	42	-29
PER	201.2	2	8	15.7	5.6

Source: MIDFR

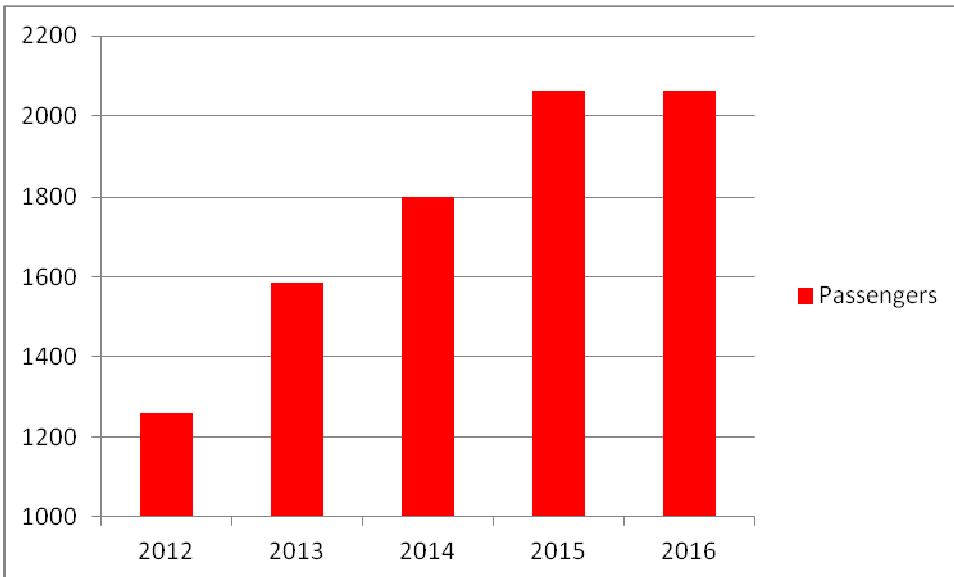
DAILY PRICE CHART



Source: Bloomberg, MIDFR

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FIGURE 1: SULTAN ISMAIL PETRA AIRPORT PASSENGER TRAFFIC



Source: Bursa, Company

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.