

01 March 2018 | FY17 Results Review

## Vivocom International Berhad

### *Still in a Slower Billings Cycle*

#### INVESTMENT HIGHLIGHTS

- **FY17 Results below expectations**
- **Earnings estimates changed to mirror a slower pace of construction billings**
- **Margin profiles indicate intrinsic capabilities**
- **Nonetheless, we reiterate our BUY stance with an adjusted TP of RM0.23 per share**

**FY17 Results below expectations.** FY17 earnings came in below expectations. VIHB's FY17 earnings of RM14.5m (-73%YoY) came below with our estimates. The striking deviation was due to lower revenue recognition from projects due to progress billings. We believe that the slower progress billings cycle has afflicted VIHB due to a heightened risk/reward sentiment for property mart and mixed development.

**Earnings estimates changed to mirror a slower pace of construction billings.** We fine-tuned to our assumptions as we believe that FYE18 could be a better year for VIHB to recognize its billings for is orderbook level but the progress will be even slower compared to what we have reported before. Thus, we trim our earnings forecast for FYE18 by -40.0% from RM79.9m to RM46.8m to reflect slower billings recognition.

**Margin profiles indicate intrinsic capabilities.** To balance our view, VIHB margin profile is attractive – illustrating that the management are capable to defend their pricing albeit grim sector condition. Over the past 7 quarters, VIHB's operating margin and net margin has upped its KLCon Index peers (Figure 1 & 2). Furthermore, amongst its peers of similar market capitalization between RM198m to RM441m, we believe its fundamental are still intact with ample finance headroom. Its debt-to-equity ratio is just 6.7%. (Figure 3) Notably its receivables and amount due from clients amounted to RM347.5m indication accretion to earnings in upcoming quarters. Furthermore, its orderbook stands at RM1.8bn or 5.0x FYE19 revenue estimates over 36 months.

**Recommendation.** The reduction in earnings resulted in changing our valuation methodology to reflect the cyclical of progress billings that we have noticed in our coverage for small caps construction companies. We reaffirm our BUY recommendation with an adjusted TP of RM0.23 per share based on PER on the basis of 17x PE which is the mean of FBMKLCI and imputed an enlarged share base as well as rolling over FYE19 EPS forecast of RM0.0134 sen. Note that, the 11-year average for KLCon Index is 23.3x.

**Maintain BUY**  
**Adjusted Target Price (TP): RM0.23**  
*(From RM0.33)*

RETURN STATS	
Price (28 Feb 2018)	RM0.09
Target Price	RM0.23
Expected Share Price Return	+156%
Expected Dividend Yield	+0.0%
<b>Expected Total Return</b>	<b>+156%</b>

STOCK INFO	
KLCI	1,856.2
Bursa / Bloomberg	0069/ Vivo MK
Board / Sector	ACE / Construction
Syariah Compliant	Yes
Issued shares (mil)	3398
Market cap. (RM'm)	305.88
Price over NA	0.65
52-wk price Range	RM0.09– RM0.18
Beta (against KLCI)	0.14
3-mth Avg Daily Vol	12.8m
3-mth Avg Daily Value	RM1.62m
Major Shareholders (%)	
Golden Oasis Resources	22.3
Ang Li Hann	10.03
JP Morgan Chase	2.5

## INVESTMENT STATISTICS

	2014	2015	2016	2017	2018F	2019F
Revenue	66	182	365	181.7	310.0	360
Gross Profit	13.9	46.7	104.2	53.3	93	108
Net Profit	3.7	12.5	53.9	20	38	46.8
EPS (Sen)	0.01	0.02	0.024	0.006	0.009	0.0134
EPS (Growth)(%)	-86	100	20	-76.2	50.0	56
PER	9.0	4.5	3.8	15.8	10.5	6.73

Source: Bloomberg, MIDFR

## VALUATION

Valuation	Basis	2019F (RM'Sen)	Per Share (RM)
FYE19 EPS x 17x PER	FBMKLCI	0.0134	0.228

Source: Bloomberg, MIDFR

## DAILY PRICE CHART



Source: Bloomberg, MIDFR

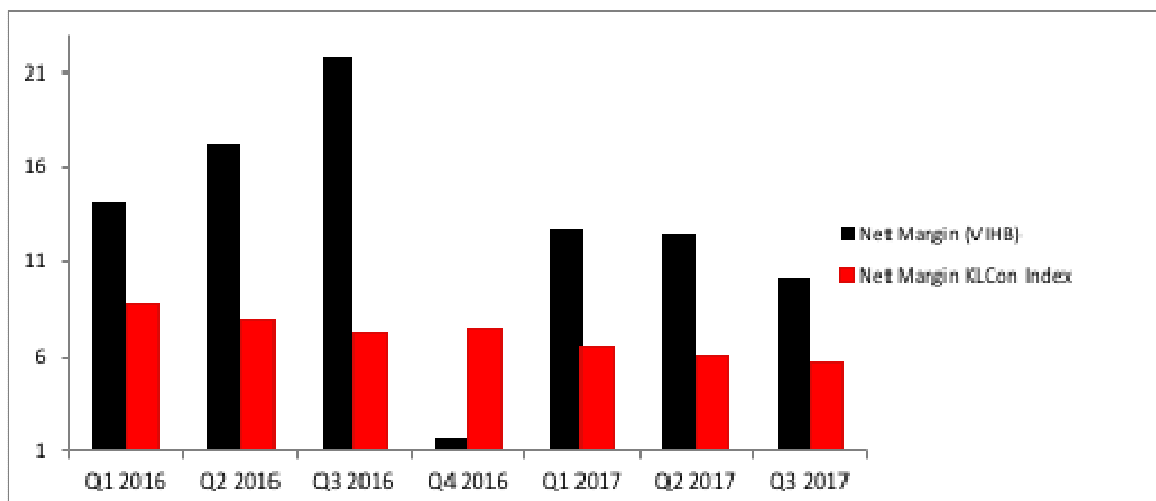
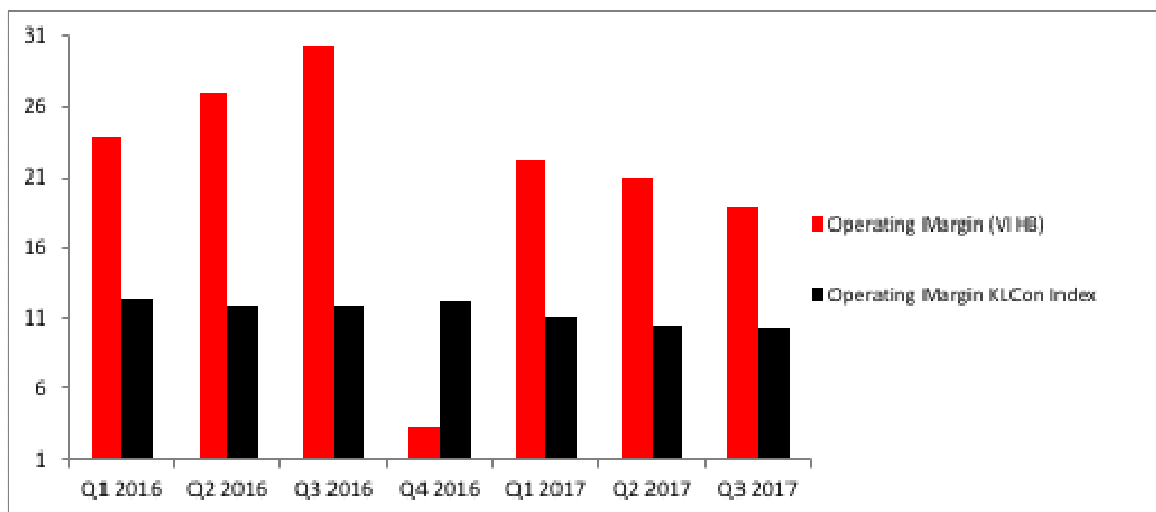
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## FY17 RESULTS REVIEW

	4Q17	3Q17	4Q16	YoY Chg	QoQ Chg	12MFY17	12MFY16	YoY Chg
<b>Revenue</b>	<b>33.3</b>	<b>61.4</b>	<b>46.0</b>	<b>-28%</b>	<b>-46%</b>	<b>181.7</b>	<b>365.0</b>	<b>-50%</b>
Depn & Amortisation	-0.2	-0.3	-0.3	-33%	-29%	-1.1	-1.5	-27%
<b>Operating profit</b>	<b>1.21</b>	<b>11.5</b>	<b>1.3</b>	<b>-7%</b>	<b>-89%</b>	<b>31.4</b>	84.8	<b>-63%</b>
<b>Pre-tax profit</b>	<b>0.4</b>	<b>11.0</b>	<b>0.7</b>	<b>-43%</b>	<b>-96%</b>	<b>29.1</b>	65.4	<b>-56%</b>
Taxation	-1.5	-2.70	-10.00	-96%	-44%	-8.6	-17.1	-50%
<b>PATAMI</b>	<b>-2.6</b>	<b>6.2</b>	<b>0.8</b>	<b>-425%</b>	<b>-142%</b>	<b>14.5</b>	<b>53.9</b>	<b>-73%</b>
EPS (sen)	-0.08	0.19	0.03	-367%	-142%	0.44	1.7	-74%
	4Q17	3Q17	4Q16	Pts (+/-)	Pts (+/-)	12MFY17	12MFY16	Pts
Operating margin	4%	19%	2.8%	0.01	-0.15	17.3%	23.2%	-6.0%
Pre-tax margin	1%	18%	1.5%	0.00	-0.17	16.0%	17.9%	-1.9%
PATAMI margin	-8%	10%	1.7%	-0.10	-0.18	8.0%	14.8%	-6.8%
Effective tax rate	-5%	-4%	-21.7%	0.17	0.00	-4.7%	-4.7%	0.0%

Source: Bursa, MIDFR

## FIGURE 1 & 2: VIHB MARGIN PROFILE



Source: Bloomberg, MIDFR

**FIGURE 3: VIHB & SECTOR COMPARATIVE**

	M/Cap (Rm'n)	P/E (x)	P/B (x)	ROIC	Net Debt (RM'm)	Rev - 1 Yr Gr (%)	Debt/Equity (%)	WACC (%)	OPM (%)
PROTASCO BHD	441.2	14.7	1.1	5.5	151,650,000	19.3	51.6	8.7	10.5
AHMAD ZAKI RESOURCES BERHAD	414.6	20.9	0.8	1.7	1,388,130,048	8.8	503.2	5.3	10.4
TRC SYNERGY BHD	333.9	11.6	0.8	5.4	(110,866,472)	-8.0	35.5	12.2	6.4
BENALEC HOLDINGS BHD	303.7	54.3	0.5	2.1	179,844,000	-50.5	28.9	10.3	17.6
VIVOCOM INTERNATIONAL HOLDIN	305.9	16.1	0.7	4.8	(708,000)	9.9	6.2	5.3	18.9
FAJARBARU BUILDER GROUP BHD	298.0	6.6	1.1	21.6	24,745,000	96.7	25.6	13.1	14.3
IKHMAS JAYA GROUP BHD	280.9	19.7	1.3	6.0	52,511,000	19.2	35.7	10.4	25.7
ADVANCECON HOLDINGS BHD	277.4	12.3	1.6	N/A	36,002,704	N/A	55.1	12.5	9.4
PESONA METRO HOLDINGS	274.5	13.8	1.7	11.9	41,177,000	-14.8	28.9	11.0	7.2
KKB ENGINEERING BHD	247.5	150.0	0.9	0.5	(96,156,184)	168.6	1.6	11.0	12.6
AWC BERHAD	212.5	9.94	0.95	14.34	(79,072,000)	-9.63	1.80	5.74	9.07
HO HUP CONSTRUCTION CO BHD	198.7	4.9	0.6	7.5	242,864,000	52.3	77.5	7.4	24.3

Source: Bloomberg, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.