

# Benalec raises fortunes in Johor

Earnings should improve after two projects get DOE greenlight



by Lim Guan Yui

**INTEGRATED** marine engineering and construction firm Benalec Holdings Bhd has yet to return to investors' radar despite its improved FY16 financial performance.

The company posted a net profit of RM17.11 mil in its financial year ended June 30, against RM8.47 mil and RM7.11 mil in FY15 and FY14 respectively.

For the first quarter ended Sept 30 (FY17), it chalked up RM5.62 mil in net profit on the back of RM99.65 mil revenue. Net profit and turnover for the previous corresponding period were RM1.23 mil and RM44.04 mil respectively.

The company was listed on Bursa Malaysia in 2011 at an initial public offering price (IPO) of RM1. Since then, it has been a bumpy ride for its share price. During its heyday back in 2011 and 2012, it touched a high of RM1.60. Since then, the counter has taken a battering and traded at 37 sen on Dec 7.

## DEIA approvals

Another possible factor for the tepid share price could be the delay in obtaining Detailed Environment Impact Assessment (DEIA) approvals from the Department of Environment (DOE) for its Tanjung Piai Maritime Industrial Park (TPMIP) and Pengerang Maritime Industrial Park (PMIP) projects in Johor. Benalec has since received DEIA approval in January for TPMIP's phase one, and the nod for phases two and three in June. As for PMIP, the DEIA approval was secured in January.

With the two projects getting the greenlight from the DOE, will there be brighter days ahead for Benalec both in its earnings and share price?

Benalec is currently trading at a 52% discount against net asset value of 77 sen a share. Interest towards the counter remains weak with an average 650,000 shares changing hands every trading day, in contrast to 1.96 million shares last year.

The TPMIP and PMIP projects were first mooted in November 2011 to reclaim 2,122.24ha in southern Johor to facilitate the development of petrochemical hubs, and maritime industrial parks situated at the coast of Tanjung Piai and Pengerang.

Land reclamation or known as landfill is the process of creating fresh land from the sea or river beds.

Subsequently, development agreements (DAs) for both projects were signed

between the Johor state government and Benalec's two 70%-owned subsidiaries – Spektrum Kukuh Sdn Bhd (SKSB) and Spektrum Budi Sdn Bhd (SBSB) – in September 2012. Under the DAs, SKSB and SBSB have the exclusive rights to undertake reclamation works on 1,410ha and

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Benalec's land in Melaka available for sale

## BENALEC HOLDINGS BHD

### KEY BOARD MEMBERS AND MANAGEMENT

DATUK AZHAM MAJID (CHAIRMAN)  
DATUK LEAH SENG HAI (GROUP MD & CEO)  
KENNETH CHIN KAI KONG (EXECUTIVE DIRECTOR)

### MAJOR SHAREHOLDERS

Oceanview One Sdn Bhd 47.78%

### MARKET CAP

RM295.7m

### SHARE PRICE (Dec 7)

37 SEN

52-WEEK HIGH (Jun 15) 62 SEN

52-WEEK LOW (Nov 21) 36 SEN

### FINANCIAL RESULTS (Q1 ended Sept 30)

REVENUE RM99.65m

NET PROFIT RM5.62m

## Ramping-up work at TPMIP in full force

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712.24ha in Tanjung Piai and Pengerang respectively.

Benalec is also tasked with the development, design, construction, completion as well as finding prospective purchasers for the two mega projects. Collectively, the projects with a combined RM16 bil to RM18 bil value will keep it busy for the next 15 to 20 years.

### Land reclamation boost

In a response to *FocusM* queries, Benalec group managing director Datuk Vincent Leaw Seng Hai says the marine construction firm is ramping up work at TPMIP in full force.

"We are in progress to reclaim about 81ha in TPMIP, of which half is in the midst of topsoil development to pave the way for the proposed oil terminal project with our partner," he says. As for PMIP, there is no material progress on land filling at this juncture.

Leaw stresses the land is currently in the form of sand field pending the deployment of other processes such as the installation of prefabricated vertical drain (PVD) before the land is ready for delivery. For that, Benalec has partnered with CoFeau Malaysia Sdn Bhd to tap into the latter's expertise in geosynthetic environmental techniques especially in the manufacturing and installation of PVD.

The PVD method will shorten the



We are in progress to reclaim about 81ha in TPMIP, says Leaw

settlement period of soft, compressible clay or soil. This in turn will reduce the construction and post-construction settlement period. Four units of PVD machines will be deployed to the TPMIP project site from this month onwards.

There is concern raised on the prospect to secure offshore for the vast reclaimed land over the next 15 to 20 years. In addition, Benalec's volatile financial performance since listing may deter investors

from putting in their money.

Benalec relies on payment by cash or land portion for the reclamation works it undertakes. The land portion, which is received in return as in-kind settlement for certain reclamation contracts, is typically recovered through sale transactions.

### Recurring income

While this business model enables Benalec to reap the premium from value appreciation of land, there is little assurance the company will chalk up revenue or profit sustainably.

"We understand that the market in general views our earnings as a patchy one. We recognise the problem and are taking steps to remedy the issue by taking part in recurring income-based business," Leaw says. The move is also in line with the group's strategy to diversify its business portfolio.

In addition to a proposed oil storage terminal operation in TPMIP where it signed a memorandum of understanding (MoU) with an international logistics player in June, Benalec may look at other oil and gas-related activities like petrochemical, liquefied natural gas terminal, dry bulk storage or dockyard through joint ventures.

Both parties are conducting the feasibility study of building and operating a greenfield oil storage terminal in TPMIP. Benalec declined to divulge the identity of the company or disclose more details.

Equity structure of the JV is not finalised but it is learnt that Benalec is likely to hold between 20% and 30% in the proposed joint venture.

"This is one of the many income streams we are looking at which I think will

add to income sustainability. For instance, we will own the land in Tanjung Piai and lease back to the operator. With that, we will receive income from the rental of land and storage space," adds Leaw.

If the plan goes through smoothly, Benalec will be the second Malaysian-listed firm after Dialog Group Bhd to build oil storage facilities. Dialog started operating its third tank terminal in Pengerang in March last year. The entire development is expected to take 10 years to complete and holds five million cubic metres of storage capacity upon completion.

Back in 2013, SKSB entered into a binding term sheet with the State Secretary of Johor and 1MY Strategic Oil Terminal Sdn Bhd to reclaim and sell about 404.68ha in TPMIP for a proposed crude oil and petroleum storage facility and a private jetty. The status of the agreement is unknown after the last announcement dated March 12 last year.

Another business direction that Benalec, as the landowner, could be looking at is partnering with property developers for real estate projects.

"We do not have expertise in building topside property, but we can reclaim the land ready for development and obtain requisite approvals from the relevant authority. We do not mind looking into it if there is any opportunity arising," says Leaw.

The group is eyeing a double-digit growth in revenue for FY17, potentially driven by pending land deals on the sale of 133.54ha worth about RM455 mil in Melaka and Pulau Indah, Selangor. It is also undertaking construction work in Melaka and Pulau Indah.