

25 November 2019

# Solarvest Holdings Bhd

## Here Comes the Sun

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SLVEST, en route for a listing at ACE Market tomorrow, is a pure solar PV player which is involved in turnkey EPCC services for residential, commercial and industry properties and LSS plants, as well as being an owner of a 1MW solar PV plant in Pokok Sena, Kedah. Earnings had grown at >20% p.a. in the past and is expect to chart similar growth in the future given the rapid growth in the solar PV industry on the back of government's support. It is **NOT RATED** and fairly valued at RM0.43.

**A pure solar PV player.** Solarvest Holdings Bhd (SLVEST) is a full-fledged EPCC service provider in the solar PV industry. It is capable of providing turnkey end-to-end services from initial consultancy to site surveys, feasibility studies, application to authorities, systems design, construction, commissioning, as well as operations and maintenance of solar PV systems. It has track record in the installation of solar PV system for residential and commercial and industrial properties from Feed-in Tariff (FiT) mechanism to the current Net Energy Metering (NEM) mechanism and Large Scale Solar (LSS) PV. To-date, it has installed a total capacity of 231.97MWp. Once listed, it will be the only "pure solar PV" player in the local bourse.

**Renewable energy a hot sector.** With the government's quest for greener energy with targeted renewal energy (RE) generation mix to 20% by 2025, demand for solar PV also grew rapidly which saw the installed capacity jumping 38% in 2018. Growth for 2019-2020 will be supported by the roll-out of solar plant project under the LSSPV program and NEM program. The total solar PV installed capacity is expected to grow at 50% CAGR to 3,322MWp by 2023 from 438MWp in 2018. Therefore, it bodes well for industry player like SLVEST. In addition, SLVEST is looking for expansion into the RE growing markets in Vietnam and Taiwan in the near future.

**Earnings set to grow >20% p.a. in the next two years.** SLVEST had enjoyed good earnings growth in the past two years where net profit rose 27% in FY18 and 35% in FY19m to RM11.1m, which was on the back of rapidly growing demand for solar PV. However, profit margin had compressed from close to 20% at operating level to slightly less than 9% in FY19 owing to the shift to LSS project from residential, commercial and industrial sub-segment as the former fetches lower margins. Going forth, we project SLVEST to register >20% annual earnings growth for the next two years on the back of order-book of RM184.5m. Nonetheless, we expect a slight drop in operating margin to 8.2% in FY20-FY21 from 8.9% in FY19

**NOT RATED, fairly valued at RM0.43.** At IPO price of RM0.35 which is valued at historical FY19 PER of 12.3x, it is fairly within the range of Utility Sector's valuation of 13x. However, for a small company seeking listing, the offer is not attractive enough. We believe the stock should be valued at prospective FY21 PER of 10x, which is similar to Utilities EPCC contractor PESTECH's (OP; TP: RM1.75) current price valuation of 9.8x PER. As such, SLVEST is fairly valued at RM0.43. It is a **NOT RATED**.

## NOT RATED

Price : **RM0.350**  
Fair Value : **RM0.430**

### Share Price Performance

KLCI	1,596.84
YTD KLCI chg	-5.5%
YTD stock price chg	N/A

### Major Shareholders

Atlantic Blue Holdings	41.1%
Chin Hin Group Bhd	33.6%

### IPO proceeds (RM m)

Working Capital	19.2
Repayment of Borrowings	5.0
Capex	4.0
Business Expansion	3.0
Estimated listing expenses	3.4
<b>Total</b>	<b>34.6</b>

### Summary of IPO

Enlarged Share Cap (m)	390.6
IPO Price (RM)	0.35
Market Cap Upon Listing (RM m)	136.7

### Summary Earnings Table

FY Mar (RM m)	2019	2020F	2021F
Turnover	112.2	200.0	240.0
EBIT	10.0	16.3	19.7
PBT	12.2	15.5	18.9
<b>Net Profit</b>	<b>11.1</b>	<b>13.8</b>	<b>16.8</b>
<b>Core Net Profit</b>	<b>11.1</b>	<b>13.8</b>	<b>16.8</b>
Consensus		N/A	N/A
Earnings Revision		-	-
Core EPS (sen)	2.8	3.5	4.3
Core EPS growth (%)	35.0	24.3	21.5
NDPS (sen)	0.0	0.0	0.0
BVPS (RM)	0.08	0.20	0.21
NTA/share (RM)	0.08	0.20	0.21
Core PER (x)	12.3	9.9	8.1
Price/BV (x)	4.32	1.72	1.65
Price/NTA (x)	4.40	1.73	1.67
Net Gearing (x)	N. Cash	N. Cash	N. Cash
Net Div. Yield (%)	0.0	0.0	0.0



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## INVESTMENT RATIONALES

**A pure solar PV player.** SLVEST is a full-fledged EPCC service provider in the solar PV industry. It is capable of providing turnkey end-to-end services from initial consultancy to site surveys, feasibility studies, application to authorities, systems design, construction, commissioning, as well as operations and maintenance of solar PV systems. It has track record in the installation of solar PV system for residential and commercial and industrial properties from FIT mechanism to the current NEM mechanism and LSSPV. To-date, it has installed a total capacity of 231.97MWp. Once listed, it will be the only “pure solar PV” player in the local bourse.

**Further invest in solar PV plant and to become a turnkey EPCC for LSSPV projects.** Currently, SLVEST only owns a 1MWp solar PV plant in Pokok Sena, Kedah where this segment only contributed RM1.6m revenue to the group or slightly more than 1%. Therefore, it want to own more solar PV plant as a long-term strategy to further reduce dependence on the EPCC segments to generating steady recurring income. SLVEST is making >70% gross profit margin from the sale of electricity as compared to <20% gross profit margin from the EPCC projects. In addition, SLVEST also intend to establish itself as a turnkey EPCC for LSSPV projects which is in line with government’s initiative to increase local participation in the solar PV industry. So far, SLVEST has secured three EPCC turnkey contracts for LSSPV projects in 2019.

**RE a fast growing industry backed by government’s initiatives.** Demand for RE has risen rapidly ever since the PH government took over in May last year. The Energy Minister has been promoting green energy in which she set an ambitious renewable energy target of 20% of electricity generation mix by 2025 from the current level of 2%. In order to achieve such target, rapid growth of alternative energy installations is required over the next five years, amounting to 400MW-500MW new capacity each year. This also presents a good opportunity for solar players as this alternative energy is suitable for the country due to our tropical geographical location in which we have irradiance of more than 3.6 to 3.9 sun-hours a day.

**The installed capacity of solar PV jumped by more than a third in 2018.** With the government’s quest for greener energy, demand for solar PV also grew rapidly which saw the installed capacity jumping 38% in 2018 to 438MWp from 317MWp in 2017. This was against a 9% growth in 2017 from 292MWp in 2016. Going forth, growth for 2019-2020 will be supported by the roll-out of solar plant project under the LSSPV program and the NEM program. The government has increased the maximum capacity for LSSPV plants in Peninsular Malaysia to 100MW. The recent LSS3 bidding with a capacity allocation of 500MW, with the submission due in Aug was for a total project value of RM2b. Given the targeted RE generation mix of 20% by 2025, the LSS bidding will not stop here, therefore, more LSSs are expected to be rolled out more often in the future to achieve such target. In the Prospectus’ IMR report, Protégé Associate has projected the total solar PV installed capacity to grow at 50% CAGR to 3,322MWp by 2023 from 438MWp in 2018.

**Going to two rapidly growing RE markets in Vietnam and Taiwan.** SLVEST is looking to expand its reach to two rapidly growing RE markets in Asia, namely Vietnam and Taiwan, to broaden its earnings base. The country’s National Power Development Plan was approved in 2011 which prioritises the development of RE for power generation especially for rural electrification. Vietnam is targeting to achieve 38.5GW of RE capacity generation by 2030, which includes 8.1GW solar PV, from currently 18.5GW of RE capacity of which was 97% generated through hydropower. On the other hand, the solar PV industry has witnessed strong growth over the years with total installed capacity of solar PV in Taiwan expanding to 2,618MW in 2018 from 118MW in 2011. The Taiwanese Government launched a new energy policy in 2016, which aims to achieve nuclear-free Taiwan by 2025 through generation from RE. The policy also outlines a target of 20% share of RE in total power generation by 2025 from 4.6% in 2018. Currently, nuclear power made up 10% of the total generation capacity in Taiwan.

**Earnings set to grow >20% p.a. in the next two years.** SLVEST enjoyed good earnings growth in the past two years which saw net profit rising 27% in FY18 and 35% in FY19m to RM11.1m, which was on the back of rapidly growing demand for solar PV. However, profit margin had compressed from close to 20% at operating level to slightly less than 9% in FY19 owing to the shift to LSS project from residential, commercial and industrial sub-segment as the former fetches lower margins. Going forth, we project SLVEST to register >20% annual earnings growth for the next two years on the back of order-book of RM184.5m. Nonetheless, we expect a slight drop in operating margin to 8.2% in FY20-FY21 from 8.9% in FY19

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## IPO DETAILS

**Raising RM34.6m from IPO, post-IPO market cap of RM136.7m.** SLVEST will be issuing 98.8m IPO shares, representing 25.3% of the enlarged issued share capital of the company, at an offer price of RM0.350/share, thus implying a post-listing market cap of RM136.7m. Current tentative listing date is set at 26 Nov 2019. Of the issued IPO shares, a total of 19.5m shares or 5.0% of enlarged issued share capital will be allocated for Malaysia public via balloting, another 19.5m share will be allocated to eligible directors, employees and persons who have contributed to the success of the group, 39.1m new shares via private placement to bumiputera investors approved by the MITI and 20.7m new shares via private placement to selected investors. So far, the new issue of 19.5m shares for public portion was oversubscribed by 35 times.

Public Issue		
Categories	No. of IPO Shares (m)	% of enlarged share capital
<b>Eligible persons:</b> Eligible directors, employees and persons who have contributed to the success of the Group	19.5	5.0
<b>Malaysia public (via balloting):</b>		
-Bumiputera	9.7	2.5
-Non-Bumiputera	9.7	2.5
<b>Sub-Total</b>	<b>19.5</b>	<b>5.0</b>
Private placement to bumiputera investors approved by the MITI	39.1	10.0
Private placement to selected investors	20.7	5.3
<b>Total</b>	<b>98.8</b>	<b>25.3</b>

Source: Prospectus

Share Capital		
Total number of issued shares and share capital	No. of Shares (m)	RM m
As at the date of Prospectus	291.8	26.3
To be issued under the public issue	98.8	34.6
<b>Enlarged total number of issued shares and share capital upon listing</b>	<b>390.6</b>	<b>60.9</b>

Source: Prospectus

Timetable for IPO	
Event	Date
Opening of Application	30 Sep 2019
Closing Date of Application	11 Nov 2019
Balloting of Application	14 Nov 2019
Allotment of IPO shares to successful applicants	21 Nov 2019
Date of Listing	26 Nov 2019

Source: Company

**Utilisation of proceeds.** Out of the RM34.6m raised from the IPO, RM19.2m or 55.5%, will be used for working capital while 14.5% and 11.5% of the proceeds will be utilised in repayment of bank borrowings and capex. The reason of the big portion of proceeds allocated for working capital is because the commercial and industrial, and LSSPV projects are required tender bonds and performance bonds which normally range between 5%-10% of the contract sum.

Use of Proceeds			
Details	Estimated timeframe for the use from the date of listing	RM m	%
Business	Within 24 months	3.0	8.7
Capex	Within 18 months	4.0	11.5
Working capital	Within 24 months	19.2	55.5
Repayment of bank borrowings	Within 3 months	5.0	14.5
Estimated listing expenses	Within 1 months	3.4	9.8
<b>Total gross proceeds</b>		<b>34.6</b>	<b>100.0</b>

Source: Company

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## COMPANY BACKGROUND

**Pure solar PV player.** SLVEST is a solar turnkey EPCC services provider. Its end-to-end solutions support customers to build solar PV systems from scratch. The company started operations in 2012 as a subcontractor in Alor Setar in the solar PV industry by providing solar PV installation services for residential projects. In 2013, it secured its first EPCC turkey contract for an industrial building in Alor Setar. By 2014, it ventured into investment in Solar PV plant when it secured a 1MWp quota to build and operate its own solar PV plant in Pokok Sena, Kedah. It managed to secure subcontract for LSSPV project for the first time in 2017. Over the years, it becomes a pure solar PV player, involved in three main business segments, i.e., EPCC Service, Operations & Maintenance as well as Solar PV Plant.

### EPCC Service

This is the biggest contributor to SLVEST which made up 96% of the group's revenue of RM112.2m in FY19. This business segment is catered to two main areas, namely solar PV systems for (i) LSSPV plants and (ii) residential, commercial and industrial properties. The LSSPV plants are part of the Energy Commission's initiatives to encourage participation from the private sector to construct grid-connected solar PV plants. This sub-segment contributed 62.9% of group's revenue in FY19 and it has so far installed a total of 204.5MWp. On the other hand, the residential, commercial and industries properties are primarily under Feed-in Tariff (FiT) mechanism and Net Energy Metering (NEM) mechanism. This sub-unit contributed 33.1% of group's revenue in FY19 and it has installed a total of 27.47MWp under this sub-segment comprising both retrofit rooftop and BIPV systems.

### Operations & Maintenance Service

SLVEST provides clients with services to maintain systems performance in terms of energy generation. The services for its residential, commercial and industrial clients are comprehensive in the sense that it includes repairing all defects covered under its defect liability period as well as repairs arising from wear and tear of the solar PV system installed by the company. Nonetheless, contribution from this segment is relatively small at 0.3% of group's revenue.

### Solar PV Plant

SLVEST owns, operates and maintains a 1MWp solar PV plant in Pokok Sena, Kedah based on the FiT mechanism. The plant was built and completed by SLVEST in 2014 with a 21-year PPA with TENAGA commencing from Dec 2014. It contributed RM1.6m or 1.4% of group's revenue in FY19.

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**INDUSTRY OVERVIEW**

**Renewable energy is a fast growing industry backed by government's initiatives.** Demand for renewable energy (RE) has risen rapidly ever since the PH government took over in May last year. The Energy Minister has been promoting green energy in which she set an ambitious renewable energy target of 20% of electricity generation mix by 2025 from the current level of 2%. In order to achieve such target, rapid growth in alternative energy installations is required over the next five years, amounting to 400MW-500MW new capacity each year. This also presents a good opportunity for solar players as this alternative energy is suitable for the country due to our tropical geographical location in which we have irradiance of more than 3.6 to 3.9 sun-hours a day.

**The installed capacity of solar PV jumped by more than a third in 2018.** With the government's quest for greener energy, demand for solar PV also grew rapidly which saw the installed capacity jumping 38% in 2018 to 438MWp from 317MWp in 2017. This was against a 9% growth in 2017 from 292MWp in 2016. Going forth, growth for 2019-2020 will be supported by the roll-out of solar plant project under the LSSPV program and the NEM program. The government has increased the maximum capacity for LSSPV plants in Peninsular Malaysia to 100MW. The recent LSS3 bidding with a capacity allocation of 500MW, with the submission due in Aug, was for a total project value of RM2b. Given the targeted RE generation mix of 20% by 2025, the LSS bidding will not stop here, therefore, more LSSs are expected to roll out more often in the future to achieve such target. In the Prospectus' IMR report, Protégé Associate has projected the total solar PV installed capacity to grow at 50% CAGR to 3,322MWp by 2023 from 438MWp in 2018.

**Solar PV expects to grow rapidly in Vietnam.** Vietnam has made strides to develop its RE sector since 2007 with the approval of the Scheme on Development of Biofuels. The country's National Power Development Plan was approved in 2011 which prioritises the development of RE for power generation especially for rural electrification. Today, Vietnam already has 18.5GW of RE capacity of which 97% is attributed to hydropower. It targets to achieve 38.5GW of RE capacity generation by 2030. This includes 23.7GW hydropower, 8.1GW solar PV, 5.7GW wind energy and 1.0GW bioenergy.

**Taiwan is targeting 20% RE generation mix by 2025 too.** Energy in Taiwan is generated from a combination of resources, i.e., fossil fuels, pumped hydropower and nuclear power with fossil fuels making up 84% of generational power in 2018 while nuclear power made up 10% of the total generation capacity. However, the government's push for the development of the RE sector began in 2009 in tandem with its promulgation of the Renewable Energy Development Act which saw the introduction of the FiT mechanism which covers a variety of technologies in the RE sector, such as solar PV, biomass, wind, hydropower and waste-to-energy. The solar PV industry has witnessed strong growth over the years with total installed capacity of solar PV in Taiwan expanding to 2,618MW in 2018 from 118MW in 2011. The Taiwan Government launched a new energy policy in 2016, which aims to achieve nuclear-free Taiwan by 2025 through generation from RE. The policy also outlines a target of 20% share of RE in total power generation by 2025 from 4.6% in 2018.

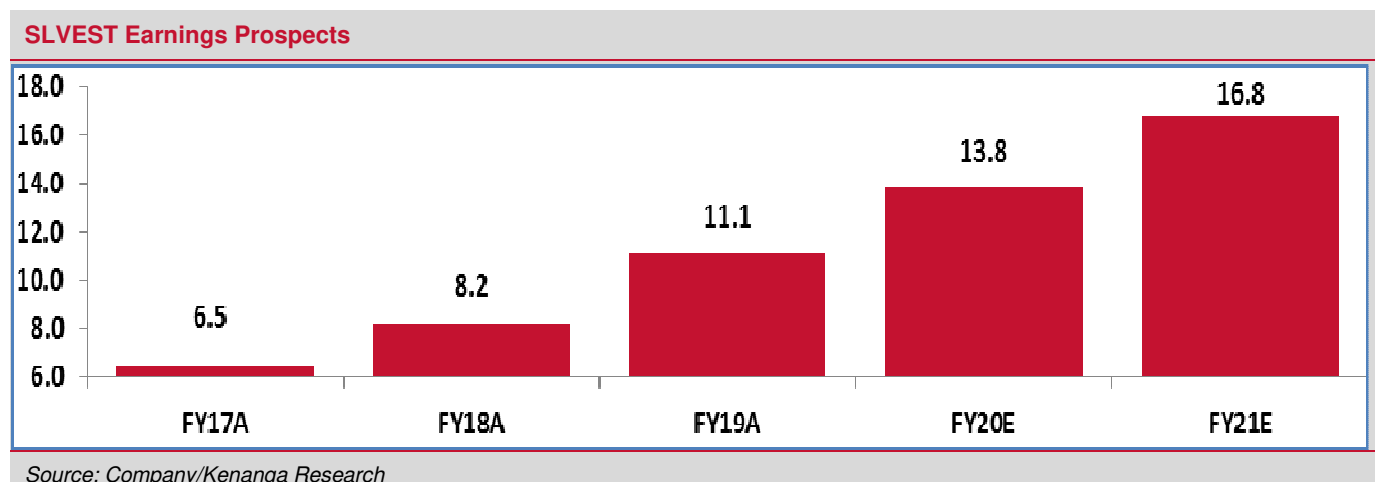
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## FINANCIALS

**Earnings grew 27% and 35%, respectively, in the past two years.** SLVEST enjoyed good earnings growth in the past two years which saw net profit rising 27% in FY18 to RM8.2m and grew further 35% in FY19 to RM11.1m. This was on the back of a 16% hike in revenue in FY18 and 1.5-fold jump in revenue in FY19. While earnings have been growing rapidly, profit margins were compressed which saw operating margins deteriorating to 8.9% in FY19 from 18.8% in FY18 and 19.7% in FY17. The declining margin trend was largely due to the shift of EPPC service from residential, commercial and industrial to LSS contracts as the latter fetches slimmer margins due the need of more preparation for site and infrastructure work which required specialised services, despite higher contract values. This also explained the big jump in revenue for FY19.

**Earnings set to grow >20% p.a. in the next two years.** On 20 Nov, SLVEST released its 1HFY20 results with net profit of RM7.9m on the back of RM140.0m revenue. Besides, it has an outstanding order-book of RM184.5m which provides earnings visibility of the next two years. On the back of this, we have projected revenue to grow to RM200m/RM240m for FY20/FY21 from RM112.2m in FY19 while net profit to grow >20% p.a. to RM13.8m and RM16.8m in FY20 and FY21, respectively. Operating margin for both years are projected to come off slightly to 8.2% from 8.9% in FY19 as higher contributions from LSS contracts will compress margin further.



## CONCLUSION

**NOT RATED with fair value of RM0.43.** At IPO price of RM0.35, the offering, which is valued at historical FY19 PER of 12.3x, is fairly within the range of Utility Sector's of 13x. However, for a small company seeking listing, the offer is not attractive enough. We believe the stock should be valued at prospective FY21 PER of 10x, which is similar to Utilities EPCC contractor PESTECH's (OP; TP: RM1.75) valuation of 9.8x PER. As such, SLVEST is fairly valued at RM0.43. It is a NOT RATED stock.



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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2017	2018	2019	2020F	2021F	FY Mar (RM m)	2017	2018	2019	2020F	2021F
Revenue	39.0	45.1	112.2	200.0	240.0	<b>Growth</b>					
EBIT	8.5	9.7	11.6	18.0	21.6	Turnover (%)	n/a	15.5	149.0	78.3	20.0
Depreciation	-0.8	-1.2	-1.6	-1.7	-1.9	EBITDA (%)	n/a	13.6	19.6	55.8	20.0
Operating Profit	7.7	8.5	10.0	16.3	19.7	Op. Profit (%)	n/a	10.1	17.6	63.7	21.0
Interest Expense	0.1	0.2	3.4	0.7	0.8	PBT (%)	n/a	28.9	31.5	27.0	21.6
Interest Income	-0.6	0.6	-1.1	-1.5	-1.6	Core Net Profit (%)	n/a	26.7	35.0	24.3	21.5
Associate	0.0	0.0	0.0	0.0	0.0	<b>Profitability (%)</b>					
Jointly Ctrl Entity	0.0	0.0	0.0	0.0	0.0	EBITDA Margin	21.8	21.4	10.3	9.0	9.0
PBT	7.2	9.3	12.2	15.5	18.9	Operating Margin	19.7	18.8	8.9	8.2	8.2
Taxation	-0.7	-1.1	-1.1	-1.9	-2.3	PBT Margin	18.5	20.6	10.9	7.8	7.9
Minority Interest	0.0	0.0	0.0	0.1	0.2	Core Net Margin	16.7	18.3	9.9	6.9	7.0
Net Profit	6.5	8.2	11.1	13.8	16.8	Effective Tax Rate	9.9	11.5	9.2	12.0	12.0
<b>Core Net Profit</b>	<b>6.5</b>	<b>8.2</b>	<b>11.1</b>	<b>13.8</b>	<b>16.8</b>	ROE	0.4	24.4	20.4	13.9	10.8
						ROA	52.7	40.1	35.1	17.4	20.3
<b>Balance Sheet</b>						<b>DuPont Analysis</b>					
FY Mar (RM m)	2017	2018	2019	2020F	2021F	Net Margin (%)	16.7	18.3	9.9	6.9	7.0
Fixed Assets	11.6	14.7	14.7	16.1	17.8	Assets T/over (x)	1.34	1.21	1.27	1.41	1.59
Associate	0.0	0.0	0.6	0.7	0.8	Leverage Factor(x)	2.35	1.81	2.78	1.78	1.83
Other Fixed Assets	1.9	1.2	3.7	4.0	4.5	ROE (%)	52.7	40.1	35.1	17.4	20.3
Inventories	1.5	1.4	2.0	2.2	2.5	<b>Leverage</b>					
Receivables	9.4	15.1	42.8	47.1	51.8	Debt/Asset (x)	0.33	0.25	0.15	0.10	0.11
Other Current Assets	0.0	1.3	1.9	2.1	2.3	Debt/Equity (x)	0.78	0.46	0.43	0.19	0.20
Cash	4.5	3.5	22.4	69.5	71.4	Net Cash/(Debt)	-5	-6	9	55	55
Total Assets	29.0	37.3	88.2	141.8	151.0	Net Debt/Equity (x)	0.42	0.29	-0.28	-0.69	-0.67
Payables	5.8	5.4	35.9	39.5	43.5	<b>Valuations</b>					
ST Borrowings	1.7	2.5	7.7	8.5	9.3	Core EPS (sen)	1.7	2.1	2.8	3.5	4.3
Other ST Liability	0.4	0.5	0.6	0.7	0.7	NDPS (sen)	0.0	0.0	0.0	0.0	0.0
LT Borrowings	8.0	6.9	5.8	6.4	7.0	BV (RM)	0.03	0.05	0.08	0.20	0.21
Other LT Liability	0.8	1.4	6.4	7.1	7.8	NTA (RM)	0.03	0.05	0.08	0.20	0.21
Minority Interest	0.0	0.0	0.0	0.0	0.0	Core PER (x)	21.0	16.6	12.3	9.9	8.1
<b>Net Assets</b>	<b>12.3</b>	<b>20.6</b>	<b>31.7</b>	<b>79.7</b>	<b>82.6</b>	Net Div. Yield (%)	0.0	0.0	0.0	0.0	0.0
Share Capital	1.0	1.0	1.0	60.9	60.9	P/BV (x)	11.08	6.65	4.32	1.72	1.65
Reserves	11.3	19.6	30.7	18.8	21.8	P/NTA (x)	11.08	6.65	4.40	1.73	1.67
<b>Equity</b>	<b>12.3</b>	<b>20.6</b>	<b>31.7</b>	<b>79.7</b>	<b>82.6</b>						
<b>Cashflow Statement</b>											
FY Mar (RM m)	2017	2018	2019	2020F	2021F						
Operating CF	8.7	3.1	18.3	-13.3	3.2						
Investing CF	-2.5	-2.5	-2.0	-1.8	-1.9						
Financing CF	-1.7	-1.5	2.5	62.6	3.0						
Change In Cash	4.5	-1.0	18.9	47.6	4.3						
Free CF	6.2	0.6	16.4	-15.1	1.2						

Source: Prospectus/ Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

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

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