

Friday, 16 December 2005

Listing Today

Starhill Real Estate Investment Trust 2

IPO Price: RM0.96 (Retail), RM1.01 (Institutional)
Fair Value: RM1.07

Starhill REIT (SR) is the largest real estate investment trust to be listed on Bursa Malaysia and the second to be listed after Axis-REIT.

Kindly refer to our Equity Focus Dated 29 November 2005.

Results Review

SP Setia Bhd (RM3.24): Maintain BUY 3

4Q05 results: within expectations. Cumulative 4Q05 net profit of RM203.4m was in line with our and market projections of RM193.4m and RM192.9m, respectively.

Economics

Monetary Policy 6

Malaysia Announces Monetary Policy Meeting Schedule for 2006. Malaysia's central bank said policy makers will meet eight times next year, same as in previous years, but disclosing for the first time the dates for those scheduled meetings in advance, with additional meetings held when necessary.

Previous trading day market performance

| Indices | Close | + / - | 1-d% | 1-m% | ytd % | Most Actives (Main Board) | Close | Change | 1-d% | Volume (m) |
|-----------------|-----------|--------|-------|-------|-------|-----------------------------|-------|--------|------|-----------------------|
| KL Composite | 894.98 | -3.8 | -0.4 | -0.2 | -1.4 | APL Industries Bhd | 0.50 | 0.00 | 0.0 | 6.05 KLCI Current PER |
| KL Emas | 202.65 | -0.7 | -0.35 | -0.65 | -5.4 | Gula Perak Bhd | 0.17 | 0.01 | 3.0 | 5.01 1 Day ago 14.3 |
| KL Second Boarc | 80.12 | -0.4 | -0.52 | -2.61 | -27.7 | YTL Power International Bhd | 2.22 | 0.00 | 0.0 | 4.83 1-month ago 16.3 |
| Dow Jones | 10,881.67 | -1.8 | -0.02 | 1.83 | 0.9 | Bumiputra-Commerce Hldg Bhd | 5.70 | -0.05 | -0.9 | 4.69 |
| Nasdaq | 2,260.63 | -2.0 | -0.09 | 3.38 | 3.9 | Malayan Banking Bhd | 11.30 | -0.10 | -0.9 | 3.46 |
| Nikkei | 15,254.44 | -210.1 | -1.36 | 7.65 | 32.8 | Magnum Corporation Bhd | 1.88 | -0.01 | -0.5 | 3.19 |
| Hang Seng | 15,059.02 | 82.8 | 0.55 | 2.79 | 5.8 | Affin Holdings Bhd | 1.62 | 0.02 | 1.3 | 3.08 |
| Straits Times | 2,325.73 | 1.4 | 0.06 | 3.16 | 12.6 | LBS Bina Group Bhd | 0.44 | 0.00 | 0.0 | 3.07 |

Source: Bloomberg

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Preliminary

Listing Today



IPO: Starhill Real Estate Investment Trust

- Board : Main Board
- IPO price : RM0.96 (Retail), RM1.01 (Institutional)
- Fair value : RM1.07
- Enlarged share capital : 1040 m
- Public issue : 29.9m shares (Retail), 479.6 m shares (Institutional)
- Listing PE : PER06 16.2x
- NTA/share post listing : RM0.99
- Nature of business : Starhill REIT (SR) is the largest real estate investment trust to be listed on Bursa Malaysia and the second to be listed after Axis-REIT.

Its principal activity is to own and invest in real estate and real estate-related assets. It will acquire and invest in Lot 10 and Starhill shopping complexes as well as JW Marriot Hotel, which cost RM1,150m (Table 1).

Table 1: Properties in Starhill REIT

| Property | Appraised Value (RMm) | % Total Appraised Value Of Portfolio |
|--------------|-----------------------|--------------------------------------|
| Starhill | 480 | 42 |
| Lot 10 | 341 | 30 |
| JW Marriot | 329 | 29 |
| Total | 1,150 | 100 |

Source: Mayban Securities Sdn Bhd

The properties are strategically located in the Jalan Bukit Bintang vicinity that forms the "Golden Triangle" area of Kuala Lumpur.

The acquisition of SR's properties will be financed by RM439.6m in IPO proceeds, the issuance of 509.6m in Consideration Units to YTL Corporation, and a RM180m debt facility.

It intends to distribute 100% of the distributable income of in FY06-07 and 95% in FY08.

Kindly refer to our Equity Focus Dated 29 November 2005.

Results
Review**SP Setia Bhd (RM3.24): Maintain BUY**

4Q05 results: within expectations. Cumulative 4Q05 net profit of RM203.4m was in line with ours and market projections of RM193.4m and RM192.9m, respectively.

S P Setia: 4Q05 results

| FYE Oct (RM m) | QoQ | | | YoY | | YoY | | |
|-----------------------|--------|--------|-------|--------|-------|---------|---------|-------|
| | Oct 05 | Jul 05 | % chg | Oct 04 | % chg | FY05 | FY04 | % chg |
| Turnover | 541.3 | 258.3 | 109.5 | 301.8 | 79.4 | 1,262.4 | 1,025.1 | 23.2 |
| Pre-tax profit | 116.4 | 64.3 | 81.2 | 77.4 | 50.4 | 289.8 | 234.6 | 23.5 |
| Net profit | 79.4 | 44.7 | 77.5 | 50.1 | 58.4 | 203.4 | 161.2 | 26.2 |
| FD EPS (sen) | 12.1 | 6.8 | 77.5 | 8.4 | 43.9 | 31.7 | 27.0 | 17.5 |
| NTA (RM) | 2.4 | 2.5 | | 2.5 | | 2.4 | 2.5 | |
| Pre-tax margin (%) | 21.5 | 24.9 | | 25.7 | | 23.0 | 22.9 | |
| Net profit margin (%) | 14.7 | 17.3 | | 16.6 | | 16.1 | 15.7 | |
| Effective tax rate | 31.8 | 30.4 | | 35.2 | | 29.8 | 31.3 | |

Comments

- **Sizable unbilled sales of RM1bn to anchor future earnings**
- **Setia maintains property sales target of RM1bn in FY06**
- **Declared a final gross dividend of 19 sen, higher than 14 sen in FY04**
- **Low net gearing of 0.10x at end-October 2005**
- **Further sell down is unjustified due to the stock's sound fundamentals**
- **Maintain earnings forecast and fair value of RM4.39 per share**
- **Reiterate BUY recommendation on the stock**

Quarter-on-quarter: Sequentially, 4QFY05 revenue jumped by 109.5% and pretax profit rose by 81.2% from 3Q05 mainly due to 1) stronger progress billings from Bandar Setia Alam (BSA), Duta Tropika, Bukit Indah 1&2 and Setia Indah projects; and 2) gain from selling 614 acres of land in Bandar Setia Alam to Perbadanan Kemajuan Negeri Selangor for RM214m cash. We estimated the land sale contributed about RM40m to pretax profit. As a result of higher tax rate of 31.8% versus 30.4% previously, net profit grew at a slower rate of 77.5% to RM79.4m.

Year-on-year: FY05 turnover increased by 23.2% and pretax profit by 23.5% yoy due to the reasons mentioned above. Net profit rose by a fatter rate of 26.2%, due to lower tax rate of 29.8% against 31.3% in FY04.

Strong unbilled sales to support earnings in FY10/06-07. Total property sales including Setia Putrajaya and Setia-Eco Park 50% associates of RM1.2bn in FY05 was at all time high. As at end-October 2005, Setia has total unrecognized sales of RM1bn (RM0.8bn excluding associates) to anchor earnings over the next two years.

Management continues to set a RM1bn property sales target for FY06. Setia has made a good start in 1Q06 whereby it has recorded RM162m sales from the month of October to November 2005. During the period, the maiden launched of 579 units of properties in Setia Tropika (ST), Johor Bharu has chalked up RM86m in sales with take-up rate of 51%. The achievement is commendable as the property price is 10% higher than other property projects in the surrounding area. ST comprises of mid- to higher end residential properties which are priced from RM200k to RM300k per unit.

It has also recorded a 44% take-up rate at Setia Eco-Park (SEP) and sales of RM32m. SEP is also a niche project with property price starting from RM0.6m to RM1.7m. Thus to highlight, despite the slow market, Setia still manage to show a strong performance due to its product differentiation, aggressive marketing, strategic landbanks and strong brand name.

Other plans in the pipelines:

1. **Setia Pearl Island.** Setia recently acquired 112.6 acres land in Barat Daya, Pulau Pinang for RM144.3m. The land, currently a golf club land, would be rezoned for residential development. Management plans to launch the project in 2Q or 3Q 2006. The project will be a mid-high end property development with Gross Development Value (GDV) of RM800m.
2. **Setia Hills Ampang.** The project will be constructed on the last parcel of 15 acre land belong to Setia in Ampang, Kuala Lumpur. Located on a hill, this niche project will comprise 45 bungalows with minimum price of RM1.8m per unit (GDV RM100m). Setia plans to launch the project in January/February 2006.
3. **Higher property price.** Setia expects to increase property price by 10% in BSA and 8% in SEP. Properties in these projects are expected to garner strong interest with the opening of NKVE-Jalan Meru Link in April/May 2006. Another catalyst to the demand is the development of commercial properties. Setia is teaming up with a hypermarket and it expects to sign a contract in three months time.
4. **Developing brand names.** The company has identified three brand names based on its on-going projects namely:
 - a. "Setia Home" which will consist of property priced from RM150k to RM600k,
 - b. "Duta" which will consist of high-end property priced from RM1.6m
 - c. "Eco-Park" which will consist of mid to high-end property priced from RM0.6m to RM1.6m.

Currently "Setia Home", "Duta" and "Eco-Park" are contributing about 75%, 17% and 8% to the group's property sales. Going forward, Setia target to focus on developing "Eco-Park" property development concept.

5. **Land acquisitions.** In relation to the developing the brand names, Setia plans to acquire 500 acres of land to develop more "Setia Home" projects, 500 acres for new "Eco-Park" projects and small parcel of lands for "Duta" projects.

Higher final gross dividend of 19 sen. Setia declared a gross dividend of 19 sen (FY04: 14 sen) translating in full year gross dividend of 25 sen in FY05 or yield of 7.7%. Including 25 sen capital repayment earlier this year, total yield for FY05 is 15.4%.

Clean balance sheet. Net gearing improved to 0.10x as at end-October from 0.11x as at end-July 2005.

No changes to earnings forecast. We are maintaining our fully diluted EPS for FY06 and FY07 of 33.7 sen and 37.8 sen respectively. For FY06 earnings, we have yet to impute an estimated RM20.5m gain from disposal of 50% stake in Setia Putrajaya into our projections. The exercise is expected to complete in January/February 2006.

The stock is trading at its lower range of P/E of 9.6x in FY06 against net profit growth of 8.9% in FY06 and 12.2% in FY07. The current price weakness presents an opportunity to accumulate, as we believe stock is poised to rebound when the market turns. Nonetheless, being favourite with the foreign investors, share price performance in the short period will continue to be volatile. Foreign shareholding has reduced to 40% as at 3 December 2005 from about 51% three months ago. We **maintain BUY** recommendation on the counter based on:

1. proven management track records
2. clear earnings visibility
3. strong financials
4. high liquidity; and
5. attractive gross dividend yield

Maintain indicative fair value of RM4.39 sen based on 13x PER against FY06 EPS of 33.8 sen. **Maintain BUY (52weeks Hi-Lo: RM4.31-RM3.06, FV: RM4.39)**

Earnings Forecast

| FYE 31 Oct (RM m) | 2004A | 2005A | 2006F | 2007F |
|--------------------------|--------------|--------------|--------------|--------------|
| Turnover | 1025.1 | 1262.4 | 1202.4 | 1302.6 |
| Pre-tax profit | 234.6 | 289.8 | 316.7 | 355.2 |
| Net profit | 161.2 | 203.4 | 221.7 | 248.7 |
| FD EPS (sen) | 17.5 | 31.7 | 33.7 | 37.8 |
| NTA/share (RM) | 2.5 | 2.4 | 2.6 | 3.1 |
| DPS (sen) | 20.0 | 25.0 | 20.2 | 22.7 |
| PER (x) | 18.5 | 10.2 | 9.6 | 8.6 |
| P/NTA (x) | 1.3 | 1.3 | 1.2 | 1.1 |
| Div Yield (%) | 6.2 | 7.7 | 6.2 | 7.0 |

PBT in FY05 include gain from land sales of about RM40m

DPS in FY05 of 25 sen exclude 25 sen capital repayment

FY06 not include RM20.5m gain from divestment of 50% stake in Setia Putrajaya

Economics

Monetary Policy

Malaysia Announces Monetary Policy Meeting Schedule for 2006. Malaysia's central bank said policy makers will meet eight times next year, same as in previous years, but disclosing for the first time the dates for those scheduled meetings in advance, with additional meetings held when necessary. However, from next year Bank Negara will issue at least eight monetary policy announcements compared to the usual four. Bank Negara Malaysia will also issue a press statement after each meeting to accompany decisions to enhance communication and promote greater understanding of monetary policy. The monetary policy committee, whose members are not disclosed, will meet on Jan. 20, Feb. 17, April 25, May 22, July 28, Aug. 25, Sept. 26 and Nov. 24. However, Bank Negara may come out at any time to alter its rate policy. Bank Negara also The policy makers decided to keep the benchmark overnight rate unchanged at 3.0% on 14 December at its final meeting of the year. Bank Negara had raised its benchmark rate to 3.0% from 2.7% on 30 November, the first increase since February 1998. Malaysia joins central banks of Southeast Asian neighbors, including Thailand, Indonesia and the Philippines, that have already publicly disclosed the schedules of their policy meetings. The Bank Negara monetary policy committee (MPC) would also continue with the release of monetary policy statements at quarterly intervals to coincide with the release of quarterly gross domestic product (GDP) figures, or, as when there is a policy change. At other MPC meetings, where there is no change in monetary policy, a brief press release would be issued to inform the public of the MPC decision. "Bank Negara Malaysia will continue to undertake additional initiatives in 2006 to enhance communication in promoting greater understanding of monetary policy," it said. (Source: *Bank Negara*)

Comments: We have already highlighted before that Bank Negara is adopting the best practices by the US Federal Reserve, starting from the Overnight Policy Rate (OPR) framework, managing expectations of the market and the latest, yesterday's release of monetary policy announcements schedule. This is in line with our belief that Bank Negara is adopting a policy of "managing expectations", ie. giving advance warning of their monetary policy leanings. Impact on the market is that there will be more transparency and that there will be more market moving announcements by Bank Negara. I have mentioned earlier that Bank Negara is leaning towards the style of the US Federal Reserve and this is just another step. Previously, the OPR and the "neutral zone" comments. The only difference is that while the FOMC monetary policy is decided by voting of the 12 Federal Reserve state governors, Bank Negara's monetary policy decision is decided by the Bank Negara Governor, by statute.

On the interest rates direction, we believe that it is 50:50 there will be a 25bp hike in the OPR on 20 January but a 70:30 certainty that there will be a 25bp hike in the OPR on 17 February.

Other News

TNB: TNB, Government looking at options for capex in power sector. Tenaga Nasional Bhd (TNB) is still in discussion with the government on the options available, including raising electricity tariff, to allow it to meet its capital expenditure. Currently, TNB is carrying out a study with the government, which has engaged a consultant to help prepare the proposals. The point is to strike a balance between the financial requirements of TNB, while maintaining some level of social obligations. (Source: *Bernama*)

KNM: KNM secures RM93m contracts. KNM Group Bhd (KNM) has secured RM93m in overseas contracts from Australia and Myanmar which will contribute positively to earnings and net tangible assets for the financial years ending Dec 31, 2006 and 2007. Its unit KNM Process Systems Sdn Bhd will supply pressure vessels, reactors and tanks for a nickel refinery project in New Caledonia. This contract is secured from Inco Australia Management Pty Ltd, on behalf of Goro Nickel SAS. (Source: *Theedgedaily*)

Proton: Proton hopes pact will improve access of Malaysian products into Japan. Proton Holdings Bhd hopes that the recently signed Japan-Malaysia Economic Partnership Agreement (JMEPA), will provide greater market access for Proton cars and auto components into Japan. Proton view the JMEPA as an important step in improving access of Malaysian products to Japan, and in turn, Japanese products into the Malaysian market. (Source: *Bernama*)

Proton: Proton expects to sell 1,000 Chancellors within a year. Proton Holdings Bhd expects to sell 1,000 units of the Proton Chancellor within one year, based on its target buyers who range from senior executives to high-ranking government officials. The Chancellor, specifically designed to be a chauffeur-driven vehicle, is an executive-class sedan. (Source: *StarBiz*)

Sime Darby: Sime Darby RM500m notes attract RM2b in book orders. Sime Darby Bhd's RM500m four-year AI-Murabahah medium term notes (MMTN) has attracted over RM2b in book orders, from both local and offshore investors. Final orders reached RM2.1b, more than seven times subscribed from the original issue size of RM300m, Sime Darby said on Dec 15. (Source: *Theedgedaily*)

Celcom: Celcom plans to expand its 3G roaming by Q3 2006. Celcom (Malaysia) Bhd plans to expand its 3G roaming services by third quarter next year. Celcom 3G roaming is currently available in Singapore, Hong Kong, Japan and Brunei. Celcom today launched its prepaid Xpax 3G package to further complement its 3G services in the country especially in meeting its target of 150,000 3G customers by the end of next year. The company currently has close to 20,000 3G subscribers. (Source: *Bernama*)

Digi: DiGi offers peace of mind with mEye. DiGi Telecommunications Sdn Bhd has teamed up with iNavigate Sdn Bhd to provide mEye, a home monitoring solution that enables customers to use their mobile phone to access web cams at home or the office from anywhere, anytime. It provides either still images or 10-second video clips. (Source: *Theedgedaily*)

Telcos: Vad signs 6.87m ringgit consultancy deal with Telekom Malaysia. Managed network services provider VADS Bhd said it has agreed to provide consultancy services to parent Telekom Malaysia in relation to the latter's Contact Centre Transformation Project for a contract value of 6.9m. In a statement to Bursa Malaysia, VADS said the deal will be for a period of one year and will enhance revenue generation and value creation for its shareholders. (Sources: *Bursa Malaysia*)

AirAsia: AirAsia to introduce new routes to Sabah. The country's low fare airlines, AirAsia Bhd will start its two new direct flights from Johor Baharu to Sandakan and Johor Baharu to Tawau to cater to the huge demand by travellers from Singapore in February next year. The new routes were specially requested by Singapore travellers who would like to visit Orangutan Rehabilitation Centre in Sandakan and the divers' haven in Sipadan Islands. (Source: *Bernama*)

Power Sector: Consortium offers to buy power from Bakun at 7.5 Sen per kilowatt hour. The China-Malaysia consortium which is bidding to build an aluminium smelting plant in Similajau, Sarawak, has offered to buy all the power generated by the Bakun Hydroelectric dam at two US cents (7.54 sen) per kilowatt hour. The proposed aluminium smelting plant is initially projected to consume around 1,000 MW, less than half of the power expected to be generated by the dam which has the capacity of 2,400 MW. (Source: *Bernama*)

Bosch: Bosch opens first BSC in East Malaysia. Bosch, a leading manufacturer of automotive and industrial technology, has launched its first Bosch Car Service (BCS) centre in East Malaysia, located in Bintulu, in collaboration with Metro Tyre Service Centre Sdn Bhd. The BCS was a service network concept, established in partnership with automotive aftermarket wholesalers and independent workshops to provide first class 'bumper-to-bumper service' for passenger cars and light commercial vehicles. (Source: *Bernama*)

CGC: CGC plans tie-ups with foreign partners. Credit Guarantee Corp Malaysia Bhd (CGC) is seeking strategic alliances with foreign partners to help tap funds from the capital market for the small- and medium-sized enterprises (SMEs). Such alliances may result in changes in the shareholding of CGC, which is now 79.3 per cent-owned by Bank Negara Malaysia and the rest by financial institutions. (Source: *Business Times*)

Intel Corporation: Intel, BMW partner in F1. Intel Corporation has collaborated with BMW Group to create a long-term comprehensive partnership that includes technology, co-marketing and Intel's sponsorship of the BMW Sauber Formula One (F1) team. Its technology will be deployed throughout the BMW Group and its worldwide dealer network. Intel will also become an "Official Corporate Partner" of the BMW Sauber F1 Team. (Source: *Theedgedaily*)

Analyst Briefing

| Date | Company | Time | Venue | Contact Person & No. | RSVP by |
|-----------|------------------------|---------|--|---|-----------|
| 16 Dec 05 | KBB Resources Bhd | 11.00am | Equatorial Hotel Kuala Lumpur | Mr. Jason Lee Tel: 03-2732 2556 | 14 Dec 05 |
| 19 Dec 05 | MMS Ventures Bhd (IPO) | 10.00am | Berjaya Time Square Hotel & Convention Centre Kuala Lumpur | Ms. Sharon Tong / Ms. Bernice Perera Tel: 03-9223 3818 | 16 Dec 05 |

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- BUY** Price appreciation in excess of 10% expected in the next 12 months
- SELL** Price depreciation in excess of 10% expected in the next 12 months
- TRADINGBUY/SELL** Significant price movement expected in the next 3-months arising from positive/negative newsflow e.g. mergers and acquisition, corporate restructuring, and potential of obtaining new projects.
- AVOID** Uncertainty in newsflow.

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

Some common terms abbreviated in this report (where they appear):

| | | |
|--|--------------------------|---|
| adex = advertising expenditure | FCF = free cashflow | PE = price earnings |
| BV = book value | FV = fair value | PEG = PE ratio to growth |
| CAGR = compounded annual growth rate | FY = financial year | PER = PE ratio |
| capex = capital expenditure | FYE = financial year end | qoq = quarter-on-quarter |
| CY = calendar year | mom = month-on-month | ROA = return on asset |
| DCF = discounted cashflow | NAV = net asset value | ROE = return on equity |
| DPS = dividend per share | NTA = net tangible asset | ROS = return on shareholders' funds |
| EBIT = Earnings before interest and tax | P = price | WACC = weighted average cost of capital |
| EBITDA = EBIT, depreciation and amortisation | p.a. = per annum | yoy = year-on-year |
| EPS = earnings per share | PAT = Profit after tax | ytd = year-to-date |
| EV = enterprise value | PBT = Profit before tax | |