

29 January 2010

BUY
RM2.03

Target Price: RM3.68

Stock data

Market cap (RMm) :	735.8
Issued shares (m) :	362.4
52-week range:	RM0.788 - RM2.22
3-mth avg daily volume:	225,105 shrs
Bloomberg code:	COCO MK
YTD price chg:	+4.1%
YTD KLCI chg:	-0.7%
Est. free float:	25.1%
Major shareholders:	
Ivory Asia S/B:	31.3%
Pang Fong Thau:	21.4%
Lembaga Tabung Haji:	10.1%
Rickoh Corp S/B:	7.0%
Chin Heng Ng:	5.1%

KLCI	FBM70	FBM100	Syariah	Hijrah
No	No	No	Yes	No

Consensus

FYE 31 Dec	2009E	2010E
Net profit (RMm):	138.0	151.7
EPS (sen):	41.0	44.7

Forecast revision

FYE 31 Dec	2009E	2010E
Prev. net profit (RMm):	155.3	165.8
Revision (%):	-	-
Net profit (RMm):	155.3	165.8

Share price chart

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Coastal Contracts

New business segment

- Entering fabrication business.** Group announced that via its wholly owned subsidiary – Pleasant Engineering Sdn Bhd had entered into a Memorandum of Understanding (MOU) with Ramunia Fabricators Sdn Bhd (Ramunia), a wholly owned subsidiary of Ramunia Holdings Berhad (RHB) for a proposed collaboration to undertake tendering, bidding and fabrication in relation to any contracts involving engineering, procurement and construction of topsides, jackets and structures for the oil & gas industry.
- Not a surprise** with the announcement as Coastal had always intended to venture into the heavy structure fabrication business as part of its diversification strategy away from its traditional shipbuilding / leasing business. Little details as to the final joint venture though pending the signing of the actual joint venture.
- 2 year duration for the MOU** pending finalization of the eventual joint venture. Based on preliminaries, we gather that Coastal will be value-adding via the contribution of its 52 acre yard located in Seguntor, Sandakan as well as being a sub-contractor for Ramunia. This is however not confirmed.
- Ample opportunities off Sabah's waters.** With major oil fields located nearby, prospects for fabrication and repair services are promising. Versus competing yards in West Malaysia and Singapore, Sabah yards should command a strategic advantage given proximity to the key producing fields including Kikeh and Gemusut-Kakap.
- Groundwork undertaken on the yard since acquisition in Aug 2006.** With draught of at least 15m, we were impressed that the yard with a completed slipway should be able to accommodate jobs up to 10,000 tonnes or RM200m worth based on RM20,000 per tonne. For starters, we believe management would most likely to undertake smaller jobs to kick-start the new business segment. Qualification for the yard by Petronas will be the main priority given the joint venture will most likely to gun for Petronas jobs.
- Forecast and BUY maintained with RM3.68 target price** based on 8x FY10F. Strong earnings viability stretching up to 2011 from its RM1.5b order-book and undemanding multiple at 4.7x remains our key attraction to the stock. While the new announced joint venture is in very preliminary stage, prospect for the new business segment is promising given proximity and Coastal's strong execution capabilities.

Earnings Estimates

FYE 31 Dec (RMm)	2007A	2008A	2009F	2010F	2011F
Revenue	291.8	348.1	458.6	520.1	625.7
Cost of Sales	(208.9)	(237.9)	(298.1)	(338.1)	(413.0)
Gross Profit	82.8	110.1	160.5	182.0	212.7
GP %	28.4%	31.6%	35.0%	35.0%	34.0%
EBITDA	79.3	108.0	170.0	186.5	217.2
EBITDA %	27.2%	31.0%	37.1%	35.9%	34.7%
Pretax	71.1	96.5	158.5	174.5	204.7
Pretax %	24.4%	27.7%	34.6%	33.6%	32.7%
Tax	(1.8)	0.3	(3.2)	(8.7)	(20.5)
Tax %	-2.5%	0.3%	-2.0%	-5.0%	-10.0%
MI	0	0	0	0	0
Net Profit	69.3	96.8	155.3	165.8	184.3
EPS	20.0	27.5	43.1	46.1	51.2
Net %	23.8%	27.8%	33.9%	31.9%	29.4%
EPS Growth	97.9%	37.6%	56.8%	6.8%	11.1%
PER(x)	10.2	7.4	4.7	4.4	4.0
EV/EBITDA(x)	9.5	6.8	4.3	3.6	3.0

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