Vivocom CEO Dato' Seri Dr Yeoh Seong Mok and Executive Director Choo Seng Choon.

A CONSTRUCTION GIANT IN THE MAKING

Vivocom now a formidable force within the construction industry

Over the past few months, one particular counter has captured the imagination of the investing public.

It's a phenomenon rarely seen on Bursa Malaysia, as the company transformed into the biggest ACE counter in Malaysia, with trading in its stock enjoying high and sustainable liquidity and consistently within the stock exchange's most active counters on a daily basis.

That counter is none other than Vivocom Intl Holdings Berhad (Bursa Malaysia stock code: 0069), formerly known as Instacom Group Berhad.

Traders and investors have been buying heavily into this stock as a sign of confidence coupled with the company's exciting future growth prospects and bright potential.

Even Brahmal Vasudevan, founder and chief executive officer (CEO) of private equity firm Creador Sdn Bhd, has reportedly emerged as one of the investors who took up shares in a private placement by acquiring a 2% stake in his personal capacity.

The company's stock has been covered by CIMB, which released an analyst report dated 30 November 2015 with an "Add" rating and a target price of 67 sen per share. The report was entitled "Instacom Group: Proxy play for Chinese FDI in Malaysia".

In an ensuing note dated 6 December CIMB added that "investors should take

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advantage of the current share price weakness to accumulate Instacom shares" as they present an "excellent buying opportunity." (more to come below)

On 21 January, MayBank Retail Research also gave coverage to Instacom, concluding: "When one looks at the FY17 valuation, it is attractive at a PER of 3.1x. For now, positive news flow and continuous job wins will help to draw interest to the stock."

A few days later, MIDF was the latest research house to highlight the company's bright prospects, giving Vivocom a target price per share of 59 sen. (see sidebar story)

At its current level of 30 sen, that's potentially huge capital appreciation that investors could potentially look forward to!

So why is there so much optimism within the investment community about Vivocom?

UNLEASHING A MALAYSIAN CONSTRUCTION GIANT!

After numerous attempts, Business Today finally managed to secure an interview with Vivocom executive director Choo Seng Choon.

Choo is a Chartered Certified Accountant, a Chartered Member of the Institute of Internal Auditors and an internal auditor certified by the Institute of Internal Auditors, USA. He has more than 20 years of professional and management experience in varied industries, including construction, property development, timber, mining, media and entertainment, hotel & golf club management, e-commerce, manufacturing, trading, services, expressway and toll operations, aviation, and oil and gas exploration.

It was late in the night as Choo has had a busy schedule over the last few months with constant requests from some of the country and region's top fund managers and institutional investors to provide updates on the company.

For a start, Vivocom has a strategic relationship with CRCC Malaysia, a subsidiary of China's construction behemoth China Railway Construction Corporation Ltd, Choo explains.

"Vivocom is also CRCC's in-house contractor, as well as its Project Delivery Partner in Malaysia," he adds.

According to its website, CRCC is "one of the world's largest integrated construction groups, ranking 79th among the Fortune Global 500, and 6th among China's Top 500 Enterprises, as well as 1st among ENR's Top 250 Global Contractors in 2013. It is the largest engineering contractor in China."

"The critical success factors in Vivocom's contract wins are our strategic relationships fostered and the ability to deliver projects on time," Choo says.

"Our CEO Dato' Seri Dr Yeoh Seong Mok was instrumental in securing various projects. There will be more to come and Vivocom is looking forward to delivering stronger and better financial performance ahead."

Dato' Seri Dr Yeoh is a Project Management Professional (PMP) certified by Project Management Institute (PMI), USA, and he graduated with a Bachelor's degree in Construction Management from the University of Greenwich and holds a Master of Science in Engineering Business Management from the University of Warwick. He received his Doctorate in Business Administration (DBA) from the University of Greenwich and PhD in Project Management from University of Honolulu. Dr. Yeoh also has the Bachelor of Laws (LLB) from the University of London.

PROJECT PIPELINE OF RM2.4 BILLION AND STILL GROWING!

Vivocom's recently awarded notable projects include a RM116 million (mn) project in Gombak and two projects totaling RM378mn related to the 1Gateway project in Klang and 1Pavilion Hilltop in Mont Kiara, Kuala Lumpur.

In late January 2016, the company also won a project totaling RM240mn from Coneff Corporation for Desa Tasek in Sg Besi, and this was followed by a Heads of Agreement for an additional RM230mn for Phase 5 of the said project.

This means Vivocom Group has potentially secured projects amounting to RM1.167billion (bn) to date, including RM726.8mn from CRCC Malaysia.

These projects, together with the company's current order book are expected to give strong earnings visibility until end-2017 and beyond. Vivocom currently has a project pipeline estimated at RM2.4bn.

When asked about its working relationship with CRCC Malaysia, Choo

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replies that the partnership with CRCC was formed over the successful rescue of projects given by CRCC.

"CRCC was comforted with our project delivery overtime and, hence, have conferred us preferred contractor status," Choo says.

"In 2016, our construction business is expected to contribute about 70% to 75% of the Group's revenue, whilst the remaining 25% to 30% will be provided by the aluminum fabrication business and the telco business," he adds.

"Bulk of the profits is expected to come from the construction business in view of the sheer size and value of the projects being executed," he emphasises.

EXCELLENT BUYING OPPORTUNITY!

Back to Vivocom's share price. CIMB Research has described the current share price of Instacom as an "EXCELLENT BUYING OPPORTUNITY".

"Investors should take advantage of the current price weakness to accumulate Instacom shares. We continue to believe that Instacom is a direct proxy for increasing Chinese FDI in Malaysia," says the research house.

CIMB has a target price of 67 sen per share for Vivocom, giving rise to potential upside of double and beyond the current level of approximately 30 sen.

"We forecast a whopping FY15-17F FD EPS CAGR of 437%, underpinned by the RM2.0bn in outstanding construction billings, as well as additional contract wins in 2016, which we estimate at RM3bn," says CIMB.

"We believe that Instacom has massive P/E re-rating potential, given its large valuation gap with its construction peers. It still trades at FY17 FD P/E of 4.6x, at a massive 66% discount to the sector average FY17 P/E of 13.5x.

"The recent sale of Edra Global Energy to China General Nuclear Power Corporation (CGN), the Chinese government's interest to bid for the 486-acre Bandar Malaysia development (Editor's note: This has since materialised) and the High-Speed Rail project has ignited interest in proxy plays for increasing Chinese investment in Malaysia.

"We see Vivocom (Instacom) as a prime beneficiary of this emerging investment theme," emphasises CIMB.

With a slew of projects in its bag and more to come, it does look like the sky's indeed the limit for Vivocom. BT

BY G.M TEOH

INDEPENDENT ANALYST OUTLOOK: VIVOCOM

VIVOCOM INTERNATIONAL HOLDINGS BERHAD (or VIHB) (stock code: 0069), formerly known as Instacom Group Bhd, has transformed into the biggest ACE company in Bursa Malaysia and remained the market volume leader for the past several weeks and months.

Traders and investors expressed their confidence on its exciting future growth prospects and bright potentials by buying heavily into this stock.

Vivocom (VIHB) is evolving into a key player of the construction industry as both project management consultant and sub-contractor. It is also one of the very few listed genuine proxy to China's increasing foreign direct investments into Malaysia.

Regular sub-contracting projects from China Railway Construction Corporation Ltd. (CRCC) and China Railways Construction Corporation Berhad (CRCCB) and solid recurring income from rentals of 50 telco assets nationwide attracted the attention of many traders and investors lately.

Vivocom current order book value stands at RM2.43 billion (bn) and is expected to increase significantly over the next few months.

VIVOCOM is an investment stock – and not a speculative boom-and-bust stock.

PRICE OUTLOOK

Trading over the last seven weeks was range-bound with prices locked in a narrow band of 27 to 29 sen. Is this stock now facing overhead resistance or is this a price-support level? These questions are expected to be adequately answered in days and weeks to come.

Let us take a close look. An upper level price resistance now stands at the 30.5 -31.5 sen and price-support is currently pegged at 26 - 27 sen. This chart support appears to be solidly intact.

The fact that prices are able to congest on high volume near the upper-end of a major bullish-rally for seven weeks confirmed that the underlying technical strength of VIVOCOM is strong. Volume over the last seven weeks totalled 1.73bn shares.

The next big move that would determine the direction of this stock for the future is more likely to be up than down.

Perhaps, the positive trading environment ahead of the Chinese New Year of the Monkey may provide the setting for an upward move!

What's next? Market intelligence analysis suggests that in the event of a successful upward price breakout at the upper-ceiling of this horizontal band trading resistance level of 30.5 - 31 sen, this stock could be transformed into a screaming-buy!

VIVOCOM stock price would firstly be expected to trend higher in the immediate future to the 35 sen level and consolidate before gathering fresh momentum and track higher on renewed buying to test its near-term price-target at 43 sen.

Continuation of the constructive technical development and bullish sentiment, VIVOCOM is expected to intensify towards the second-quarter of 2016 and potentially generate further renewed buying-interests and help lift prices higher into the 68 - 70 sen level in the longer term. BT

G.M. Teoh is an independent quantitative market analyst, who has successfully defied conventional wisdom of trading. His analytical research work on stock markets were published by The Star Publications weekly under the column named "The Stock Market Signals" from 1986 to 2009. He is currently the chief coach of the Master Trader Tutorial (MTT) conducted in Singapore, Malaysia and Indonesia. Views expressed are his own. Please consult your stockbroker or financial advisor before making any investment decision.

VIVOCOM IS "NEW SILK ROAD BENEFICIARY"

Says MIDF valuing company at 59 sen per share

On 28 January 2016, MIDF Research issued a "Smallcap Highlight" report on Vivocom Intl Holdings Berhad entitled "New Silk Road Beneficiary", valuing the company at 59 sen per share through the application of its sum-of-parts methodology.

"Vivocom International Holdings Berhad (VIHB) is transforming into a serious player within the various segments of the construction value chain as it assumes the roles of project manager, main and sub-contractor," stated the report. "VIHB is seen as a beneficiary of China's massive FDI into emerging economies as part of their 'New Silk Road' development policy," it further added.

MIDF'S KEY INVESTMENT THESIS:

I. PROJECT MANAGEMENT AND SUB-CONTRACTORBUSINESS MODEL.

• Operates in a sweet spot segment of the construction value chain as both project management consultant and sub-contractor.

• Risk avoidance strategy of minimal capex through sub and main contracting thus removing tender and performance bond costs for construction projects.

• Expect steady jobs inflows from China Railways Construction Corporation Ltd. (CRCC) and CRCC Malaysia Berhad.

• Solid recurring income from rentals of 50 telco assets.

2. HEALTHY FINANCIALS

• Expect pretax margin of 10% to 12% which is above its peers in the KL Construction Index of 8%.

• Average 3-year positive operating cash flow of RM16.16m.

• Expect growing and sustained order-book replenishment rate.

• Steady recurring average 3 year revenue from telco assets of 21% (RM25.4m).

• Potential re-rating catalyst based on our assumption of VIHB construction PER of 13x vs. sector average PER of 16x.

3. STRATEGIC POSITION IN THE CONSTRUCTION VALUE CHAIN

• Operates as a project delivery partner (PDP) by setting project objectives, performance progress rate monitoring, procurement, control of the process design, estimation and construction coordination as well as stakeholder management.

• Extensive technical capabilities for subcontracting from the project management role through technical joint venture with CRCC and China MCC especially for industrial, heavy civil and telecommunication construction engineering tenders.

FINANCIALS

• Expect healthy pretax margin. VIHB is expected to record pre-tax margin rates between the ranges of 10%-12% which is above the KL Construction Index average of 8%. VIHB's expected operating margin is illustrative of its business model in project management and sub-contracting. Its positions in the construction value chain enables the reduction for construction cost of tender, performance bonds and mobilization fee.

• Positive operating cash flow. The operating cash flow has been positive due to its prudent and risk adverse strategy of meticulous project selection and scheduled progress billings. VIHB has recorded a 3-year average free cash flow (FCF) of RM 15.5m which is not heavily saddled by interest payment, capital and development expenditure. We are expecting the positive cash flow to be sustainable with an estimated growth rate of +30% underpinned by healthy margin and cost structure.

• Strong orderbook from joint venture strategy. What is more surprising is the rate of its orderbook replenishment. VIHB's orderbook has grown by +33% from RM1.8bn in Q32015 to RM2.4bn to-date especially in mixed development construction segment. The total construction backlog is indicative of the success of its joint venture strategy with CRCC by acting as the project manager, sub-contractor or combination of both. VIHB stands as a frontrunner for sub and main contracting or project delivery partner in most of the projects financed by CRCCB or CRCCG as VIHB functions as the local construction partner.

• Steady recurring income. Additionally, VIHB enjoys steady recurring income from the rentals of 50 telecommunication assets nationwide with the 3-year average contribution of RM25.4m per annum on the back of an admirable 15% net margin. The telco segment amounts to 21% of its total revenue in 2014.

• Prospects. We believe that VIHB is able to clinch projects related to railway constructions and engineering as well as RAPID, Pengerang. Our assessment derives from their working arrangements with (i) CRCC for double track construction, and (ii) consortium of upstream petroleum engineering companies for RAPID, Pengerang projects under Technicas Reunidas SA. Additionally, VIHB has attracted institutional foreign shareholding amounting to +5.4%. Moreover, Beijing Construction Engineering Group has also expressed interest to participate in VIHB equity capital structure as well as appointing VIHB as their local project delivery partner (PDP).

VALUATION

Based on its current construction orderbook of RM2.4bn at 11% net margin with WACC of 9%, the DCF-derived present value of VIHB construction business stands at merely RM0.04 sen per share. However, we reckon the present value based on existing orderbook is not truly indicative of the growth potential of VIHB construction business. This optimism is premised on the prospect of VIHB annual orderbook replenishment target rate of RM950m (sub and main contractor roles as well as project delivery partner) pursuant to its technical joint venture with CRCC as well as other close working relationships with China MCC and Regal International Group.

It is also worthwhile to note that the order book of CRCC in the region currently amounts to >RM9.0bn. Based on our discussion with the management, an annual orderbook replenishment target rate of RM950m for VIHB is achievable through (i) the technical joint venture with CRCC, and (ii) policy of project completion guarantee. Therefore, based on (i) a more conservative annual orderbook replenishment rate of RM685m, (ii) at 11% net margin, and (iii) PER multiple of 13x which is comparable to other small cap construction companies, we believe the fair value of VIHB construction business stands at RM0.40 sen per share.

In summary, inclusive of its 3 main businesses our fair value for VIHB is RM0.59 per share based on FY17F sum-of-parts methodology.