

RHB Highlights

◆ Semiconductor Sector : Results Preview – Expect Soft 1QCY05 Performance	NEUTRAL
◆ Aluminium Company Of Malaysia Berhad (Alcom) : Earnings Growth On Track; An Attractive Dividend Play	MARKET PERFORM
◆ Genting Berhad : Raises Stake In London Clubs International To 29.9% & S'pore Named Genting as 1 Of 14 Second Round Bidders for IR&Cs	OUTPERFORM
◆ Gamuda Berhad : The Double-Tracking Project May Be Revived Under 9MP	OUTPERFORM
◆ MTD Capital Berhad : Acquiring Remaining 10% Stake In Philippine Toll Road Company	MARKET PERFORM
◆ AirAsia Berhad : To Impose Fuel Surcharge	MARKET PERFORM
◆ Edaran Otomobil Nasional Berhad : Signs MOU To Distribute TATA Vehicles	UNDERPERFORM
◆ Public Bank Berhad : Share Price Weakness A Good Buying Opportunity	OUTPERFORM

Semiconductor Sector*Results Preview – Expect Soft 1QCY05 Performance*

- ◆ Generally, we expect the Malaysian semiconductor firms to post results that show a flat or marginal decline in 1QCY2005 turnover as the industry was still affected by inventory adjustment activities and sales were seasonally softer in 1Q.
- ◆ Globetronics' 1Q05 topline performance may be weaker than our previous expectation of 4-5% yoy increase. Instead, sales may be marginally below the RM76.1m sales recorded in 1QFY12/04.
- ◆ MPI's management guided for a flat to +5% qoq growth in 3QFY06/05. This translates into a yoy decline of 10-15% in topline performance.
- ◆ Unisem: the continuous strength of the Euro may lead us to downgrade our FY12/05 earnings forecast, potentially up to 21% pending the release of its 1QFY2005 results. This may bring FY2005 EPS down to 11.8 sen. We estimate that a 1% increase of the Euro/US\$ exchange will dent Unisem's FY12/05 EBITDA by RM1m.
- ◆ AIC's semiconductor business may be flat yoy in 1QFY12/05, in line with seasonal trend and the company's marketing & sales efforts.
- ◆ In anticipation of the soft Mar 05 quarter performance to be released by the semiconductor companies under our coverage, we are holding our view that it is pre-mature to turn bullish on the sector.

Expect flat or marginal yoy decline in earnings performance for 1QCY2005. The semiconductor stocks under our coverage are expected to release their 1QCY05 financial results from this week onwards. Generally, we expect the Malaysian semiconductor firms to post results that show a flat or marginal decline in 1QCY2005 turnover as the industry was still affected by inventory adjustment activities and sales were seasonally softer in 1Q.

Table 1 : Global Semiconductor Sales Forecast By Industry Researcher

	2005f	Remarks
SIA	+0.0%	-The excess inventories that slowed growth in the second half of 2004 have been largely depleted.
WSTS	+1.2%	- Expecting a soft landing for the industry in 2005 and 3% growth in 2006.
iSupply	+4.7%	- Inventory adjustment activities are over and the industry is on track to digest surplus.
Gartner Inc	+3.4%	- Cut 2005 industry growth forecast (from +5.2% to +3.4%) in Feb 05; - Also, warned of two sluggish years of over-capacity and mounting price pressure. - But, predicted chipmakers sales to decline in Q1 and stabilise in Q2, as inventories continue to be normalised.

* Sources: the websites of the respective research sources

Here's a preview of the various companies under our coverage:

◆ Globetronics Technology Bhd

Expect a seasonally soft 1QFY12/05. While we had expected a soft 1Q05 in line with seasonal trend, Globetronics' 1Q05 topline performance may be weaker than our previous expectation of 4-5% yoy increase. Instead, sales may be marginally below the RM76.1m sales recorded in 1QFY12/04. Weaker sales also resulted in slightly weaker margins. Overall capacity utilisation rate was estimated to be 63-64% in 1QFY12/05 compared to 65% in end-FY12/04. Losses of its Kuala Lumpur operations, which has yet to achieve economies of scale in production volume will also be another drag on 1QFY12/05 performance.

Performance should improve from 2QFY12/05. The transfer of the packages to Globetronics' plant in Penang by STMicroelectronics reached 100% of the full targeted amount and is expected to benefit performance in the coming quarters. To recap, the STMicroelectronics contract for four products is projected to contribute RM30-40m or 8% to FY12/05 revenue. Meanwhile, loading for the new contract (indirectly for Canon) at the China plant remained modest in 1QFY12/05 but expected to pick up in the coming quarters.

Capex for FY12/05 expected at RM28m, above our forecast of RM10m. The variance is mainly due to the exclusion of the RM12m capex for the acquisition of the land and factory in China as well as the additional RM3m to be spent on the facilitation of its KL operations. Globetronics is in the midst of acquiring the land and the factory of its China plant, in which it is currently leasing. The land acquisition is expected to cost RM3.6m and Globetronics plans to spend another RM8m to expand the factory space. Globetronics' cash hoard of RM61.8m at end-Dec 2004 is sufficient to fund its capex and the depreciation charges from the plant acquisition will be mitigated by the cost saving on lease charges of around RM0.2m p.a.

◆ Malayan Pacific Industries Bhd

Expect a flat to +5% sequential growth in 3QFY06/05 revenue. Based on our last update post analyst briefing in March 2005, management guided for a flat to +5% qoq growth in 3QFY06/05. This translates into a yoy decline of 10-15% in topline. ASP erosion is also projected to be more severe, at 6-7% in FY06/05, compared to 3-5% historically. At the bottomline, FY06/05 net profit is projected to be 15-16% below the RM131.2m achieved in FY06/04.

◆ Unisem Bhd

1QFY12/05 earnings performance may be still be dragged down by Unisem Europe. The Euro/US\$ exchange rate averaged 1.3077 in 1QFY12/05, little change from the 1.2976 level in 4QFY12/04. As such, we are not expecting Unisem Europe (formerly known as Atlantic Technology) to turn around anytime soon. To recap, Unisem Europe was in the red in 4QFY12/04, as performance was dampened by the strong Euro vis a vis the US dollar, given that its revenue is in US dollar while cost is largely Euro-based.

Downside earnings risk. We are projecting Unisem Europe to contribute RM13.4m or 21% to Unisem's overall net profit in FY12/05. However, the continuous strength of the Euro may lead us to downgrade our FY12/05 earnings forecast, potentially up to 21% pending the release of its 1QFY2005 results. This may bring FY2005 EPS down to 11.8 sen. We estimate that a 1% increase of the Euro/US\$ exchange will dent Unisem's FY12/05 EBITDA by RM1m.

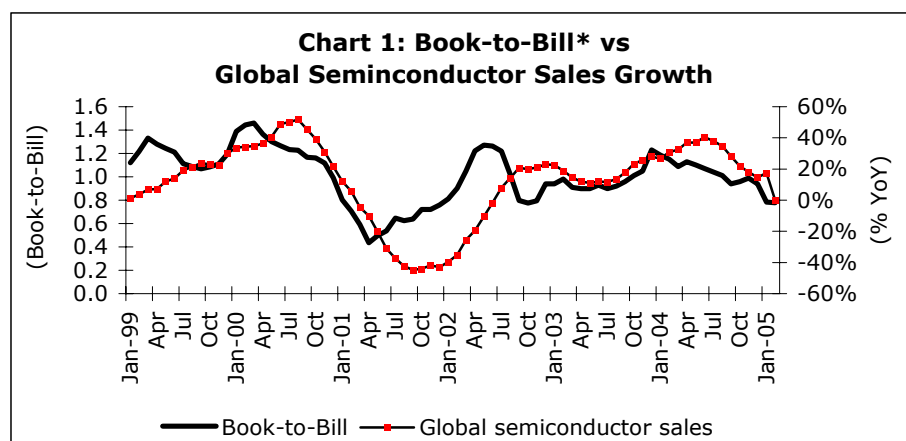
Table 2 : Unisem's Quarterly Financial Performance

FYE 31 Dec	4Q03 (RMm)	1Q04 (RMm)	2Q04 (RMm)	3Q04 (RMm)	4Q04 (RMm)
Revenue					
Malaysia	95.1	100.6	121.4	124.2	100.4
Europe (ATH)	-	-	-	27.0	20.3
Total	95.1	100.6	121.4	151.2	120.7
PBT/(LBT)					
Malaysia	9.2	10.0	11.9	15.2	0.8
Europe	-	-	-	0.007	(2.7)
Total	9.2	10.0	11.9	15.2	(1.9)

◆ AIC Corporation Bhd

Expect a stable 1QFY12/05 performance of its semiconductor division. The semiconductor business may be flat yoy in 1QFY12/05, in line with seasonal trend and the company's marketing & sales efforts.

Fast erosion in selling prices remains a threat to earnings performance of its display operation. The LCD display business has successfully launched its monitor products (17" and 19") and is currently producing about 4,000 units per month. The introduction of 42" LCD TV and Plasma TV in 2QFY12/05 are also on schedule. Taking into account of prevailing erosion in selling prices, we are only projecting a small operating profit (<RM1m) from the division. With panel makers continuing to invest in next-generation production plants, prices of LCD TV's should continue to fall. Industrial Economics and Knowledge Center IEK recently claimed the ASP (average selling prices) of LCD TVs is expected to drop 20-28% annually to below US\$1000 in two or three years.



* US Equipment Manufacturers' Book-to-Bill

Industry is bottoming but yet to see demand catalyst. In anticipation of the soft Mar 05 quarter performance to be released by the semiconductor companies under our coverage, we are holding our view that it is pre-mature to turn bullish on the sector. However, the gradual pick-up in demand and the slow capacity expansion by industry players are expected to improve market imbalance and absorb excess inventory in the distribution system. Additionally, the prevailing lean inventory position suggests that a pick-up in demand will translate into order flow in a timely manner. Hence, we are keeping our **NEUTRAL** rating for the sector.

	Price (RM/s)	EPS GWTH (%)		PER (x)		EV/EBITDA (x)		GDY (%)		Recomm
		FY05	FY06	FY05	FY06	FY05	FY06	FY05	FY06	
Semiconductor										
AIC	1.36	n.a.	66.7	21.7	13.0	6.2	4.8	2.9	3.9	MP
Globetronics	0.40	11.9	11.1	15.1	13.6	9.3	8.2	3.0	3.0	MP
MPI	12.20	-15.8	28.9	22.0	17.0	5.8	4.4	3.3	4.5	MP
Unisem	1.78	82.6	40.6	12.7	9.0	3.9	2.8	2.8	2.8	MP
Mems Tech	0.74	4.2	+>100.0	27.9	6.4	11.8	3.7	0.0	0.0	OP
Uchi	2.90	15.5	20.4	14.5	12.1	12.4	10.1	4.9	5.8	OP
Megan Media	1.22	11.3	8.6	4.0	3.7	2.8	2.7	5.5	6.1	MP
Sector Avg* (Semiconductor)		5.5	39.1	19.9	11.8					

*excludes Uchi & Megan Media

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Aluminium Company Of Malaysia Berhad (RM1.68)

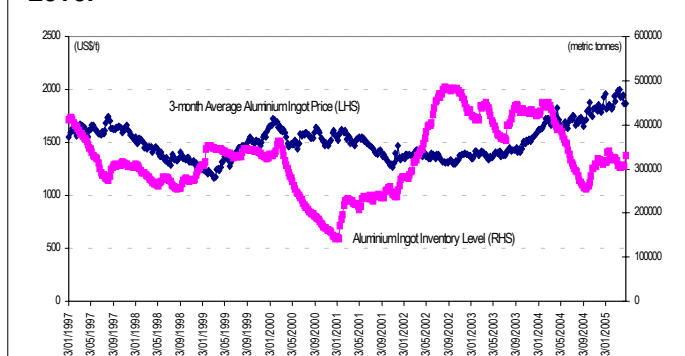
Earnings Growth On Track; An Attractive Dividend Play

- ◆ We expect Alcom to report sequentially stronger 1QFY12/05 performance, attributable to high metal prices, improved profit mix and margin enhancement.
- ◆ Alcan Inc's recent acquisition of a tobacco packaging company in Malaysia is not expected to boost Alcom's earnings in the near term. The potential benefits to Alcom from this development will still depend on Alcom's technical capability given the stringent quality requirement by tobacco companies.
- ◆ We continue to like Alcom for its earnings turnaround, impressive gross dividend yields of 6% p.a and strong fundamentals – global brand name and debt-free balance sheet with projected cash reserve of RM84m or 64sen/share by end-FY12/05.
- ◆ Alcom's strong cash hoard allows it to contribute to its parent company's commitment towards maximising shareholders' return by reducing borrowings and raising dividend payment.
- ◆ However, current valuations, at prospective PERs of 12-16x, against 3-year average EPS growth of 14.2% p.a., appear to have reflected its fundamental strengths. Maintaining **MARKET PERFORM**. Indicative fair value is pegged at RM1.75/share, at 16.5x FY12/05 PER.

Alcom is expected to release its 1QFY12/05 financial results towards end-May 2005. In the past two years, turnover grew by 10-15% qoq in 1Q. In 1QFY12/04, the sheet and foil businesses, its current core operations, posted 32.1% qoq increase in turnover and bottomline turned around from small losses of RM35,000 in 4QFY12/03 to net profit of RM2.8m in 1QFY12/04. The strong 1Q performance was boosted by seasonally higher sales volume and increased selling prices (in tandem with higher metal price).

We expect sequentially stronger 1QFY12/05, attributable to high metal prices, improved profit mix and margin enhancement. Based on London Metal Exchange's data, global pricing of aluminium ingots (Alcom's major raw material and a key determinant of its product selling price), has gone up by 9.3% from an average of US\$1,730/onne in 4QFY12/04 to an average of US\$1,892/tonne in 1QFY12/05 (see Chart 1). The higher metal price is expected to raise product selling prices in 1QFY12/05 while the time lag in the corresponding increase in raw material cost due to inventory holding will translate into profit margin gain in 1QFY12/05.

Chart 1 : World Aluminium Ingot Price & Inventory Level



Stronger product mix to benefit 1QFY12/05 profit margins as well. Alcom's efforts to expand its higher value-added products, including coated finstock and foil products, should also enhance 1QFY12/05 profit margins. To reiterate, finstock's profit margins are close to 3x of those offered by the sheet products. Alcom aims to raise the sales contributions from finstock and foil products from 50% and 10% in FY12/03 to 58% and 19% by FY12/08. We have also noted in our previous notes of a potential positive boost in the event that Alcom manages to raise its equity stakes in its finstock production, the 51%-owned subsidiary, Alcom Nikkei Specialty Coatings Sdn Bhd. Meanwhile, the "de-bottleneck" of some critical processes to boost production capacity should free some capacity and allow it to grow its higher value-added products, such as the light gauge foils used in cigarette packaging and flexible foils for food packaging.

Implications from Alcan Inc's acquisition of tobacco packaging operation in Malaysia. Last week, Alcan Inc announced that it has acquired the entire shareholding in a Rawang-based tobacco packaging company, CM Printing Sdn Bhd. Terms of the transaction were not disclosed. The acquisition is in line with the aggressive investments by Alcan's tobacco customers in South-East Asia and the acquisition appears to be the fastest way to establish the required manufacturing facilities. Alcom has the manufacturing capacity to produce the light gauge foils required by CM Printing Sdn Bhd.

The historical tie between Alcom and Alcan may allow technical collaboration between the two companies and could further boost Alcom's technical capability in the production of light gauge foils for cigarette packaging. However, in our view, the financial benefits to be derived will still depend on Alcom's technical capability given the stringent quality requirement by tobacco companies. Currently, the sales and earnings contribution from this segment is still insignificant.

Alcom's strong cash hoard, projected to hit RM84m or 64sen/share by end-FY12/05, allows it to contribute to its parent company's commitment towards maximising shareholders' return by reducing borrowings and raising dividend payment. In its latest update to investors dated April 2005, Novelis Inc, the parent company of Alcom, reiterated its near-term commitment towards maximising shareholders' value by improving cost efficiency and reducing borrowings (of US\$2.9bn mainly resulted from the payment to Alcan Inc following the spin-off exercise). Novelis Inc's longer term strategies include further de-leveraging and increasing dividend payment. At end-Dec 2004, Alcom has debt-free balance sheet with cash reserve of RM45.5m 34sen/share. It is expected to collect proceeds of RM28.1m on 24 May 2005, being the balance consideration for the land disposal completed in FY12/04. The proceeds and its operating cash flow will boost cash reserve to RM84m or 64sen/share by end-FY12/05.

Maintain FY12/05-06 earnings forecasts and MARKET PERFORM rating. We are keeping our FY12/05-06 net profit forecasts at RM14.0m (EPS: 10.6sen) and RM16.5m (EPS: 12.5sen) respectively. Indicative fair value is pegged at RM1.75/share (at 16.5x FY12/05 PER). We continue to like Alcom for its earnings turnaround, impressive gross dividend yields of 6% p.a and strong fundamentals – global brand name and debt-free balance sheet with projected cash reserve of RM84m or 64sen/share by end-FY12/05.

However, current valuations, at prospective PERs of 12-16x, against 3-year average EPS growth of 14.2% p.a., appear to have reflected its fundamental strengths. We still believe that it is pre-mature to quantify the benefits from the increased focus and integration of the rolled product operations between Novelis Inc and Alcom. In our view, the various expansion plans will take time to materialise with major concrete earnings contribution expected to be realised only in 2006.

Chart 2: Alcom's 1-Year Price Chart & Trading Volume

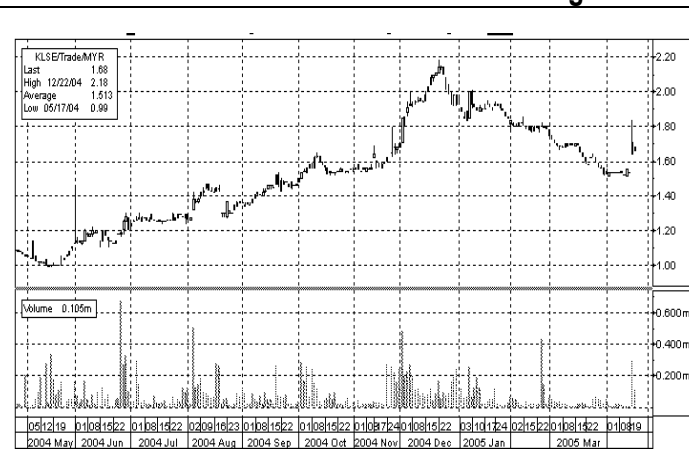


Chart 3 : Alcom's 1-Year Price Rel To KLCI

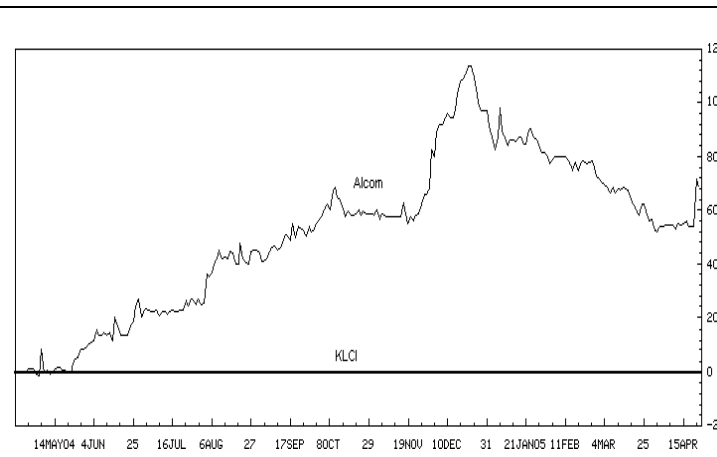


Table 2 : Alcom's Financial Highlights

FYE 31 Dec	Turnover (RMm)	Pre-tax profit (RMm)	Net Profit (RMm)	EPS (sen)	EPS chg (%)	PER (x)	PER ex- cash (x)	EV/ EBITDA (x)	P/CF (x)	P/NTA (x)	DPS (sen)	Div Yld (%)
2004f	276.1	43.6	36.6*	27.7*	+>100	6.1*	5.3	5.5	18.5	1.1	15.0	8.9
2005f	296.0	18.3	14.0	10.6	+13.9	15.9	14.3	4.3	6.9	1.1	10.0	6.0
2006f	318.6	21.4	16.5	12.5	+17.9	13.4	12.3	3.6	7.6	1.1	10.0	6.0
2007f	331.9	24.1	18.3	13.8	+10.8	12.1	10.1	3.0	6.6	1.0	10.0	6.0

* FY12/04 forecast includes the RM24.3m one-off gains from land disposal.

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Genting Berhad (RM17.80)

Raises Stake In London Clubs International To 29.9% & S'pore Named Genting as 1 Of 14 Second Round Bidders for IR&Cs

- ◆ Genting said that it has acquired 15.8m shares in London Clubs International (LCI) last Friday, raising its stake from 22.2% to 29.9%. This is almost at the threshold for an obligatory bid. UK takeover laws require investor whose stake in a company rise to 30% to make an offer for the rest of the shares.
- ◆ Genting's intention is still not clear but a merger between LCI and Stanley Leisure (SL - Genting's current shareholding is 20.3%) is increasingly possible in view of the latest developments (raising stakes in both LCI and SL). Although Genting is the largest shareholder in both LCI and SL, it has no management control of these companies and thus do no equity account their earnings. We believe the stakes in both LCI and SL would remain in its investment portfolio book until Genting seeks board representation and a merger actually takes place. SL is already the largest casino operator in the UK with 41 casinos (37 provinces and 4 in London). A merger with LCI (11 casinos; 2 provinces, 5 in London, 2 in Cairo and 1 each in South Africa and Lebanon) would make the group even larger and well positioned to capitalise on post-liberalisation of the UK gaming industry.
- ◆ We suspect Genting is not likely to cross the 30% mark that will trigger mandatory offers for either of the company in the near future but instead would become the "bridge" for a possible merger. Based on LCI and SL share price of £1.28 and £5.44 as well as issued share capital of 221.1m and 129.1m shares, market capitalisation of LCI and SL are £283.6m and £702.4m respectively. For illustration purposes, in the extreme case of mandatory offer and 100% acceptance, it would cost Genting £758.6m (RM5.5bn at exchange rate of RM7.25/£). This would transform its net cash position to a net gearing of circa 0.6x (excluding RM1.7bn short-term investment), still manageable by international standards. If the short-term investment is included, net gearing would only be 0.4x. Although not directly comparable, net gearing of the US-based casino operators are as follows: MGM Mirage – 1.8x, Harrah's Entertainment – 2.3x, WYNN Resorts – 0.8x, Caesars Entertainment – 1.1x, Mandalay Resorts – 1.9x, and Las Vegas Sands – 0.4x. Assuming 1) UK financing cost of 5.5% on £758.6m (RM5.5bn); 2) LCI's FY03/06 consensus net profit of £34.2m and SL's FY04/06 consensus net profit of £10.6m; and 3) excluding any potential benefits from UK deregulation, the exercise would enhance earnings by about 1-2%. Interest cover is very comfortable at about 10x.
- ◆ In separate news, Singapore government named the 14 companies and consortiums that have been invited to submit proposals for the IR&Cs. The Singapore Tourism Board said the companies and consortiums are: 1) Eight Wonders Asia; 2) Argosy Gaming; 3) Genting International; 4) Guocoland; 5) Harrah's Entertainment and Keppel Land; 6) HPL Properties and Metro Holdings; 7) Kerzner International and CapitalLand; 8) Las Vegas Sands; 9) MGM Mirage and CapitalLand; 10) Publishing and Broadcasting and Melco International Development; 11) Peermont Global; 12) Sun International; 13) Tabcorp Holdings; and 14) Wynn Resorts. Submissions from New Century Group Hong Kong and Greek Mythology Entertainment did not comply with the requirements. Genting also announced that its 64%-owned subsidiary, Genting International Plc's rights issue has been oversubscribed, raising US\$305m intended for expansion in the leisure, hospitality and gaming industry.
- ◆ We continue to view any positive development(s) as additional bonus to investors. Our **OUTPERFORM** call on Genting remains unchanged and is based on current fundamentals and the opinion that the increasing regional casino competition is not likely to have a significant impact on its operations. We view Genting's aggressive venture into

overseas markets positively. If successful, it would enhance the earnings base and turn the group into a truly international player. Indicative fair value is RM23.50 based on "sum of parts".

Investment Statistics - Genting

FYE 31 Dec	Turnover (RMm)	EBITDA (RMm)	PBT (RMm)	Net profit (RMm)	EPS (sen)	EPS chg (%)	PER (x)	GDPS (sen)	GD yld (%)
2003a	4,237.1	1,994.3	1,562.2	713.8	101.3	2.7	17.6	21.5	1.2
2004a	4,647.0	2,230.0	1,777.8	928.0	131.8	30.0	13.5	24.0	1.3
2005f	5,809.7	2,586.4	2,453.4	1,120.3	159.1	20.7	11.2	26.5	1.5
2006f	6,503.7	2,931.1	2,851.6	1,287.3	182.8	14.9	9.7	29.0	1.6

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Gamuda Berhad (RM4.42)

The Double-Tracking Project May Be Revived Under 9MP

- ◆ Transport Minister Datuk Seri Chan Kong Choy was quoted by the press as saying that part of the northern sector of the double-tracking project may be revived under the 9th Malaysia Plan (9MP). Recall, in October 2003, a 50:50 MMC-Gamuda consortium was awarded the turnkey construction contract for the northern (Ipoh – Padang Besar) and southern (Seremban – Johor Bahru) portions of the double-tracking railway project, with a contract value of RM14.5bn. It was subsequently deferred indefinitely.
- ◆ While we believe it is pre-mature for Gamuda to pop the champagne, the latest development nonetheless shows that *positive news flows* are returning to construction companies such as Gamuda and the construction sector as whole. Maintain **OUTPERFORM** on Gamuda with an indicative fair value of RM6.43 based on 16x CY2005 EPS of 40.2sen, consistent with our 2005 target market PER.

Investment Statistics

FYE 31 Jul	Turnover (RMm)	PBT (RMm)	Net Profit (RMm)	EPS (sen)	EPS chg (%)	PER (x)	EV/ EBITDA (x)	GDPS (sen)	GD yield (%)
2004a	1,719.0	435.6	283.3	39.3	10.0	11.2	8.5	21.0	4.8
2005f	1,260.3	441.5	285.3	38.5	(1.9)	11.5	9.8	21.0	4.8
2006f	1,498.7	489.2	318.7	42.5	10.2	10.4	8.7	21.0	4.8
2007f	1,613.7	523.9	343.0	45.7	7.6	9.7	8.1	21.0	4.8

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MTD Capital Berhad (RM2.25)

Acquiring Remaining 10% Stake In Philippine Toll Road Company

- ◆ MTD has proposed to acquire the remaining 10% stake in Hopewell Crown Infrastructure Inc (Hopewell Crown) and some loan advanced to Hopewell Crown by its previous owner for a total consideration of USD0.9m (RM3.4m). Hopewell Crown owns an 80% stake in South Luzon Tollway Corporation, a company that has been set up for the purpose of undertaking the rehabilitation, construction, operation and maintenance of portions of the South Luzon Expressway that runs south from Alabang in metropolitan Manila to the province of Batangas. Recall, in December last year, MTD proposed to acquire a 90% stake in Hopewell Crown for 200m peso (RM13.6m).
- ◆ During a discussion with the management of MTD, we were told that MTD is venturing into the road project as a white knight, acquiring stakes from vendors who failed to get the World Bank project off the ground after many years for various reasons. MTD hopes to gain from the project in two ways: (1) Construction profits from RM200m civil works; and (2) A project IRR of 16-18% from a 25-30 year build-operate-transfer (BOT) concession. MTD is still in the middle of sorting things out and the project is unlikely to take off over the short term. No change in our earnings forecasts for MTD.

- ◆ Looking forward, further provision from the Bakun Hydroelectric project, if any, could dampen MTD's earnings that will be underpinned by RM1bn outstanding construction orderbook. MTD owns an effective 7.7% stake in Malaysia-China Hydro Joint Venture, the consortium that was awarded the turnkey contract for the Bakun Hydroelectric project. Indicative fair value of RM2.56 based on 11x FY03/06 EPS, at a slight discount to the sector's 12x to reflect MTD's higher earnings risks due to its exposure to the troubled Bakun Hydroelectric project.

Investment Statistics

FYE 31 Mar	Turnover (RMm)	PBT (RMm)	Net profit (RMm)	EPS (sen)	Chg (%)	PER (x)	EV/EBITDA (x)	GDPS (sen)	GD yield (%)
2004a	578.3	219.6	162.0	59.1	133.1	3.8	8.9	4.0	1.8
2005f	535.4	88.6	37.2	13.4	(77.3)	16.8	5.8	4.0	1.8
2006f	743.4	123.6	64.6	23.3	73.8	9.6	5.4	4.0	1.8
2007f	705.9	168.6	93.9	33.9	45.2	6.6	3.7	4.0	1.8

Strong growth is driven largely by very much a washout in the preceding year

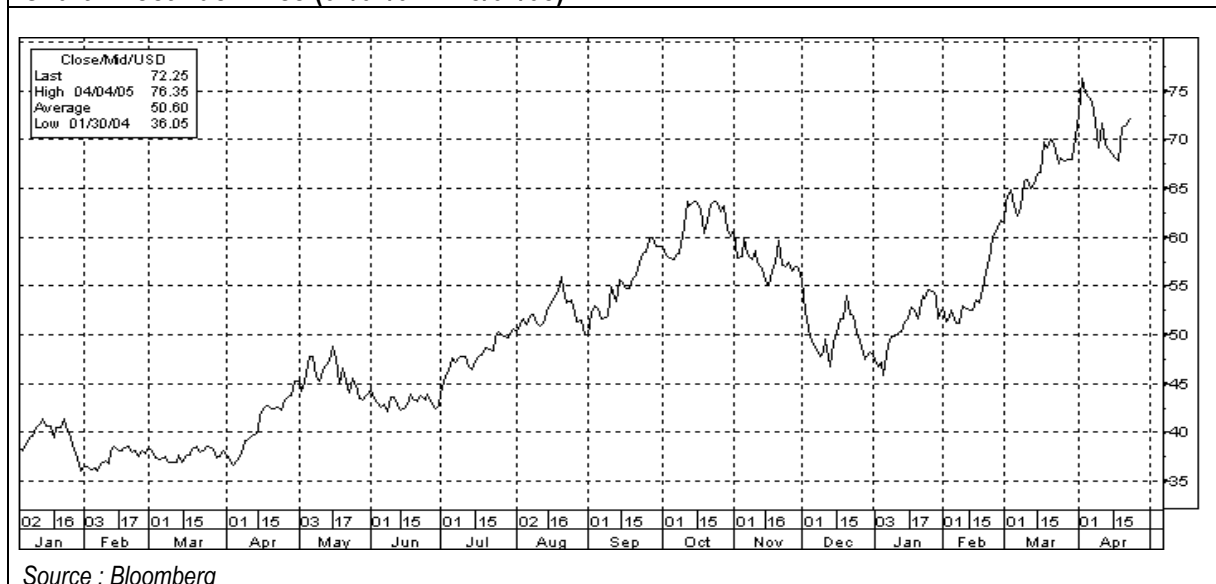
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AirAsia Berhad (RM1.61)

To Impose Fuel Surcharge

- ◆ AirAsia is seeking approval from the Government to impose a fuel surcharge of RM5 to RM10 per one way, in response to the high jet fuel prices. Jet fuel was last traded at USD72/barrel, having retreated from an all-time high of USD76/barrel early this month (see Chart 1).
- ◆ Assuming the surcharge will be effective from 1 July 2005 to 30 June 2006, a full-year impact means AirAsia's FY06/06 net profit could potentially be boosted by RM57-114m or 26-51% based on our estimate. However, we are more inclined to see this surcharge as a cushion against the high jet fuel prices, and not so much an earnings kicker.
- ◆ Based on our estimate, for every RM1 fuel surcharge per one way imposed, AirAsia could offset a USD1/barrel increase in jet fuel prices. As such, this surcharge means AirAsia's earnings risk is reduced by a USD5-10/barrel upward movement in jet fuel prices. This will only help a little given that in our FY06/06 net profit forecast for AirAsia, we assume an average jet fuel price of USD38/barrel, against the last traded price of USD72/barrel.
- ◆ We are reviewing our FY06/06 jet fuel price assumption for AirAsia. We believe the direction of crude oil prices over the next 1-2 months will be crucial in helping us to decide on the quantum of upward revision in our jet fuel price assumption. For now, we are keeping our earnings forecasts for AirAsia.
- ◆ We continue to like AirAsia for its monopoly in the low-cost air travel in Malaysia, market leader's position in the regional budget airline sector, strong management, extremely low cost structure, explosive net profit growth at a CAGR of 82% over the 3-year period between FY06/04 and FY06/07. Indicative fair value of RM1.84 based on 23x CY2005 EPS of 8sen. The basis of 23x is derived from the market valuations for Ryanair, the market leader in Europe during the growth stage. Maintain **MARKET PERFORM**.

Chart 1 : Jet Fuel Price (02/01/04 – 25/04/05)



Investment Statistics

FYE	Turnover (RMm)	EBITDAR (RMm)	PBT (RMm)	Net profit (RMm)	EPS (sen)	Chg (%)	PER (x)	EV/EBITDAR (x)	GDPS (sen)	GD yield (%)
2004a	392.7	115.6	58.1	49.1	2.1	160.5	76.6	32.5	0.0	0.0
2005f	797.9	231.1	152.3	152.3	6.5	210.4	24.7	16.3	0.0	0.0
2006f	1,072.1	312.9	222.5	222.5	9.5	46.1	16.9	12.0	0.0	0.0
2007f	1,267.3	390.5	297.8	297.8	12.8	33.9	12.6	9.6	0.0	0.0

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Edaran Otomobil Nasional Berhad (RM5.20)

Signs MOU To Distribute TATA Vehicles

- ◆ In an announcement to Bursa Malaysia yesterday, EON said that it has entered into a Memorandum of Understanding (MOU) with Scott & English Malaysia S/B (SEM) to establish a new joint venture (JV) company to distribute TATA marque in Malaysia. EON will hold a 51% stake in the JV company, and SEM the rest. (SEM is a subsidiary of DRB and is currently the franchise holder of TATA commercial vehicles in Malaysia. DRB also owns a 34% stake in EON.)
- ◆ TATA's principal is based in India, and vehicles currently distributed in Malaysia include light commercial vehicles, 4x4s and buses. Annual sales in Malaysia is 400-600 units, and we believe it generates profits of <RM1m p.a.
- ◆ We view this MOU to be mildly positive for EON, as it would diversify its product range further and also enhance its earnings base in the longer term. In view of the liberalisation of the automotive industry under AFTA and Proton's declining market share, since last year, EON has been aggressively expanding its product range – besides being a super dealer for Proton, it is now also the franchise holder for Mitsubishi and Audi, and also a super dealer for Inokom.
- ◆ We are keeping our earnings forecast for now. Maintain **UNDERPERFORM** recommendation for EON, with indicative fair value on a ex-dividend basis of RM3.58 – based on its cash balance of RM0.93 (at end-2005) plus motor business at RM2.65 based on 7x PER multiple. (Fair value has been revised upwards from RM3.20 previously, as we now attach a higher PER rating on its motor business given its reducing dependence on Proton.)

Table 1: Income Statement

YE Dec (RMm)	2003A	2004A	2005F	2006F	2007F
Net Interest Income (+ Islamic Banking)	2,388.3	2,701.7	3,139.8	3,478.5	3,816.0
Non-Interest Income	633.1	723.5	770.7	808.9	851.8
Operating Income	3,021.4	3,425.2	3,910.5	4,287.5	4,667.8
Less: Overhead Expenses	(1,171.5)	(1,309.8)	(1,416.2)	(1,529.9)	(1,654.0)
Pre-provision Profit	1,849.9	2,115.4	2,494.3	2,757.5	3,013.8
Less: Loan Loss Provisions	(439.2)	(271.0)	(330.0)	(296.2)	(313.4)
Operating Profit	1,410.8	1,844.4	2,164.4	2,461.4	2,700.3
Associates	4.1	3.8	4.0	4.5	5.0
Pretax Profit	1,414.9	1,848.2	2,168.4	2,465.9	2,705.3
Less: Tax	(356.1)	(508.6)	(611.5)	(692.9)	(765.6)
Effective Tax Rate (%)	(25.2)	(27.5)	(28.2)	(28.1)	(28.3)
Profit After Tax	1,058.7	1,339.6	1,556.9	1,773.0	1,939.7
Minorities	(84.5)	(72.6)	(97.9)	(108.7)	(123.3)
Net Profit	974.2	1,267.0	1,459.0	1,664.3	1,816.4

Source: Company, RHB Research Institute

Table 2: Ratio Analysis & Key Assumptions

YE Dec	2003A	2004A	2005F	2006F	2007F
Asset Quality (%)					
Gross NPL Ratio *	4.2	2.7	2.6	2.4	2.4
Net NPL Ratio *	3.0	2.1	2.1	2.0	2.0
SP / NPL	19.2	19.7	18.5	18.3	18.3
GP / Net Loans	1.8	1.6	1.6	1.6	1.7
Loan Loss Coverage	70.6	79.0	79.6	85.0	87.5
Core Capital Ratio	17.5	13.9	10.6	10.3	9.7
RWCAR	19.3	17.8	12.3	12.0	11.3
Margins (%)					
Yields On Earning Assets	5.6	5.2	5.0	5.0	5.1
Avg. Cost Of Funds	2.4	2.2	2.2	2.3	2.4
Interest Spread	3.2	2.9	2.8	2.8	2.8
Net Interest Margins	3.5	3.1	2.9	2.9	2.9
Profitability (%)					
ROE	12.5	14.7	18.5	22.5	23.2
ROA	1.6	1.6	1.5	1.6	1.6
Interest Income / Loans	7.2	6.7	7.0	7.1	7.2
Interest Exp./ Deposits	2.5	2.1	2.3	2.4	2.5
Cost / Income Ratio	38.8	38.2	36.2	35.7	35.4
Expenses / Avg. Assets	1.9	1.7	1.5	1.4	1.4
Provisions / Avg. Net Loans	1.1	0.5	0.5	0.4	0.4
Liquidity (%)					
Loan Deposit Ratio	90.7	77.1	77.7	78.4	78.3
Gross Loan Growth	20.2	21.3	16.0	12.0	9.0
Deposit Growth	4.6	43.9	15.0	11.0	9.0

Source: Company, RHB Research Institute

* FY12/03-07 gross and net NPL ratios have been revised to reflect the three-month NPL classification method, while FY12/02 reflects the six-month NPL classification method in the absence of sufficient data

Table 3: Sector comparison

Banking Group	Price (RM/s)	Fair Value (RM/s)	Upside (%)	Rec	PER (x)			CAGR [^] (%)	P/NTA (x)*			ROE (%)		
					CY04	CY05	CY06		CY04	CY05	CY06	FY04	FY05	FY06
Public Bank - F	6.60	7.70	16.7	OP	17.7	15.4	13.5	14.6	2.9	3.5	3.2	14.7	18.5	22.5
Public Bank - L	6.50	7.70	18.5	OP	17.4	15.1	13.3	14.6	2.8	3.4	3.2	14.7	18.5	22.5
Maybank	11.50	13.20	14.8	OP	17.1	15.7	14.3	9.2	2.8	2.6	2.5	17.3	16.9	17.5
EON Capital	5.85	6.50	11.1	OP	14.4	10.9	9.6	22.5	1.6	1.4	1.3	11.6	13.7	13.8
Commerce Asset	4.46	4.90	9.9	MP	16.1	12.7	11.3	19.2	1.4	1.3	1.2	9.0	10.4	10.7
AMMB	2.57	3.24	26.1	MP	18.3	16.3	12.7	20.3	1.6	1.4	1.3	5.9	6.2	8.4
Affin Holdings	1.67	1.58	(5.4)	UP	7.5	8.0	7.2	2.3	1.0	0.9	0.8	9.1	8.5	8.3
Hong Leong Bank	5.15	5.20	1.0	UP	17.9	13.9	12.2	21.1	1.8	1.7	1.6	9.2	11.7	13.5
Southern Bank - F	3.20	3.22	0.6	UP	11.8	10.7	9.3	12.2	1.8	1.8	1.6	11.9	13.0	14.0
Southern Bank - L	3.28	3.22	(1.8)	UP	12.0	10.9	9.6	12.2	1.9	1.8	1.6	11.9	13.0	14.0
RHB Capital **	2.24	NR	NR	NR	13.4	11.4	9.6	17.9	1.3	1.3	1.2	7.5	8.7	9.9
CIMB Bhd	4.98	5.30	6.4	MP	14.7	14.0	12.0	10.8	3.1	2.9	2.7	19.4	21.0	22.9
Hong Leong Credit	4.08	4.55	11.5	MP	11.0	10.1	8.7	12.0	1.5	1.4	1.2	12.3	12.3	13.2
Sector Wt. Avg. ^^					16.3	14.2	12.5		2.2	2.2	2.0			
Sector Wt. Avg. (Ex-Maybank)					15.9	13.5	11.8		2.0	2.0	1.9			
Sector Wt. Avg. (Ex-Maybank & Public Bank)					14.5	12.2	10.6		1.6	1.4	1.3			

Source: RHB Research Institute, Reuters Estimates

OP: Outperform; MP: Market Perform; UP: Underperform; NR: Not Rated

* Unadjusted for the accounting differences, e.g. NPL classification method. As such, Maybank, Hong Leong Bank and Public Bank's more conservative accounting policies have the effect of understating their NTA and inflating their P/NTA.

** Not under our coverage. Reuters Estimates forecasts are used for company not covered by RHB Research Institute

[^]Refers to a 2-year EPS CAGR from CY04-CY06.

^{^^} CIMB Bhd and Hong Leong Credit have been excluded to derive sector weighted averages

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