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# Fajarbaru continues to draw interest

## Company sustains investors' attention on railway factor

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FOR the better part of this year, Fajarbaru Builder Group Bhd has been on the radar of some investors for a few reasons – its election season, construction stocks are in favour and the momentum for railway contracts being dishd out is definitely on.

Fajarbaru fits the bill as a candidate to potentially garner some railway contracts.

Investors have chased up the stock, and it's no secret that analysts and fund managers have been attempting to meet its low-profile management.

Fajarbaru is up 47.75% on a year-to-date basis at its current price of 82 sen.

Despite this rise, it remains a mid-cap stock with a market capitalisation of RM297.2mil.

It is also now trading at a historical price earnings ratio of some 40.59 times (based on financial year 2016 (FY16) earnings), but investors may be looking past this, and are likely betting on the replenishment of Fajarbaru's construction contracts.

Well, Fajarbaru is looking to position itself as a serious rail player.

To demonstrate this commitment, the company has ordered some RM50mil worth of rail works machinery, which recently arrived at its project site in Kuala Lipis, Pahang.

This equipment was ordered for a RM259.7mil rail project known as the Rehabilitation of Track Formation, Replacement of Ballast and Associated Works between Jerantut in Pahang and Gua Musang Railway Station in Kelantan (Package B) awarded last May.

### Bigger ambitions

"There are many rail jobs that are up for bidding this year onwards. There's the East Coast Rail Line (ECRL), the Klang Valley Double-Track Phase 2 and even the high-speed rail (HSR). We are looking forward and are hopeful of participating in some of these projects," says Fajarbaru group executive director Eric Kuan Khian Leng.

Kuan says that presently, Fajarbaru is bidding for some RM4bil worth of jobs.

"Having previously completed some work for the Seremban-Gemas double-tracking project and the light rail transit (LRT) Ampang Line and Kelana Jaya Extension, including the depot, we believe that we stand a good chance to secure some new rail projects.

"Our aim is to make Fajarbaru a reputable and reliable rail player. We want to build up a reputation where we become the go-to when it comes to railway development and maintenance. With the rail equipment that we ordered, I would say we are now quite complete, and will be able to provide full service for rail projects from start to end," says Kuan.

"Let us deliver and do our job first. But, of course, we would like to become a bigger company. Over time, we aim to increase our topline closer to RM1bil to achieve this," adds Kuan.

Also, over and above these new contracts, Kuan says that maintenance work also needs to be done on existing railway tracks, for instance, Keretapi Tanah Melayu's existing double tracks in Peninsular Malaysia.

"The tracks have been used for more than 10 years now, and some servicing is required to ensure safety and efficient operations," says Kuan.

UOB KayHian analyst Lester Chin in his latest report entitled *General Election – stocks with momentum* says that there is a push for the development of the nation's rail infrastructure, which will see some RM150bil worth of project tenders up for grabs.

The rail projects mentioned in his report are the RM55bil ECRL, the RM28bil to RM30bil Klang Valley MRT Phase 2, the



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RM50bil to RM66bil HSR and the RM9bil LRT3.

In fact, the most immediate rail project currently being dishd out is for the RM9bil LRT3, where first-round contracts have started to be awarded this month.

WCT Holdings Bhd announced in early April that it had secured a RM185.9mil contract from Prasarana Malaysia Bhd to build the Johan Setia depot and carry out associated works under the LRT3 project.

Mudajaya Group Bhd also announced that it had won a RM58.3mil contract under Package PC3 of the LRT3, which links Bandar Utama in Petaling Jaya to Johan Setia in Klang.

For the rail contracts, Chin says the potential winners include Gamuda Bhd, IJM Corp Bhd and YTL Corp Bhd, while the potential small-cap beneficiaries include Fajarbaru, George Kent (M) Bhd and Ahmad Zaki Resources Bhd.

### Property contribution

Besides the construction contracts, Fajarbaru's earnings this year are likely to first come from its property segment. Due to the completion of its Gardenhill project in Melbourne, Australia, there may be a significant jump in its earnings for FY17 ending June 30 when compared to FY16 numbers.

Fajarbaru made a net profit of RM10.74mil on the back of RM423.91mil in revenue for FY16.

For the first six months ended Dec 31, 2016, Fajarbaru has so far recorded a net profit of RM6.57mil from RM11.08mil in the same period of the previous year. Revenue dropped to RM124.5mil from RM225.5mil previously. The lower revenue was due to lower construction activities last year.

Analysts expect Fajarbaru's earnings to significantly improve for FY17 on the back of its Australian projects finally being recognised.

The bulk of the property earnings is expected to be recognised in its upcoming third and fourth-quarter results. Presently, Fajarbaru has two overseas property pro-



**Construction jobs:** Fajarbaru's rail machinery equipment. The company is bidding for RM4bil worth of jobs.

jects – Paragon and Gardenhill – both in Melbourne.

Gardenhill, which was completed last year, is now on track to start recognising earnings, and this could be reflected in Fajarbaru's third and fourth-quarter earnings. Fajarbaru and its Australian partner Beulah International have completed the A\$77mil (RM260mil) Gardenhill residential development in Melbourne, where all 136 apartments have been almost sold out.

Gardenhill also won the 'Game Changer of the Year' title at the inaugural Annual REA Excellence Awards in Australia, trumping some of the country's most renowned developers.

The REA Group is a multinational digital advertising business that specialises in property and operates the leading property website in Australia.

Meanwhile, Paragon, which is also a project between Fajarbaru and its Australian partner Beulah International, has also seen 90% of its apartments being snapped up during the start of the pre-launch campaign in April this year.

The project features 227 luxury apartments and a first-of-its-kind elevated indoor urban forest, nestled high above the bustling city below. The gross development value of this project is approximately A\$190mil and the expected completion is in 2020.