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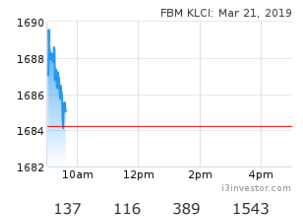


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CRESBLD (8591): A Hidden GEM with Solid Cash Flow Generation (Davidtslim)

Author: davidtslim | **Publish date:** Wed, 20 Mar 2019, 5:12 PM

- CRESBLD currently has four core businesses - Construction, Concession arrangement, Property Development and Investment Holding. Moving forward, the Construction arm will continue to be major revenue contributor (unbilled orderbook **RM1.1b**) and concession & parking management provide stable and recurring income.
- FY2018 and FY2017 were **record years** for Cresbld as its revenue and profit improve **substantially** (FY18 595m vs FY17 499m revenue, FY18 70m vs FY17 28m profit) The FY2018 **EPS** improve by an impressive **46%** YoY to 23.5 sen (excluding the one-off RM25m land disposal gain). However, Cresbld lost a court case which their client was awarded with LAD and defects rectification of an amount of **31m**. The financial net effect of this court case is Cresbld lost about **25m** which dragged the construction segment profit (PBT) in 3Q18 significant lower at 0.2m. All in all, the gain of land disposal has been contra off by the lost in the court case and the **real operation profit** in FY2018 is actually stood at **70m or EPS of 39.8 sen**.
- High quality of earning.** Cashflow from operation is a metric to evaluate the quality of earning of a company. Let see the cash flow from operation of Cresbld as below:



Active [Gainers](#) [Losers](#)

Top 10 Active Counters

Name	Last	Change
MTRONIC-OR	0.01	-0.02
PERDANA	0.44	+0.01
SAPNRG-WA	0.145	+0.01
DYNACIA	0.10	+0.005
JAG	0.055	0.00
SAPNRG	0.35	+0.01
SENDAI	0.495	+0.02
HSI-H6F	0.19	-0.01
HSI-C5D	0.405	+0.005
HIBISCS	1.05	+0.02

	12 Months Ended 31-12-2018 RM'000	12 Months Ended 31-12-2017 RM'000
Cash flows from operating activities		
Profit before tax	98,281	44,600
Adjustments for:		
Allowance for impairment on trade receivables	16,453	3,003
Amortisation of discount on Sukuk Murabahah	3,248	3,519
Change in fair value of investment properties	5,000	-
Depreciation of property, plant and equipment	4,382	3,264
Gain on disposal of property, plant and equipment	(245)	(514)
Interest expense	38,392	41,037
Interest income	(2,944)	(3,864)
Property, plant and equipment written off	2	-
Reversal of allowance for impairment on trade and other receivables	(13,311)	(5,118)
Operating profit before changes in working capital	149,258	85,927
Net change in assets	59,310	(194,687)
Net change in liabilities	(33,307)	179,051
	26,003	(15,636)
Net cash flows generated from operations	175,261	70,291
Income tax paid	(13,813)	(5,126)
Income tax refunded	-	270
Net cash from operating activities	161,448	65,435
Cash flows from investing activities		
Interest received	18,535	3,027
Placement of short term investments	(41,500)	-
Proceeds from disposal of property, plant and equipment	1,362	530
Proceeds from disposal of short term investments	22,250	8,500
Purchase of property, plant and equipment	(580)	(840)
Fixed deposits pledged	(82)	(75)
Net decrease in bank balances maintained in an escrow account	8	57
Net cash (used in)/from investing activities	(7)	11,199

Super strong operation cashflow of 161m, low capex as only spent of 0.58m on PPE --> high quality of earning and generous management lead to consistent high dividend payout

Cresbld has generated an impressive net operating cash flow of **RM161.4m (95 sen per share) in FY2018 (vs 65m in FY2017)**, more than 100% improvement YoY and most of the cash flow used to pare down the debt. (low capex requirement in 2017 and 2018).

- A closer look at the latest segmental result revealed that concession and investment holding command a stable revenue and profit. This is because recurring annual income of **43.5m** from **UiTM Tapah concession** (up to year **2034**) and parking and rental income of its properties in Shah Alam, Subang. FYI, parking segment is estimated to be able to achieve a net profit margin of 60-70%.
- Cresbld has proposed to distribute **dividend of 4.50 sen** for FY2018 which translate to **dividend yield of 4.3%** (to be paid around June 2019 after AGM). Cresbld has consistently pay dividend from 3-5 sen over the past 10 years (total paid dividend of 40.5 sen over past 10 years).
- Recurring income from UiTM concession, parking management, strong construction orderbook and large property TOD projects (strategic LRT location) make **sustainable** future strong cash flow generation which may further pare down debt and continue to pay **good dividend**. (about 300m of Operating financial asset is for UiTM concession)
- Cresbld current in highly geared position (mainly due to funding for UiTM concession of about 290m). Anyway, net gearing of over 1.0x in 2017 and this ratio has **improved significantly** in the recent two quarters at 0.89x (net debts of Dec 2018 = 434.4m vs 537m of FY2017, net debt **reduced** RM103m) mainly due to strong cash flow from operation.

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Comparison of Profit for past 3 year	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18
	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)	(000)
Revenue/Sales	51,769	54,193	74,174	102,061	95,028	110,682	137,236	155,348	124,296	151,260	177,057	142,796
Cost of sales	-30,293	-31,907	-49,657	-72,324	-66,754	-80,202	-114,671	-121,331	-96,728	-116,624	-113,350	-92,679
Gross profit	21,476	22,286	24,517	29,737	28,274	30,480	22,565	34,017	27,568	34,636	63,707	50,117
Other income (one-off income)	290	35	162	1,263	566	891	3,033	4,218	1,447	1,264	5,788	13,590
Selling, general & administrative exp	-5,485	-7,959	-7,364	-9,929	-8,510	-9,547	-5,887	-14,808	-6,932	-8,256	-14,030	-32,022
Operating/Other expenses	0	0	0	0	0	0	0	0	0	0	0	0
Earnings before interest & tax	16,281	14,362	17,315	21,071	20,330	21,824	19,711	23,427	22,083	27,744	55,465	31,685
Interest income	822	658	911	917	719	716	622	1,807	915	753	599	677
Interest expense	-11,822	-11,507	-11,730	-11,363	-11,077	-10,999	-11,342	-11,138	-10,529	-10,565	-11,079	-9,462
Profit before tax	5,281	3,513	6,496	10,625	9,972	11,541	8,991	14,096	12,469	17,932	44,985	22,895
Taxation	-1,311	320	-1,849	-8,087	-3,389	-3,887	-1,439	-5,505	-4,224	-5,342	-10,685	-5,808
Profit after tax	3,970	3,833	4,647	2,538	6,583	7,654	7,552	8,591	8,245	12,590	34,300	17,087
Profit for the year	3,970	3,833	4,647	2,538	6,583	7,654	7,552	8,591	8,245	12,590	34,300	17,087
Profit attributable to Shareholders	2,545	3,449	3,909	3,309	6,173	7,205	6,899	7,781	7,637	12,127	33,826	16,786
Other comprehensive income	0	0	0	0	0	0	0	0	0	0	0	0
Other comprehensive income attri	0	0	0	0	0	0	0	0	0	0	0	0
Total comprehensive income to Sha	2,545	3,449	3,909	3,309	6,173	7,205	6,899	7,781	7,637	12,127	33,826	16,786
Depreciation & amortisation (low depreciation mean low amount of CAPEX required)	-277	-260	-253	-783	-510	-1,188	-884	-682	-942	-967	-1,263	-1,210
EBITDA (strong recovery of Ebitda in	16,558	14,622	17,568	21,854	20,840	23,012	20,595	24,109	23,025	28,711	56,728	32,895

The revenue, gross profit and net profit improve substantially in FY2018 as compared to FY2017. **Finance cost** will continue to **reduce** as debt has reduced by 103m in past 12 months.

- Despite Cresbld's relatively small paid-up capital of RM176.9m, it has managed to bag three major privatized development projects with a combined GDV estimated at RM4.1 billion (like Latitud8, The Elevat8, Jalan Ampang, Residensi Hijauan, Kelana Jaya, LRT).
- In Property Development, Cresbld's two major on-going projects are Residensi Hijauan (GDV: RM330m) in Shah Alam and Latitud8 located on top of the Dang Wangi LRT Station (GDV RM1.1B). This Transit-oriented Development (TOD) project is based on a capital light business model whereby the land would be provided by the owners. (Prasarana is entitled to 21.2% or RM233.3m of Latitud8's GDV, 90% of the payment to Prasarana will be in kind in the form of units of the project. Similarly for 1.3B Elevat8 project in Jalan Ampang where the land is contributed by MRB).
- Investment Holding arm of Cresbld generated recurring income and profit for past 2 years. The division has three key assets - The Crest, 3 Two Square in PJ (16-storey office blocks, shops & parking bays/150,522 sqft); Tierra Crest in Kelana Jaya (2 blocks of office building & parking bays/280,549 sqft) and Avenue Crest in Shah Alam (retail lots & car parks/29,210 sqft). Total available parking lots in 3 Two Square is 1370 lots, 525 lots in Tiera Crest another new 713 lots in Avenue Crest (to contribute income in 2Q19 for Avenue Crest).
- For future construction profit visibility, let us go through Cresbld current on-going projects as below:

Projects	Expected Date of Completion	Year							Contract Outstanding	
		2016	2017	2018	2019	2020	2021	2022	Value (RM' mil)	Balance Value (RM' mil)
Quarza Mall	Q3 of 2019								438.3	78.2
Residensi Hijauan	Jan of 2019								140.1	11.2
Latitud8, Dang Wang	Dec-22								350	342.1
DBKL Carpark	Apr-19								101.5	7.5
Capri Hotel	Apr-21								149.5	139.5
South Brooks	Nov-20								328.8	280.9
Rumah Selangorku	Jun-20								29.8	29.5
Convention Centre	Sep-19								117.8	104.5
Techvance Hotel	May-21								99.6	99.6
TOTAL									1755.4	1093

A few projects (like South Brooks, DBKL carpark, latitud8 etc) are at the middle of the project cycle which should contribute higher profit. According to management, Crest is looking for a yearly replenishment 500-600m of contract on its orderbook which will be the future profit growth driver.

- Undervalue:** - Show growing profit for past 9 quarters results but share price still stagnant around 90 sen to RM1.2. Achieved net profit of RM16.8 mil last quarter, annualize = 67mil, **discount 20%**, discounted annualized profit = **53.6mil** à **Estimated FY19 EPS = 32.1 sen** (exclude 10mil treasury shares). Fair value of Cresbld can be summarized on the table below:

PEX (EPS 32.1 sen)	Fair value
5x	1.60
6x	1.92

Annualized 53.6mil profit is **backed by two stable and recurring incomes (Concession & Parking)**

Recurring income or profit from UITM concession is estimated about **10m-12m** per year, while parking management is estimated can generate **3m-4m** profit per year. They also have rental income (**12-13mil** per year) for their offices spaces in their properties (3 Two Square and Tiera Crest). **All these recurring annual incomes** are estimated to contribute about (11+3.5+12.5) an amount of **27m profit (EPS of 16 sen, just from recurring income alone)**.

The **justifications** on Cresbld should **worth PE of 5-6x** are as below:

- Impressive cash flow from operation** of **161 mil** and 65 mil in 2018 and 2017 respectively where the market capital of Cresbld is just about **184 mil** (based on RM1.04 share price)
- Strong and Stable Margin** - Average net Profit margin of above 10%, one of the **most efficient** construction+concession+property players among all.
- Recurring income** from its concession and investment holdings (car park management & office rental)
- Proven track records of project execution with good profit and never fall into operation loss over the past 10 years (show big improvement in revenue and profit and cash flow in past 2 years)
- Strong construction orderbook of **1.1 billion** and 4.1 billion GDV of property development projects - provide good **profit visibility** for the next 3-4 years (refer to appendix).

The **20% discount in the EPS** is due to possible property segment revenue and profit **slowdown** in FY2019 (as profit is record high in 2018) although the GDV under development still at high level of 4.3 billion.

- Company has aggressively buys back the share from RM0.88 - RM1 up to 10 mil shares (**5.6% of total shares**) which shows that company management views current price is undervalue.
- Increment of dividend** payout to 4.5 sen (from 4 sen) and aggressive share buy share recently show that management is **confident of their future cash flow generation** (as they **burned 10mil+ cash** to buy back shares & **7.5mil** for 4.5 sen dividend).
- Strategic or **prime locations** for their new property projects launch (like Dang Wangi & Kelana Jaya LRT stations projects, refer to appendix for list of projects)
- Great Eastern (holding 6.5mil), Public small cap and Public Itikal funds are their **top 30 shareholders** (refer to Annual Report 2017, 2016, 2015).
- Let us have a simple comparison of small cap and big cap construction companies in Bursa as in the table below:

	RM '000	RM '000	%	RM Million	times	RM Million	%	%	times
Name (small & mid cap)	Revenue (2018)	Net Profit (2018)	PAT Margin	Market Cap	Trailing P/E	Outstanding Orderbook	ROE	Div Yield	Order Book to Mkt Cap Ratio
CRESBLD	595,409	72,222	12%	184	2.6	1,093	14%	4.3%	5.9
NADIBHD	300,092	32,836	11%	200	6.5	737	7%	N/A	3.7
INTA	383,059	21,200	6%	147	6.9	650	18%	2.7%	4.4
GDB	274,559	27,890	10%	181	6.5	579	26%	3.4%	3.2
KAB	139,096	8,599	6%	67	7.8	282	18%	2.4%	4.2
ADVCON	272,860	10,618	4%	173	16.3	845	6%	2.3%	4.9
GADANG (not yet consider 129m warrant dilution, profit drops for past 3 qtr)	594,295	88,585	11% (Normalised)	450	5.5	1,430	11%	4.4%	3.2
Big Cap Stocks									
KERJAYA	1,068,762	138,554	13%	1,552	11.2	3,020	14%	1.20%	1.9
SUNCON	2,256,835	145,032	6%	2,405	16.6	6,000	24%	3.70%	2.5
IJM (using 9-mth figures)	4,260,731	173,759	4%	7,235	38.2	8,400	2%	3%	1.2

Obviously Cresbld shows the highest revenue, ROE, orderbook to market cap ratio and second highest dividend yield net profit margin. The advantages of Cresbld over other construction companies is it has **long term recurring income from UITM concession**, office and car park management (Under investment holdings segment). One of the closest competitors is Gadang but Gadang has shown **decreasing** profit in recent 4 quarters result while Cresbld has shown impressive profit growth for 9 consecutive quarters.

Appendix: Appendices are not for public

If you interested on my analysis report, please contact me at davidlimtsi3@gmail.com

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