PUBLIC INVESTMENT BANK

PublicInvest Research *Company Initiation* — **Thursday, March 12, 2015**

KDN PP17686/03/2013(032117)

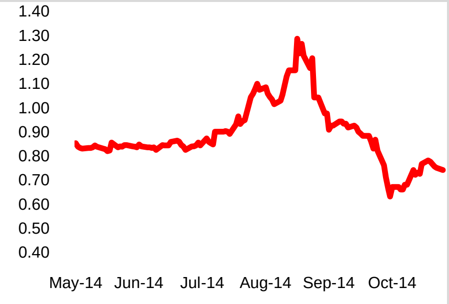
I-BERHAD — *Outperform*

DESCRIPTION

The developer of a soon-to-be booming ultrapolis in Shah Alam spanning across 72 acres, with a gross development value of over RM9bn, an eventual RM1bn property investment portfolio, and a leisure component

12-Month Target Price	RM0.92
Current Price	RM0.635
Expected Return	44.9%
Market	Main
Sector	Property
Bursa Code	4251
Bloomberg Ticker	IBHD MK

SHARE PRICE CHART



52 Week Range (RM)	RM0.57 – RM1.32
3-Month Average Vol ('000)	3,285.7

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-9.8	-20.9	-11.0
Relative Returns	-12.4	-29.6	-11.9

KEY STOCK DATA

Market Capitalisation (RMm)	469.9
No. of Shares (m)	740.0

MAJOR SHAREHOLDERS

	%
Sumurwang	58.6
Sumur Ventures	13.9
Tan Sri Lim Kim Hong	0.4

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iConic i-City

Iconic, irresistible, intelligent, incandescent… these are the many words that can be used to substitute the 'I' in this company and the city that it is in the midst of building, and we believe none would be inappropriate. With a mixed development spanning over 72 acres and taking a good part of ten years to fully materialize, we see I-Berhad as a company at the cusp of an exciting earnings growth phase, and to eventually mature into one with a steady income stream from its property investment portfolio and leisure-related activities. We initiate coverage with an ***Outperform*** call and a PE-derived target price of **RM0.92**. Throughout the course of this investment thesis, it is hoped that you will end up as enthused as we are, and convinced this is the "real deal". Despite growing concerns surrounding the property market and its supposed slowdown, we believe the market I-Berhad caters to remains underserved and hence being less affected.

- **Will It Work?** Yes, we believe so. There is a seeming shortage of properties (yes, you read it right) (pg. 5-7), affordability isn't exactly an issue, albeit stretching it a little (pg. 7-9), market cycles are as they are, cycles, and will return (always!) (pg. 10-11), and related party transactions aren't necessarily an issue, particularly in this case (pg. 11-12).
- **Property Development.** With a gross development value of RM9bn encompassing more than 10 residential and commercial tower blocks, in addition to the numerous other components adding to its property investment portfolio, the Group has a strategic vision of attaining a steady state of RM500-600m revenue contribution in 3 years, something we believe it is well on its way to surpassing.
- **Property Investment.** An integral part of this division will be the RM750m *Central Plaza @ i-City*, the first-of-its-kind regional shopping mall in the country which will be jointly-developed by the Central Pattana Group (CPN), Thailand's largest retail developer and which will hold a 60% equity stake in the JV company, and I-Berhad which will hold the remaining 40%. If the Central Pattana Plc group, with a successful and proven track record in developing and managing malls in a competitive and economically-volatile environment like Thailand, can have the confidence to plow close to RM500m into i-City, what is our RM500,000 or RM5m investment into I-Berhad which pales in comparison?
- **Leisure activities.** While this division may eventually be deemed inconsequential or "un-sexy" in the larger context of a property development-play, we beg to differ. Granted, it will not give you sky-rocketing earnings growth, it will nevertheless be the bedrock (together with its property investment portfolio once fully completed) of a healthy and steady recurring income stream which augurs well for shareholders (major and minor) through higher dividend payouts.

KEY FORECAST TABLE (RM m)

FY Dec (RM m)	2013A	2014A	2015F	2016F	2017F	CAGR
Revenue	152.1	261.1	380.3	547.0	892.3	50.6%
Pre-tax Profit	65.5	101.1	144.4	206.0	332.5	50.1%
Net Profit	53.0	69.4	109.3	168.5	292.8	53.3%
FD EPS (Sen)	44.0	53.4	83.0	128.0	222.4	50.0%
FD P/E (x)	3.2	3.9	6.0	9.2	16.1	50.0%
DPS [1] (Sen)	6.9	6.0	3.4	5.2	9.0	6.9
Dividend Yield	10.9%	9.4%	5.3%	8.2%	14.2%	10.9%

Source: Company, PublicInvest Research estimates
Note: [1] Non-diluted. Fully-diluted share base: 1,384m shares

At 64 years young, we found Tan Sri Lim to be truly ebullient with an infectious passion for his craft

A man who challenges himself to scale a higher hill every few years, assessing its limits to growth when a certain level of success is attained

Cashing out his investments for a tidy sum of RM350m in 1993, aged 43.

Tan Sri Lim ventured into investing offshore in Singapore, Hong Kong and China, while also buying plots of land in Kuala Lumpur and Shah Alam. In addition, Sanyo Industries Malaysia Berhad (now I-Berhad)

The Company, The Man

In its original form, I-Berhad was established on 2 February 1967 as Sanyo Industries (M) Sdn Bhd and listed on the Main Market of Bursa Malaysia on 29 September, 1969. Over the ensuing thirty years, the company operated as a branch of Sanyo Japan, with its primary focus the manufacture of electrical home appliances.

Somewhere along the line, 1999 more to be more specific, came the Sumurwang Group, helmed by the venerable Tan Sri Datuk Lim Kim Hong, which acquired the company and changed its name to I-Berhad. With a new vision turning a once-neglected plot of land (albeit not all fully-owned) into a booming ultrapolis, the company moved away from being a manufacturer of air-conditioners and digital products into developing what we now see as the growing i-City. To understand the company, we need to fully appreciate the man however, the key driver to what the company is today and what will be in the years to come.

At 64 years young, we found Tan Sri Lim to be truly ebullient with an infectious passion for his craft. Take a walk around the Show Gallery in i-City, and you may possibly find him marketing the properties to a walk-in customer. Such is his zeal and genuine belief that one should obtain a piece of property there not just for the sake of it, but that one should do it because it IS the place to be in, one that melds living, working and playing! Tan Sri Lim's journey is one of the many rags-to-riches story in Malaysia, but one that remains noteworthy of mention as it highlights an entrepreneurial streak in the man which we believe will drive him to deliver on what i-City is to become.

Born to a poor family of 10 children and the youngest of the lot, Tan Sri Lim had to drop out of school at the tender age of 12 owing to financial constraints. Armed only with a penchant for Mathematics which would later help him hone his business acumen and drive his entrepreneurial spirit, Tan Sri Lim underwent a three-year stint as an apprentice at a furniture-making shop in Muar. It was during this time that his life journey was blessed by kind souls who offered various forms of assistance, to which he seized on the opportunity to make it on his own as a carpenter.

Not wanting to rest on his laurels already having fulfilled his vision of owning a business, he signed up as a Dunlop mattress dealer at the age of 21 and within a short period of time became the biggest dealer in the country. This is a man, who at 18 had already made his first million Ringgit, who challenges himself to scale a higher hill every few years, assessing its limits to growth when a certain level of success is attained. To quote Tan Sri Lim from an interview he had with the Star back in 2012, "If I cannot get a quantum leap, I will find new ways to scale a higher and different hilltop."

So what did he do? Realizing the opportunity for him to grow further as a dealer was limited, he resolved to find ways to make better mattresses, resulting in the country's first spring mattress venture under the Dreamland brand. Within a year, his company Dreamland Holdings Berhad became the local market leader and was the first Malaysian company to venture into China, with the opening of its first offshore plant in Tianjin in 1984. With a listing on the local bourse in 1987, Tan Sri Lim subsequently cashed out of the company for a tidy sum of RM350m in 1993, aged 43. How many of us can profess to have that kind of money at such an age? If Tan Sri Lim had kept that money in the bank, it would be worth about RM500+m today. So did he stop there? No!

With that cash pile, Tan Sri Lim ventured into investing offshore in Singapore, Hong Kong and China, while also buying plots of land in Kuala Lumpur and Shah Alam. In addition, Sanyo Industries Malaysia Berhad was bought. And the rest, as the saying goes, is history. Throughout the course of this paper, we will see his touch (and drive) in making the i-City project development a lasting success, a legacy all shareholders can hold up their hands to and say, "i-Believe". To quote Tan Sri Lim again, "I never said I wanted to be the biggest developer in town, but I do want to be a cili padi and make waves."

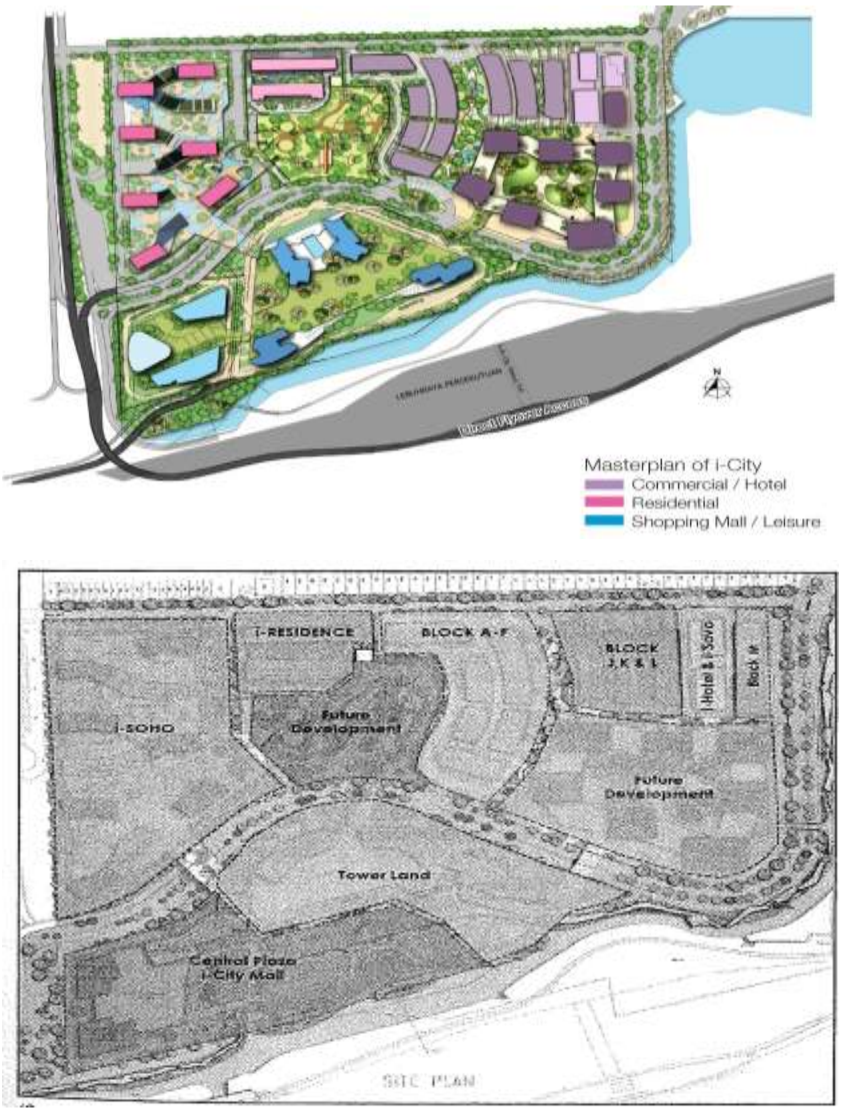
First conceived in 2005 as an RM1.5bn township development with an approved built-up space of about 5 million square feet, the project has evolved into an RM9bn ultrapolis with 13 million square feet of approved built-up space that is designed as an international business hub by day and lifestyle haven by night

The Company

In its current form, I-Berhad has its attentions firmly set on the i-City development which occupies a 72-acre plot of freehold land in Section 7, Shah Alam. First conceived in 2005 as an RM1.5bn township development with an approved built-up space of about 5 million square feet, the project has evolved into an RM9bn ultrapolis with 13 million square feet of approved built-up space that is designed as an international business hub by day and lifestyle haven by night. As at current plans, utilization are as follows: residential (60%), commercial (30%), mall (10%).

Development and management of i-City is governed by the Management and Development Agreement entered into between the Selangor State Government, Majlis Bandaraya Shah Alam (MBSA) and the company in July 2011, which amongst others allows i-City to have leisure, night tourism and other cosmopolitan lifestyle outlets and activities that operate on a 24-hour 7-day basis having been endorsed as a Tourism Destination by the Ministry of Tourism and Culture as well as being declared as an International Park by the Selangor State Government. Concurrently, i-City also has a Temporary Occupation License for about 30 acres of buffer land surrounding the township to create a garden environment.

Figure 1: 2-Dimensional Vision of i-City



Source: Company

With only about 15% of the entire 72 acres having been developed, the current completed built-up accounting for less than 5% of the approved built-up space, the development potential is undeniably large.

Figure 2: 3-Dimensional Vision of i-City

Source: Company

When completed, the entire landscape of the area will be a fully integrated intelligent (and international) city comprising a shopping mall, corporate office towers, cyber office suites, serviced residences, hotels, apartments, leisure attractions, data center and innovation center.

In the vicinity of this development is the dedicated i-City interchange which connects the site directly to the Federal Highway, the soon-to-be-completed 300-bedded Shah Alam General Hospital and the sprawling University Teknologi MARA (UiTM) campus.

Amongst others, current day i-City is an MSC Malaysia Cybercentre certified development area, a world reference site for Cisco's Smart+Connected Community (CSCC) where knowledge-based companies with MSC Malaysia status can enjoy the various incentives offered under MSC Malaysia Bills of Guarantee.

With only about 15% of the entire 72 acres having been developed, the current completed built-up accounting for less than 5% of the approved built-up space, the development potential is undeniably large. Question is, will there be sufficient take-up of this seemingly gargantuan undertaking? We address the challenges in the following section, before highlighting the opportunities.

Figure 3: Present Day i-City

Source: Company

Much has, or will be said about the amount of properties that has come on-stream over the last few years. With property developers also having declared record sales all-round, one would assume that the corresponding number of properties would have ballooned, potentially leading to an oversupply situation

Will It Work?

RM5.4bn (residential component) over a 10-year period isn't an entirely huge sum. But this is the Klang/Shah Alam area we're talking about, so perhaps it does raise some questions as to the affordability and readiness of its general populace in fully absorbing the entire supply coming on-stream over the next decade. While detractors will have many an issue which will probably never be satisfactorily addressed, for one reason or another, we will try to answer a few key ones in hope that it will help assuage some concerns.

Oversupply. Or undersupply, perhaps? Much has, or will be said about the amount of properties that has come on-stream over the last few years, especially given the robust movement in prices brought on by cheap funding costs and the myriad of promotional efforts. With property developers also having declared record sales all-round, one would assume that the corresponding number of properties would have ballooned, potentially leading to an oversupply situation. While we acknowledge the possibilities, does it hold true in the state of Selangor however?

To get a better grip of that, it would perhaps be good to have a glance at the demographics of the state, courtesy of the Department of Statistics, Malaysia. Unfortunately, the national census is done only once every 10 years and the most recent operative year we have is 2010. In determining whether there's a true oversupply situation or not, we have had to make fairly broad assumptions, but ones we believe to be valid and justifiable however.

Table 1: State-Level Demographics, 2010

			<-------- NEED		-------->
	5-9	**10-14**	**15-19**	**20-24**	**25-29**
KLANG	**77,142**	**72,831**	**67,442**	**87,183**	**100,720**
Bandar Klang	670	611	758	1,050	1,053
Kapar	23,936	24,280	22,080	27,361	31,716
Klang	52,536	47,940	44,604	58,772	67,951
PETALING	**45,047**	**42,592**	**54,561**	**101,105**	**83,258**
Bukit Raja	9,798	8,718	8,491	23,782	13,651
Damansara	35,249	33,874	46,070	77,323	69,607

AGES	**30-34**	**35-39**	**40-44**	**45-49**	**50-54**
KLANG	**78,925**	**68,725**	**57,404**	**47,080**	**37,064**
Bandar Klang	841	714	831	695	746
Kapar	24,580	20,954	17,608	14,243	11,152
Klang	53,504	47,057	38,965	32,142	25,166
PETALING	**57,856**	**46,215**	**37,361**	**33,393**	**28,464**
Bukit Raja	10,672	8,908	6,182	5,023	3,982
Damansara	47,184	37,307	31,179	28,370	24,482

			<-------- INHERIT		-------->
AGES	**55-59**	**60--64**	**65-69**	**70-74**	**75+**
KLANG	**27,797**	**20,873**	**11,851**	**8,443**	**9,475**
Bandar Klang	497	488	357	302	384
Kapar	8,514	6,068	3,466	2,504	2,793
Klang	18,786	14,317	8,028	5,637	6,298
PETALING	**21,573**	**15,389**	**8,164**	**5,111**	**7,051**
Bukit Raja	3,451	2,148	869	550	829
Damansara	18,122	13,241	7,295	4,561	6,222

Source: Department of Statistics Malaysia, PublicInvest Research

A possible formation of 201,140 new households, equating to a *potential demand of 201,140 new properties*

Ready supply of *49,778* properties available, livability notwithstanding.

Those who could possibly part with their properties through inheritances, etc - another supply of 25,048 properties

24,623 new properties have now been planted-up since the national census in 2010

In the table above, we have only used districts which are relevant to our area of interest, reason being we see it as the biggest source of demand given the gradually maturing population who would want to move out, but yet remain close to their respective families. Klang is a given, while Shah Alam falls under the mukim of Petaling, nestling between the Bukit Raja and part of Damansara districts. There's some 116,586 individuals (as at 2010) aged between 0-4 which we have omitted from the table, but which have no bearing on our estimations.

Estimate 1 (Demand): We have categorized three age groups, 15-19, 20-24 and 25-29 as those most likely to "need" properties in the coming years. Why those bands? Those individuals would be 4 years older today, and hence would be safe to assume to not own any properties as yet and are potential buyers in the market. Taking only half of the latter age band (25-29, to account for some already having married early and starting off their respective households) still amounts to 402,280 individuals. Assuming they marry within the state, that would mean a formation of 201,140 new households, equating to a ***potential demand of 201,140 new properties***.

Table 2: Population Breakdown, 2010

	Male	Female	Households	Living Quarters
KLANG	**447,274**	**394,872**	**201,994**	**234,039**
Bandar Klang	5,500	4,945	2,927	3,447
Kapar	141,557	121,437	61,423	73,114
Klang	300,217	268,490	137,644	157,478
PETALING	**318,040**	**316,495**	**162,124**	**179,857**
Bukit Raja	58,849	59,020	30,596	31,834
Damansara	259,191	257,475	131,528	148,023

Source: Department of Statistics Malaysia, PublicInvest Research

Estimate 2 (Supply): As per the national census done in 2010, the Department of Statistics has highlighted a total of 364,118 households and a total number of 413,896 living quarters available, essentially meaning there's a ready supply of *49,778* properties available, livability notwithstanding.

With reference to Table 1 in the previous page, we have identified three age bands from 65 years and above as those who could possibly part with their properties through inheritances, etc. Those within that age band number 50,095, meaning that they make up 25,048 households of two (broadly assuming their respective children have "flown the nest" and that they live by themselves), translating to another supply of 25,048 properties.

Table 3: Supply of Residential Units in Selangor

	Supply	
	Existing	New
2010	1,265,137	
2011	1,308,935	43,798
2012	1,339,051	30,116
2013	1,358,054	19,003
		92,917

Source: Property Stock Reports: National Property Information Centre, PublicInvest Research

As per the respective years' National Property Information Centre (NAPIC) Property Stock Report, it is estimated that about 92,917 of additional supply has been added into Selangor state-wide in years 2011 through to 2013. With the areas in question (Klang and parts of Petaling) making up 26.5% of existing supply, we broadly assume similar proportions for the new supply, meaning 24,623 new properties have now been planted-up since the national census.

Despite all that's being piled onto the market, there remains a visible shortage of property in the Klang and Shah Alam districts, one which would probably explain why developers (big and small) continue to flock to the area in search of new frontiers

Here in I-Berhad is a company already with the rights, in some instances (through an original joint-venture agreement with landowner and major shareholder Sumurwang), and ownership to develop 72-acres of freehold land on the fringes of every key infrastructure point

Affordability - On face value, it would seem a little tough for a first-time buyer if there isn't some form of assistance from third parties (ie. parents, siblings, etc), considering the average salary in the state of Selangor

Table 4: Demand-Supply Dynamics

Demand		Supply	
New households	201,140	Surplus @ 2010	49,778
		"Inherited"	25,048
		New: 2011-2013	24,623
		Near-term SHORTAGE	**101,691**
		Incoming	43,281
		Planned	23,251
		Mid-term SHORTAGE	**35,159**

Source: Property Stock Reports: National Property Information Centre, PublicInvest Research

So… despite all that's being piled onto the market, there remains a visible shortage of property in the Klang and Shah Alam districts, one which would probably explain why developers (big and small) continue to flock to the area in search of new frontiers. Within a 5km radius, you have names like Sime Darby Berhad, SP Setia and Sunsuria developing townships. On the other side of town toward South Klang, you have property luminaries like WCT Holdings, KSL Holdings, Gamuda, IOI Properties and Island & Peninsular, amongst others, developing townships to cater to growing needs of a rapidly maturing and urbanizing population. Some others continue to scour for land in the vicinities.

Here in I-Berhad is a company already with the rights, in some instances (through an original joint-venture agreement with landowner and major shareholder Sumurwang), and ownership to develop 72-acres of freehold land on the fringes of every key infrastructure point (half hour's drive from the Subang International Airport, Kuala Lumpur City Centre on a relatively traffic-light day, the Kuala Lumpur International Airport if you manage to drive at 110kph all the way). With a sprawling mall and leisure-related activities to boot, surely this would interest the Klang- and Shah Alam-based who are contemplating moving out, but yet remain close to their respective families?

Can they afford it though? On face value, it would seem a little tough for a first-time buyer if there isn't some form of assistance from third parties (ie. parents, siblings, etc), considering that the average salary in the state of Selangor is only RM2,482 per month. In fact, the national mean of RM2,052 is fairly low, made worse by rapidly rising costs of living, but which is a discussion point for a different time, date and platform.

Table 5: Mean Monthly Salary, Malaysia (2013)

	Labor Force ('000)	Mean Salary RM		Labor Force ('000)	Mean Salary RM
Johor	1,204.5	2,025	Perlis	52.6	1,668
Kedah	497.8	1,703	**Selangor**	**2,256.8**	**2,482**
Kelantan	303.3	1,636	Terengganu	260.7	1,773
Melaka	267.0	1,979	Sabah	1,019.0	1,445
N Sembilan	308.7	2,116	Sarawak	719.3	1,856
Pahang	395.4	1,816	K Lumpur	701.6	2,795
Pulau Pinang	597.0	2,001	Labuan	33.4	2,139
Perak	638.6	1,691	Putrajaya	37.7	3,137
				9,293.4	**2,052**

Source: Department of Statistics Malaysia, PublicInvest Research

Breaking it down by age group makes for even more grim reading, with the age groups of concern (20-29) earning only between RM1,249 and RM1,765 a month.

Table 6: Mean Monthly Salary by Age Group Malaysia (2013)

Age Group	Labor Force ('000)	Mean Salary RM	Age Group	Labor Force ('000)	Mean Salary RM
15-19	310.6	838	40-44	971.5	2,464
20-24	**1,402.9**	**1,249**	45-49	783.5	2,746
25-29	**1,943.6**	**1,765**	50-54	627.1	2,840
30-34	1,620.2	2,086	55-59	322.8	2,778
35-39	1,208.4	2,348	60-64	102.8	1,797

Source: Department of Statistics Malaysia, PublicInvest Research

While we acknowledge that some form of initial assistance may be needed (especially for first-time buyers), the breakdown of job-types in Selangor, thereby attracting higher average base salaries, means that it may not be entirely as dire

All is not lost however, though the macro numbers may seem a little disconcerting. While we acknowledge that some form of initial assistance may be needed (especially for first-time buyers), the breakdown of job-types in Selangor, thereby attracting higher average base salaries, means that it may not be entirely as dire. In this instance, we have assumed the working the "professionals" as the target market, which then sees the mean salary rising to RM4,121, age-groups notwithstanding.

Table 7: Mean Monthly Salary by Occupation (2013)

Occupation	Labor Force ('000)	Mean Salary RM	% of Labor Force – S'gor
Managers	285.5	5,516	34.1%
Professionals	**1,158.0**	**4,121**	**35.0%**
Technicians	1,162.8	2,679	33.4%
Clerical	1,156.6	1,847	29.7%
Service/Sales	1,807.6	1,490	16.9%
Agricultural/Forestry/Fishery	136.9	1,121	2.6%
Craft	939.6	1,438	13.8%
Machine operators	1,423.4	1,390	23.9%
Elementary	1,223.2	1,057	17.7%

Source: Department of Statistics Malaysia, PublicInvest Research

Our broad assumptions (RM450,000 property, 85% margin, 35-year loan) see an individual forking out RM1,798 in monthly installments

Putting all that together, our broad assumption of an RM450,000 property, with an 85% margin of finance and a loan tenor of 35 years at the prevailing interest rate environment will see an individual forking out RM1,798 in monthly installments. That would mean having to stump out c. RM70,000 (RM67,500 down-payment + miscellaneous costs) up-front however, but that's where the "assistance" will have to come in, which is aplenty as we can see though ownership is quite likely disproportionate across different societal strata.

Table 8: Malaysian Banking Deposits, By Holder (RMmn)

	A	B	C	D	E
2011	77,573.7	213,780.8	485,230.6	458,226.3	64,101.2
2012	81,995.1	239,017.0	508,974.9	509,808.5	68,519.8
2013	83,139.2	267,921.5	542,223.0	545,154.0	86,811.0
2014	96,310.3	299,715.6	571,126.9	581,453.6	92,993.9
Jan-15	95,674.2	304,925.4	565,187.4	586,569.3	91,836.0

Source: Bank Negara Malaysia, PublicInvest Research
Note: A = Government and Statutory Agencies, B = Financial Institutions, C = Businesses, D = Individuals, E = Others

Yes… they can afford it, even on a net salary basis in line with more prudential standards adopted by banks

Using the assumption of an RM4,121 base salary, yes… they can afford it, even on a net salary basis in line with more prudential standards adopted by banks in recent months following Bank Negara Malaysia's clampdown on household-related debts.

Table 9: "Affordability" Scenarios

	Scenario A	Scenario B	Scenario C
Property Value (RM)	450,000	450,000	450,000
Margin of Finance	80.0%	85.0%	90.0%
Down-payment (RM)	90,000	67,500	45,000
Loan Amount (RM)	360,000	382,500	405,000
Tenor (years)	35	35	35
Interest (%)	4.5%	4.5%	4.5%
Monthly payment (RM)	1,693	1,798	1,904
% of Gross Salary *	41.1%	43.6%	46.2%
% of Net Salary **	47.6%	50.5%	53.5%

Source: PublicInvest Research estimates
Note: * Gross salary – RM4,121 as per Table 7 (highlighted in green). ** Net salary = Gross salary – Income tax – EPF deductions = RM3,558

i-City's purchaser profile to-date is consistent with our urbanization proposition, with the bulk of its buyers coming from within the Selangor state

i-City's purchaser profile to-date is consistent with our urbanization proposition, with the bulk of its buyers coming from within the Selangor state. Age profile is a little higher than anticipated, but nonetheless a welcome sight as well given the stronger income levels with lesser affordability issues. Management has indicated that these buyers are predominantly end-use purchasers, though there are some investors in the fray as well.

Table 10: i-City Purchasers By Area

	Area	%		Area	%
1	Selangor	67.67%	9	Malacca	0.77%
2	Kuala Lumpur	16.20%	10	Negeri Sembilan	0.77%
3	Sabah / Sarawak	4.40%	11	Terengganu	0.63%
4	Perak	2.58%	12	Kedah	0.56%
5	Johor	2.16%	13	Foreigner (Japan)	0.21%
6	Penang	1.68%	14	Kelantan	0.21%
7	Foreigners (Local)	1.12%	15	Perlis	0.13%
8	Pahang	0.91%			**100.00%**

Source: Company

Table 11: i-City Purchasers By Age Group

	Age Group	%
1	<30	21.02%
2	31-40	38.41%
3	41-50	22.77%
4	51-60	10.82%
5	>60	2.16%
6	Company + Others	4.82%
		100.00%

Source: Company

Why here in i-City? Our response… why not here?

So… we have shown that there's demand, we've also shown that affordability isn't particularly an issue albeit stretching it a little, next question is… **why here in i-City?** Our response… why not here? For one, it's certainly less expensive than its neighboring towns of Subang Jaya, Petaling Jaya and downtown Kuala Lumpur.

Table 12: Comparable Residences In The Vicinity

Development	Area	Size (sf)	Price (RM)	Price/psf (RM)
Main Place Residence	UEP Subang Jaya	615	410,000	667
Centrestage	Petaling Jaya	452	400,000	885
Neo Damansara	Damansara Perdana	421	400,000	950
Azelia Residence	Bandar Sri Damansara	614	528,000	860
Pacific Place	Ara Damansara	708	480,000	678
Gateway Kiaramas	Mont Kiara	743	710,000	956
i-City	Shah Alam	714	420,000	588

Source: Various, www.propwall.com.my

Connectivity is not an issue, with the development situated right beside the Federal Highway and which will have a dedicated interchange while also being served by a network of others highways and corridors

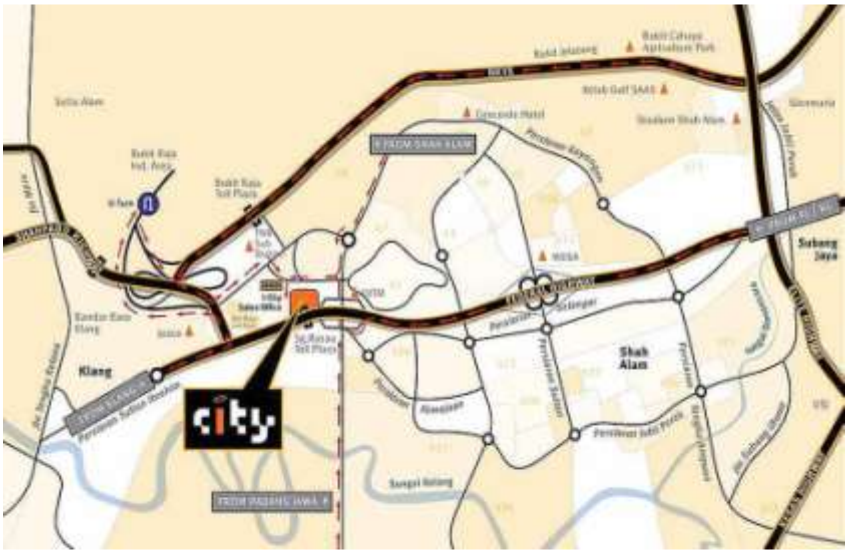
Connectivity is not an issue, with the development situated right beside the Federal Highway and which will have a dedicated interchange while also being served by a network of others highways and corridors: New Klang Valley Expressway (Jalan Duta – Bukit Raja), Shah Alam Expressway (Sri Petaling to Pandamaran), Guthrie Corridor Expressway (Shah Alam – Rawang) and the proposed Damansara Perdana – Shah Alam (DASH) Highway, amongst others.

Most interestingly, and which could be a major boost if a reality, is the LRT 3rd Line Extension connecting Bandar Utama to Klang which has just been reaffirmed in the recent Budget 2015 announcement

Most interestingly, and which could be a major boost if a reality, is the LRT 3rd Line Extension connecting Bandar Utama to Klang which has just been reaffirmed in the recent Budget 2015 announcement. While the alignment has yet to be released, it has been speculated that a station has been earmarked for the i-City development.

When fully-built, i-City will be a self-contained ultrapolis with leisure, commercial and residential components. It will be a fully-integrated digital city comprising a shopping mall, corporate office towers, cyber office suites, hotels, apartments, data center, an innovation and a theme park. With good connectivity and attractive affordability, why not i-City?

Figure 4: i-City and Its Connectivity



Source: Company

We're on an apparent down-cycle, is the timing right?

We're on an apparent down-cycle, is the timing right? Recall that works on the 100-acre Kuala Lumpur City Centre commenced in 1992 with the construction of the iconic Petronas Twin Towers (completed in 1996) amid a period of broad economic diversification and rapid growth which averaged 9% per annum. Even back then, as we recall, there were serious questions on the

Recall that when works on the 100-acre Kuala Lumpur City Centre commenced, concerns were aplenty as well, as to whether the "excesses" were necessary? Look at where it is today!

How about the Mid Valley City, its vision then of being the largest mall in Asia (but subsequently scaled down), amid widespread concerns as to whether the Klang Valley needed something like this (again). Look at where it is today!

Or take another example, something perhaps more similar (though also different to an extent), the development of the 800-acre Bandar Sunway with its leisure, residential and commercial components as well. Something being constructed at an apparently wrong cycle… look at where it is today!

So why not i-City, which will cater to the maturing and gradually urbanizing Klang and Shah Alam folk?

It doesn't own the land, and is all about related-party transactions. But does it really matter, we would ask? It would be an issue if injections are made at inflated amounts, and that the vendors are getting huge amounts of cash out of the company in return

glut of new office space this behemoth would have provided. We all remember the meltdown in 1997/98, and the difficulties we all faced together. But look at where it is today – the twin towers fully tenanted, neighboring office buildings Menara ExxonMobil, Menara Maxis and Menara Carigal seeing the same, the Suria KLCC mall bustling and the Convention Centre a hive of activity. Granted, this is downtown Kuala Lumpur so one would expect activity to be sufficiently robust. But back then, concerns were aplenty as well, as to whether the "excesses" were necessary? This is an instance where a mammoth project was constructed during an up-cycle, completed during a down-cycle but successfully sailed through the difficulties owing to its unique characteristic; its location.

How about the Mid Valley City, its vision then of being the largest mall in Asia (but subsequently scaled down), with works commencing at the peak of an up-cycle, only to be opened at the trough of the down-cycle amid widespread concerns as to whether the Klang Valley needed something like this (again). But look at where it is today, a nest of retail activity with fully-tenanted stacks of office towers (North Tower, South Tower, IGB Tower, Northpoint amongst others) packed onto equally fully-tenanted malls (Megamall and Gardens). As much as we would complain of the weekend traffic congestions in the early years, it's somewhere we would still flock to regardless. Why?

Or take another example, something perhaps more similar (though also different to an extent), the development of the 800-acre Bandar Sunway with its leisure, residential and commercial components as well. Starting off in the late 80s amid a tough economic environment, the one-time tin mining wasteland is now home to more than 10,000 residential and commercial units, attracts about 42m visitations to its Sunway Pyramid Mall and Sunway Lagoon Resort annually and is also an education hub with the Sunway University and Monash University campuses situated in the township. Yes, it's taken 20+ years to get to where it is today, but this is another example of something being constructed at an apparently wrong cycle but to have turned out successful.

So why not i-City, with the offering of a full-integrated lifestyle township which will cater to the maturing and gradually urbanizing Klang and Shah Alam folk?

Figure 5: Recent Launch Events..... Demand Remains Robust

Source: Company

It doesn't own the land, and is all about related-party transactions. But does it really matter, we would ask? It would be an issue if injections are made at inflated amounts, and that the vendors are getting huge amounts of cash out of the company in return. But even if that were to be the case, the related parties are not allowed to vote and considering Tan Sri Lim owns the majority of the company and hence is not allowed to weigh in on deliberations, only a small number can scupper the entire deal if it is against minority interests.

In this particular exercise however, they are being done at discounts from respective market values. Additionally, payment is via the issuance of convertible securities, which has no significantly negative bearing on cash flows

In this particular exercise however, and while land is being injected at about 3x its original investment costs in 2007, they are still being done at discounts ranging between 1% and 8% from respective market values. In fact, a large portion of the development (c. 30-acres) under Phase 1 has been injected at a 25% discount to current market value. Additionally, payment for the property is via the issuance of convertible securities, which has no significantly negative bearing on the cash flow of the company in the near to medium term while the pace of development is on the uptick.

Also, as per an original agreement signed in 2005 which both parties still observe till today, the landowner (principally Tan Sri Lim, through his privately-held entities) will only be entitled to the value of the land while profits will be accrued to I-Berhad, a rate of 23% at that. Historically, Tan Sri Lim has varied the amount he has received as landowner, in order that I-Berhad continues to achieve its targets.

To benefit himself (Tan Sri Lim) privately at the expense of minorities will only hurt him as major shareholder of the company

But in short, to benefit himself privately at the expense of minorities of I-Berhad will only hurt him as major shareholder of the company, as gains on one end will be negated by losses on the other from loss of confidence, should anything untoward be put into effect.

So… does it really matter that transactions are with related parties? We don't think so.

But then if things are already in place, and that i-City is being gradually developed by respective parties without I-Berhad having to own the land, why inject the properties into the company? A valid question, to which the company has stated that this will enable it to, and we quote "crystallize the consideration of both the SOHO Land and Tower Land now and for future phases and which mitigates I-Berhad's exposure to future land value escalation". As for the proposed Kia Peng land acquisition, it will enable the company to expand beyond the i-City development in Shah Alam, which some detractors might also take issue with in being a single-location developer.

Yes, the working arrangements can very well be carried on as-is, though that's something for management to say, not us. But we believe the injection today will benefit the company tomorrow as this allows it to extract value from land which we can only see will appreciate further over the longer run. With the company always on the lookout for partnerships to further enhance the value of the surrounding areas, being landowner in its own right will allow I-Berhad (and ultimately its shareholders) to reap rewards directly, case in point its mall joint-venture development with the Central Pattana Group which will see the company recognizing an immediate RM20m gain.

Yes, Tan Sri Lim will seemingly benefit twice. But as minorities going along on this journey of discovery and realization, it would be our folly if we choose not to benefit even once from something this distinguished gentleman has so willingly decided to share with more people than just the few shareholders of the private-held entity

Yes, Tan Sri Lim will seemingly benefit twice, in the sense of a one-time gain from the injection of land from the privately-held into the listed entity, and again when the share price rises on growing appreciation for what I-Berhad truly is. But as minorities going along on this journey of discovery and realization, it would be our folly if we choose not to benefit even once from something this distinguished gentleman has so willingly decided to share with more people than just the few shareholders of the privately-held entity.

At this point, if you still remain unconvinced – that there's sufficient demand to take up the residential components of the entire development despite the seemingly huge supply coming on-stream, affordability not being in question and that related-party transactions should not even be a concern, then may we suggest looking at something else and not progress hereon. If not for anything, may we just be armed with useful information on the demographics and earnings patterns of the Selangor-based population.

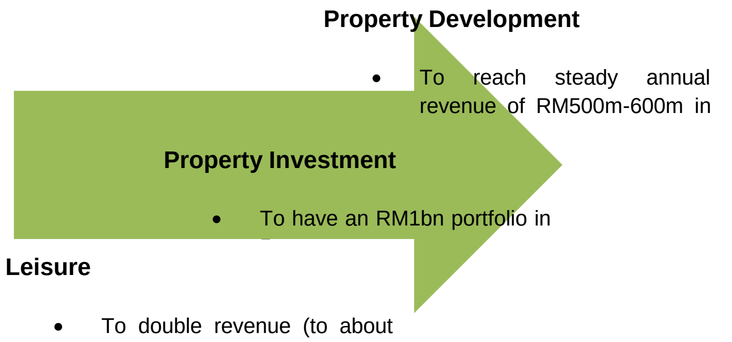
For those of us who have had our interests piqued, let's carry on as we delve into the individual segments of what makes i-City.

With a GDV of RM9bn encompassing more than 10 residential and commercial tower blocks, in addition to the numerous other components adding to its property investment portfolio, the Group has a strategic vision of attaining a steady state of RM500-600m revenue contribution in 3 years

What It's All About

PROPERTY DEVELOPMENT. A sprawling mall, a performing arts and convention center, three hotels, >10 residential and commercial tower blocks and 12,700 parking bays amongst others – covering about 57 acres of the entire i-City development in Shah Alam and driving earnings over the next 10 years, and to be materialized gradually though a game plan towards achieving its strategic vision as highlighted below (Figure 6).

Figure 6: Strategic Vision (3-5 Year Game Plan)



Source: Company, PublicInvest Research

In its original form, the plot of land on which the i-City development was to have been built on was held under a single title designated as Geran 27449, Lot 4598, Mukim of Bukit Raja, Distrcit of Petaling. Since 2012 however, it has been subdivided into six different plots, with the respective uses highlighted.

Table 13: Details of Master Development Land (as at 2013)

Reference	Current Status	Area (acres)
Property A[1]	Currently earmarked for future development as a retail centre [2]	5.09
Property B	Currently undergoing a residential and commercial development known as i-SOHO	12.13
Property C[1]	Currently earmarked for future mixed residential and commercial development known as the "Tower Land Development"	13.68
Property D	Currently being utilized for I-Berhad's leisure activities	4.28
Property E	Part of the property has been developed under Phase 1. A portion of the remaining area of has been developed under subsequent phases and the rest earmarked for future development, a portion of which is currently being utilized for its leisure activities. At this stage, the portion earmarked for future development is currently undergoing a design review and the plan in connection thereof has yet to be submitted to the relevant authorities.	21.50
Property F	Currently undergoing a residential development known as "i-Residence"	2.43
Common Land	Land surrendered to State, which includes amongst others an electrical substation, a reservoir pond, a river reserve, roads and green areas	12.27
	Total	**71.38**

Source: Company

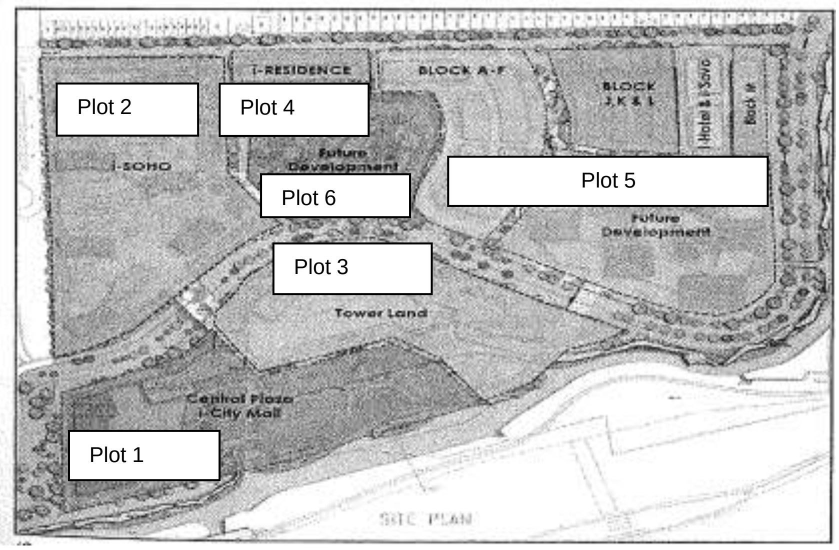
Note: [1] Application for Subdivision was approved on March 20, 2014. Property A and C shall now measure 11.12 acres and 7.45 acres respectively, with a separate 0.20 acres to be issued under a separate title [2] Property C was originally earmarked for development under Phase 1 as a retail centre. In order to maximize development potential of Property A and C, I-Berhad had amended the development type for both these properties, whereby Property A is now for development as a retail center (Retail Mall Project in a joint venture with Central Pattana) based on the land area after the Subdivision, while Property C is now for future mixed residential and commercial development under the Tower Land Development after the Subdivision.

Figure 7: i-City Today…. Day and Night

Source: Various

With reference to Figure 8 below (similar to that of Figure 1 in page 3, but with a re-drawn delineation), we highlight the respective Plots/Properties and development-types.

Figure 8: Re-Drawn i-City Development Plan



Source: Company

The site on which the Central Plaza i-City will be built, with an estimated total development cost of RM700m

Plot 1 will be site on which the Central Plaza i-City will be built, with an estimated total development cost of RM750m. i-City holds a 40% stake in the joint-venture development. Originally carved out at 5.09 acres, the newly-approved Subdivision will now see the plot spanning 11.12 acres.

Will have a GDV of about RM1.95bn, which includes the i-Soho and i-Suite projects, while also having an RM235m property investment portfolio which comprises 6,700 car park bays

Plot 2 will have a gross development value (GDV) of about RM1.95bn, which includes the i-Soho and i-Suite projects, while also having an RM235m property investment portfolio which comprises 6,700 car park bays. There will be no changes to the space allocation before and after the new Subdivision, with 12.13 acres utilized for the above-mentioned purposes.

Table 14: Details of Plot 2

		Property Development	Property Investment	
Projects	**Description**	**GDV (RMmn)**	**GDV/GDC (RMmn)**	**Status @ 31.12.14**
i-SOHO (Tower Block)	956 units	405		76% take-up
i-SUITE	825 units	443		37% take-up
Liberty Tower	350 units	178		51% take-up
Parisien Tower	350 units	187		2015 launch
Hyde Tower	521 units	270		2015 launch
i-SOHO (Retail)	364 units	470		2015 launch
Car Parks – Phase 2	6,700 bays		235	2015 completion
	Total	**1,953**	**235**	

Source: Company
Note: GDV – Gross Development Value, GDC – Gross Development Cost

To have an estimated GDV of RM738m and an RM405m property investment portfolio which includes a performing arts/convention center, 4-star hotel and 3,000 car park bays

Plot 3 will have an estimated GDV of RM1.03bn for the Tower Land project and an RM405m property investment portfolio which includes a performing arts/convention center, 4-star hotel and 3,000 car park bays. Originally carved out at 13.68 acres, the newly-approved Subdivision will now see the plot spanning only 7.45 acres.

Table 15: Details of Plot 3

		Property Development	Property Investment	
Projects	**Description**	**GDV (RMmn)**	**GDV/GDC (RMmn)**	**Status @ 31.12.14**
Tower Land (Residential)	272 units	253		2015 launch
Tower Land (Residential)	312 units	255		2016 launch
Tower Land (Retail)	90,000 sq ft	201		2016 launch
Serviced Suites	204 units	112		2016 launch
Office Tower	280,000 sq ft GFA	212		2017 launch
Performing Arts/Convention Centre	60,000 sq ft GFA		31	2019 completion
Double Tree Hotel	up to 400 rooms		230	2019 completion
Car Parks – Phase 2	3,000 bays		105	2017 completion
	Total	**1,033**	**366**	

Source: Company
Note: GFA – Gross Floor Area

Site houses the fully-taken up i-Residence which has a GDV of RM235m

Plot 4, for current illustrations (previously denoted as Property F in Table 13 on page 13), houses the fully-taken up i-Residence development which has a GDV of RM235.2m.

Table 16: Details of Plot 4

Projects	Description	Property Development GDV (RMmn)	Property Investment GDV/GDC (RMmn)	Status @ 31.12.14
i-Residence	366 units	235		100% take-up
	Total	**235**		

Source: Company
Note: GFA – Gross Floor Area

The largest area carved out from the entire development at 21.5acres will house the iconic "The Jewel" development situated on about 10 acres of land. GDV for this particular project will be about RM3.9bn, while a property investment portfolio of RM410m will also be on the cards

Plot 5, with the largest area carved out from the entire development at 21.5acres will house the iconic "The Jewel" development situated on about 10 acres of land. GDV for this particular project will be about RM3.9bn, while a property investment portfolio of RM410m will also be on the cards.

The remainder has mostly been built-up, with a cumulative RM260m gross development value for the various MSC office suites and i-SOVO project. The area also houses a portion of its leisure activities, data center (RM30m), 1,300 car park bays (RM32m) and 3-star Best Western hotel (RM50m).

Table 17: Details of Plot 5

Projects	Description	Property Development GDV (RMmn)	Property Investment GDV/GDC (RMmn)	Status @ 31.12.14
MSC Office Suite				
Blocks A – F [1]		115		Completed
Blocks JKL [2]		75		Completed
Block M [3]	Data centre		30	Completed
Car Parks [4]	1,300 bays		32	Completed
i-SOVO	220 units	65		Completed
3-star Hotel - Best Western @ i-City	216 rooms		50	Completed
	Total	**255**	**112**	
The Jewel				
Office Towers	Office + Retail	1,099		2023 launch
5-Star Hotel	up to 400 rooms		350	2023 launch
Residences	2,550,000 sq ft GFA	2,831		2023 launch
Car Parks	1,700 bays		60	2018 completion
	Total	**3,930**	**410**	

Source: Company
Note: [1] 80%-owned by Al-Rajhi Bank, completed and sold in 2008. GDV was RM120m. [2] Currently being used for leisure activities [3] Book value of RM27m [4] Book value of RM32m

Will see redevelopment into the RM2.02bn Twin Residences

Plot 6, for current illustrations (previously denoted as Property D in Table 13 on page 13, and which currently houses the group's leisure activities), will see redevelopment into the RM1.0bn Twin Residences.

Table 18: Details of Plot 6

Projects	Description	Property Development GDV (RMmn)	Property Investment GDV/GDC (RMmn)	Status @ 31.12.14
Twins Residences	900,000 sq ft GFA	1,000		Concept Stage
	Total	**2,018**		

Source: Company

Will house the Clark Quay @ i-City project

Plot 7 will house the Clark Quay @ i-City project, a row of shop houses fronting the river reserve, and will from part of the Group's property investment portfolio.

Table 19: Details of Plot 7

Projects	Description	Property Development GDV (RMmn)	Property Investment GDV/GDC (RMmn)	Status @ 31.10.14
Clark Quay @ i-City	300,000 sq ft GFA		105	2020 completion
	Total		**105**	

Source: Company

Putting all these together, what we'll get (or close to it) is shown in Figure 9...

Figure 9: i-City Tomorrow (without The Jewel development)

Source: Company

…. and this is where we're at, the work-in-progress, today.

Figure 10: i-City, Work-In-Progress

Source: Company

While much of this paper has thus far dwelled on the i-City project and its development potential, which undoubtedly is the jewel in the company's crown, I-Berhad is more than just about that in the near term, with the Grand i-Residence @ Kia Peng also an immediate earnings contributor as a result of the recent corporate exercise.

The Grand i-Residence will comprise 127 SOHO units and 315 apartments, to be built on a 1.05acre plot of land in downtown Kuala Lumpur at an estimated gross development value of RM820m

The **Grand i-Residence** will comprise 127 SOHO units and 315 apartments, to be built on a 1.05acre plot of land in downtown Kuala Lumpur at an estimated gross development value of RM820m. With the entire development fully-booked and works already having commenced, completion is slated for 2019. In the interim, earnings contributions from this should be relatively decent.

Figure 11: Grand i-Residence @ Kia Peng

Source: Company

PROPERTY INVESTMENT. Recall Figure 6 on page 13 which highlights the Group's strategic vision for its Property Development, Property Investment and Leisure divisions.

The RM750m *Central Plaza @ i-City*, the first-of-its-kind regional shopping mall in the country which will be jointly-developed by the Central Pattana Group (CPN), Thailand's largest retail developer and which will hold a 60% equity stake in the JV company, and I-Berhad which will hold the remaining 40%

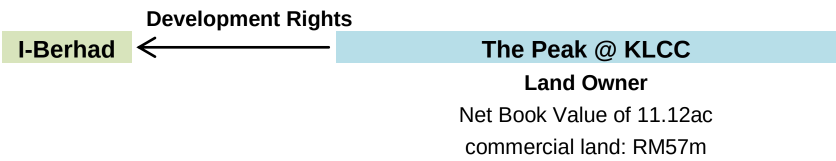
An integral part of this particular Property Investment division will be the RM750m ***Central Plaza @ i-City***, the first-of-its-kind regional shopping mall in the country which will be the "crowd-puller". As the name would suggest, the mall will be jointly-developed by the Central Pattana Group (CPN), Thailand's largest retail developer and which will hold a 60% equity stake in the JV company, and I-Berhad which will hold the remaining 40%. CPN will take the lead in developing, leasing and managing the mall, targeting 300 retail outlets, anchor tenants and key retailers from Thailand.

Originally targeted to cost RM580m, latest count has it at RM750m given the on-going changes being made to the design and usability of the mall. Situated on an 11.12acre plot and with a net lettable area of 1m sq ft, the mall is targeting a 2018 opening and which should contribute a consistent annual income of about RM17m to the Group.

I-Berhad pockets RM20m for the surrendering of its rights to the development of the mall to the CPN JV… a nice piece of business for shareholders of the company

Before the recently-completed corporate exercise, I-Berhad possessed development rights to Phase 1 of the Master Land, on which the mall was to have been built.

Figure 12: Mall Development Corporate Structure (Before Exercise)



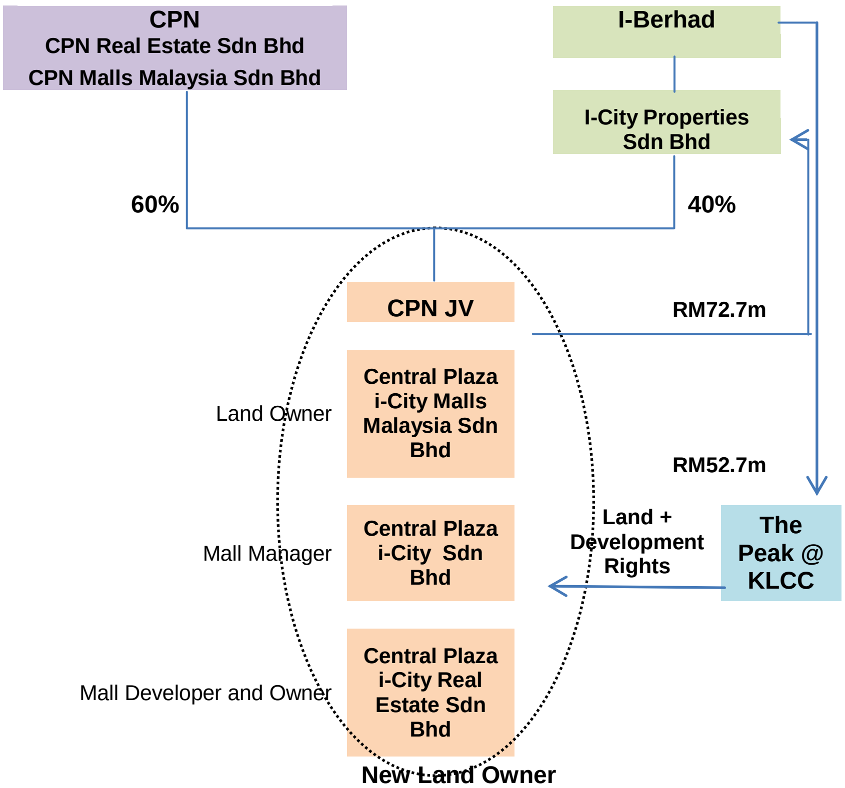
Source: Company, PublicInvest Research

Under what is seemingly a convoluted looking corporate structure, but which is actually quite straightforward, Central Plaza i-City Real Estate Sdn Bhd (part of the CPN JV) will acquire the 11.12acre plot of land from The Peak @ KLCC for a purchase consideration of RM72.7m. The JV will then hold development rights on the land (ie. allowing it to build the Central Plaza @ i-City). The previous arrangement between I-Berhad and The Peak @ KLCC is henceforth terminated.

I-Berhad will then receive RM72.7m on an instalment basis from the CPN JV on behalf of The Peak @ KLCC, with a corresponding RM52.7m to be payable over 24 months made out to The Peak @ KLCC as part of the land sale. Consequently, I-Berhad will retain the balance RM20m for the relinquishing of its land development rights in its original Mall Development Joint Venture Agreement with The Peak @ KLCC in 2009.

In short, I-Berhad pockets RM20m for the surrendering of its rights to the development of the mall to the CPN JV… a nice piece of business for shareholders of the company.

Figure 13: Mall Development Corporate Structure (Post Exercise)



Source: Company, PublicInvest Research

Central Pattana is a leading property developer and investor with a 20% market share in Bangkok's leasable area. It is a fully-integrated retail developer which has strong synergies with its major shareholder, Central Group

Who is Central Pattana Plc (CPN)? Based in Thailand, CPN is a leading property developer and investor with a 20% market share in Bangkok's leasable area. It is a fully-integrated retail developer which has strong synergies with its major shareholder, Central Group, and significant financing capability through its property fund. CPN is also the largest retail property developer listed on the Stock Exchange of Thailand (SET) with a market capitalization of approximately USD5.6bn.

CPN is also the property manager and major shareholder in two property funds, 27% in CPN Retail Growth Leasehold Property Fund (CPNRF) and 25% in CPN Commercial Growth Leasehold Property Fund (CPNCG). It manages 25 shopping centers with a total net leasable area under its management of approximately 1.37m sq meters (sq m), of which 1.19m sq m are owned and the remainder owned by CPNRF. On the cards are 5 new projects (2 in Bangkok, 2 in the provinces and the 1 in i-City).

Under its non-core business, it also manages 7 offices (169,447 sq m), 2 hotels (561 rooms) and 2 residential properties (61 units).

The flagship businesses of the Central Group, and principally the Chirathivat family who brings to CPN a wealth of retail-related expertise through their long record and successful leadership in Thailand's dynamic and competitive landscape of shopping mall developments and department store / specialty store operations

CPN is one of the flagship businesses of the Central Group, and principally the Chirathivat family who brings to CPN a wealth of retail-related expertise through their long record and successful leadership in Thailand's dynamic and competitive landscape of shopping mall developments and department store / specialty store operations.

Figure 14: The Central Group and Chirathivat Family

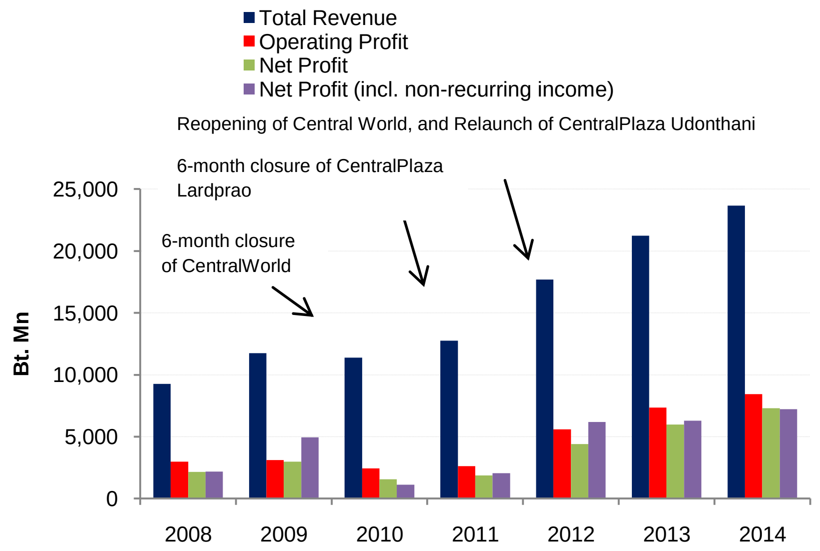
Source: Central Pattana Plc

A quick glance at the Group's financial performance is an encouraging sight given its proven track record of growth over the years

A quick glance at the Group's financial performance is an encouraging sight given its proven track record of growth over the years, even in trying times that the Thai economy has undergone over the last 1-2.

If the Central Pattana Plc group can have the confidence to plow close to RM500m into i-City, what is our RM500,000 or RM5m investment into I-Berhad?

Figure 15: CPN Financial Summary



Source: Central Pattana Plc, PublicInvest Research
Note: 2014 = 9months to December

Table 20: % YoY Growth

	2009	2010	2011	2012	2013	2014*
Total Revenue [1]	27%	-3%	12%	39%	20%	18%
Operating Profit	4%	-22%	7%	113%	31%	18%
Net Profit	6%	-32%	21%	136%	36%	22%
Net Profit [2]	127%	-77%	83%	201%	2%	33%
Same-store revenue growth	5%	0%	9%	29%	12%	5%
Gross Profit Margin [3]	43%	39%	39%	47%	50%	48%
Gross Profit Margin [4]	39%	34%	35%	44%	47%	n.a.
EBITDA Margin [3]	44%	42%	43%	50%	51%	54%

Source: Central Pattana Plc, PublicInvest Research
Note: * 9M2014 [1] Total revenue incudes rental and service, hotel operations, food and beverage and other income. Excludes interest income, share of profits from investments and reversal of impairment. [2] Net profit (incl. non-recurring income) [3] Excluding non-recurring items (ie. reversal of impairment, but including other income) [4] Gross profit margin (excl. other income) n.a.= not available

To quote two paragraphs from the Report on Assessment of Market Potential of the Retail Mall conducted by Urbis of Australia, "*The local or 'walk-up' residential and office worker populations at i-City are expected to grow strongly over the coming years, providing a significant on-site market form which the mall will be able to draw strongly. Overall however, this on-site population spending market is expected to be relatively small in the context of the trade area spending market and so it is recommended that the position and tenant mix of the mall should be primarily targeted to the trade area population as opposed to the on-site population.*

In summation, i-City is a good site for an appropriately positioned retail mall of the size proposed. It is located however, in a relatively competitive environment and so will need to be delivered and managed at a high level in order to be successful. The mall will benefit from a point of difference and a strong provision of major tenants which will assist in attractive desirable specialty shops."

If the Central Pattana Plc group, with a successful and proven track record in developing and managing malls in a competitive and economically-volatile environment like Thailand, can have the confidence to plow close to RM500m into i-City, what is our RM500,000 or RM5m investment into I-Berhad which pales in comparison?

3-star Best Western @ i-City and **4-star (Hilton Double-Tree @ i-City?)** will offer about 600 rooms for occupancy, with the former providing 216 and the latter about 400. A fully-leased **data center** and an eventual **performing arts and convention center** slated for completion in 2019 will provide stable and recurring income to its property investment segment.

To cap it all off will be the **12,700** car parking bays available upon completion of the entire i-City project, a potential contributor of a decent RM115m in annual revenue. 1,300 bays are already on-hand, with a further 6,700 bays coming on-stream next year (2015), another 3,000 bays by 2017 and the final 1,700 bays by 2018.

LEISURE AND HOSPITALITY. The division which I-Berhad is perhaps most synonymous for at this point is this particular one, which has its beginnings dating back to 2009 with the opening of its City of Digital Lights (LED light landscapes) then (pictures of which are in Figure 7 on page 14). Taking up an area of approximately 25 acres currently, half of which is on development land and the other half in buildings, the former half will undoubtedly be relocated once all property launches are afoot.

The Group's growth strategy for its leisure business is straightforward, to grow, 1) the number of visitors, and 2) the number of tickets purchased per customer. Both have been growing steadily, incidentally, with visitor count on the rise at a rate of 5%-10% per annum whilst ticket sales per customer have risen to 3 from 1 (just 2 years ago) previously

With about 90,000 visitors per week, admirable for a location seemingly "too far" to many, the Group's growth strategy for its leisure business is straightforward, to grow, 1) the number of visitors, and 2) the number of tickets purchased per customer. Both have been growing steadily, incidentally, with visitor count on the rise at a rate of 5%-10% per annum whilst ticket sales per customer have risen to 3 from 1 (just 2 years ago) previously. With about 90% of its patrons still predominantly local and walk-in, the immediate focus (in addition to adding more rides and attractions) in the interim is to grow its foreign visitor base and gain greater penetration in the tour market.

Consisting of 4 precincts, City of Digital Lights (A), SnoWalk (B), Water World (C) and Fun World (D), the area's notable attractions are its Giant Ferris Wheel (which can be seen from 1km away) and its LED lightings in A, the Snow Walk in B, the Tornado Ride in C, and the Wax Museum, Trick Art Museum and Space Mission in D. Promising more fun, new attractions are in the works: the Typhoon and the Submarine.

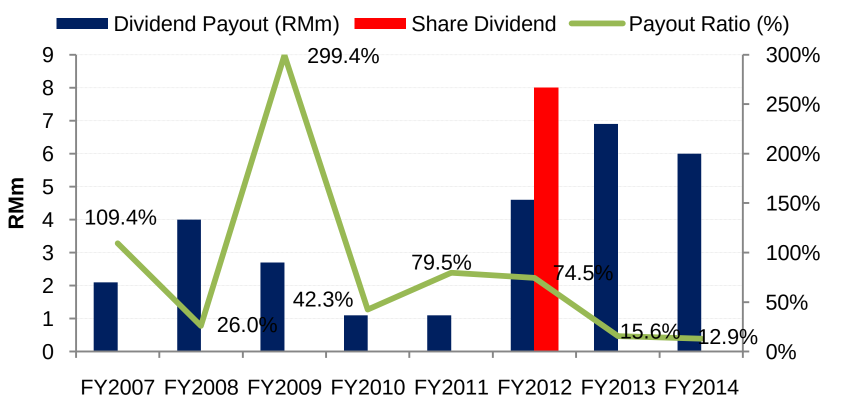
Figure 16: Notable Leisure Attractions

Source: Various

The bedrock (together with its property investment portfolio once fully completed) of a healthy and steady recurring income stream which augurs well for shareholders (major and minor) through higher dividend payouts

While this division may eventually be deemed inconsequential or "un-sexy" in the larger context of a property development-play, we beg to differ. Granted, it will not give you sky-rocketing earnings growth, it will nevertheless be the bedrock (together with its property investment portfolio once fully completed) of a healthy and steady recurring income stream which augurs well for shareholders (major and minor) through higher dividend payouts, of which the company has a policy of paying a minimum 30% of net profits.

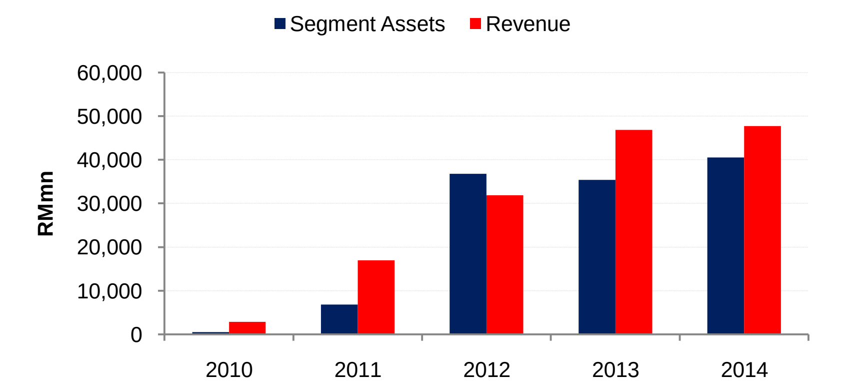
Figure 17: Dividend Payout Trend



Source: Company, PublicInvest Research

Historically reaping more than 1.5x-2x (but management has guided for a more conservative 1.0x) on what is plowed into expanding its asset-base, the Group plans to have total segment assets of RM100m for this particular division, in essence meaning that we could see revenues of RM100m from its leisure activities. Earnings wise, we could see another RM30m in pretax earnings coming from this division (based on its historical margins of about 30%), and translating to 2.2sen earnings per share on a fully-diluted basis.

Figure 18: Leisure and Hospitality Division – Segment Asset vs. Revenue



Source: Company, PublicInvest Research

Table 21: Leisure and Hospitality Division Pre-tax Margins

	Revenue (RM'000)	Pretax Profit (RM'000)	Pretax Margin (%)
2010	2,841	2,102	74.0%
2011	16,969	5,924	34.9%
2012	31,841	16,040	50.4%
2013	46,890	14,794	31.6%
2014	47,781	12,929 [1]	27.1%

Source: Company, PublicInvest Resarch
Note: [1] Temporarily weaker on higher pre-opening costs and additional operating costs for new attractions

What It All Comes Down To....

What's all this worth?

If you've gotten this far, laboring through 23 pages of reading, then you probably truly have an interest in what is to become of I-Berhad in the forthcoming years. Hoping to have assuaged some concerns on the issues of demand, affordability and the supposed current down-cycle in the property market, the natural question to ask next would be… what's all this worth!

The intangibles… the only area in downtown (and mainstream) Shah Alam city to have a freehold status and have leisure activities, night tourism and lifestyle outlets operating on a 24-hour 7-day basis, amongst others

The intangibles… the only area in downtown (and mainstream) Shah Alam city to have a freehold status. Yes, there's Setia Alam and Bukit Jelutong to the west and Kota Kemuning to the east with similar statuses, but it is not exactly the city center and does not have similar connectivity and features. In July 2011, the company entered into a Management and Development Agreement with the Selangor State Government and Majlis Bandaraya Shah Alam (MBSA) which will allow it to:

- Have leisure activities, night tourism and lifestyle outlets operating on a 24-hour 7-day basis
- Have a 21-year concession, starting 2012 over 23 acres of buffer land surrounding the township (of which it plans to develop Clark Quay @ i-City to augment its property investment income)
- Maintain a 30% Bumiputera quota on its development projects
- Manage the township services and be reimbursed 70% of the assessment fee collected by the MBSA (estimated to be about RM10m)

And just recently, the Royal Malaysian Police has committed to place up to 300 auxiliary policemen around the City to beef up its security, while also committing to assign the Tourist Police Unit to patrol and provide tourists with information. With a 15-minute response time from the current community police station in Section 7 and the eventual setting-up of a police station on the western boundary of i-City, security is likely better here than any other major development in the vicinity.

But ultimately, for most, it still comes down to Ringgit and Sen.

The tangibles… In a nutshell, an estimated gross development value of RM9bn (including the iconic Jewel development) which is anticipated to reap pretax profit margins of between 20%, an RM1bn property investment portfolio generating a yield of 5% conservatively, and a leisure business which provides steady cash flows of about RM30m per annum.

The tangibles… how do we value this company? A pinch of hope, a spoonful of optimism and a cupful of belief!

Without much land ownership on its own, a Revised Net Asset Value (RNAV) based valuation would be moot. With earnings just only starting on an upward trajectory, an appropriate multiple for a valuation on a price-earnings basis needs to be justifiable, otherwise it'll be questioned ceaselessly. Similarly, a full discounted cash flow based valuation is not likely to be accurate given a portion of its earning contributors not having hit critical mass. How then do we value this company? A pinch of hope, a spoonful of optimism and a cupful of belief!

Jokes aside, you will need to have the belief that this entire development will work. While we are optimistic that the project will be well-received, it is also premised on the hope that management delivers on what has been guided

Jokes aside, you will need to have the belief that this entire development will work, with all the complementary elements coming into play, for you to believe what the company could actually be worth. While we are optimistic that the project will be well-received given the many considerations we've laid out throughout this entire paper, it is also premised on the hope that management delivers on what has been guided.

We ascribe a price-earnings derived **value of RM0.92 per share** for the near term, stoically underpinned by a sum-of-parts value of RM1.61 per share on fully-diluted basis

With much riding on this, personally and professionally, we see Tan Sri Lim Kim Hong fully delivering on what is to be a landmark development at the corridors of Klang and Shah Alam, and ascribe a price-earnings derived **value of RM0.92 per share** for the near term. The price-to-earnings type valuation is used to capture the growth period of the company, which other valuation methods may not necessarily do so appropriately. We have however utilized a conservative price-to-earnings multiple of 10x to reflect the current small-cap nature of the company, and which is at a significant discount to its 3-year earnings CAGR growth of 50+% and translating to a PEG ratio of only 0.2x.

The current fair value of the company is stoically underpinned by a sum-of-parts value of RM1.61 per share on a fully-diluted basis. We take a discounted net present value of its property development earnings throughout the course of the entire development, a discounted cash flow calculation on its property investment income over the next ten, years and an earnings multiple of 5x to its leisure-related income.

Table 22: Sum-Of-Parts Valuation

DEVELOPMENT	GDV [1] (RMm)	Discounted Earnings [2] (RMm)
i-SOHO (P1) - Tower Block	97.2	13.4
i-Suites	279.1	38.6
Liberty Towers	87.2	12.1
Parisien Towers	187.0	25.8
Hyde Towers	270.0	37.3
i-SOHO (P4) – Retails	470.0	64.9
Serviced Suites	112.0	15.5
280,000 sq ft office	212.0	29.3
Tower Land – P1 Residential	253.0	35.0
Tower Land – P2 Residential	255.0	35.2
Tower Land - Retails	201.0	27.8
JEWEL - Office Towers:	1,099.0	145.3
JEWEL - Residences	2,831.0	374.2
Twins Residences	1,000.0	132.2
Grand i-Residence @ Kia Peng	820.0	113.3
		1,099.8
INVESTMENT		
DCF @ 6% Yield @ 8% Disc.		218.9
LEISURE		
Net Profit @ 5x PE		150.0
Sub-Total (RMm)		**1,468.7**
Shareholders' Funds @ post-exc.		762.8
TOTAL (RMm)		**2,231.5**
Fully-diluted share base (m)		1,384.3
Fair-value per share (RM)		**1.61**

Source: PublicInvest Research
Note: [1] Remaining GDV [2] Discounted @ 10%

We have not included any peer comparisons as there's no one comparable to the company in its current form and stage of growth. Stacking it up against a pure-play property developer is moot given the company's other income components. Stacking it up against a REIT-like company isn't directly comparable either given its leisure component, though small but nonetheless important.

I-Berhad… Buy it, hold it and wait on it! Within a year or two, earnings growth will be robust. Within three to five, it will be sustainable and strong. I-Berhad is a company at the cusp of an exciting phase, and we don't say this lightly. Getting in now is getting in early, and getting in early never hurts. A pinch of hope, a spoonful of optimism and a cupful of belief!

Buy it, hold it and wait on it!

Getting in now is getting in early, and getting in early never hurts. A pinch of hope, a spoonful of optimism and a cupful of belief!

i-City, i-Believe.. do you?

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RMm)	2013A	2014A	2015F	2016F	2017F
Revenue					
Cost of Sales					
Gross Profit					
Other Income					
Administration Expenses					
Pre-tax Profit					
Income Tax					
Effective Tax Rate (%)					
Minorities					
Core Net Profit					
Growth					
Revenue					
Gross Profit					
Net Profit					

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RMm)	2012A	2013A	2014F	2015F	2016F
Property, plant and equipment					
Inventories					
Trade receivables					
Cash and bank balances					
Total Assets					
ST Borrowings					
LT Borrowings					
Trade payables					
Minority Interests					
Total Liabilities					
Total Equity					
Total Equity and Liabilities					

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2012A	2013A	2014F	2015F	2016F
Book Value Per Share					
NTA Per Share					
EPS (Sen)					
DPS (Sen)					
Payout Ratio (%)					
ROA (%)					
ROE (%)					

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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