

## Gallant Venture Ltd

2 Feb 2007

*Investment Boost in Bintan*

Snapshot		P&L				Key ratios (FY07F)	
Recommendation	Buy	(Y/E Mar)	FY2005	FY2006F	FY2007F	PER	91.9x
Current Price	S\$1.46	Sales (S\$m)	227.1	276.6	403.4	P/BV	2.9x
Target Price	S\$1.53	EBITDA	78.0	87.3	110.0	Div yield	-
No of Shares	2,410.4m	Earnings	6.1	21.5	38.3	ROE	3.1%
Market Cap	S\$3,519.2m	EPS (Scts)	0.25	0.45	0.81	Gearing	0.6%
Year Hi/Lo	S\$1.46/0.30	EPS growth (%)	0.25	0.89	1.59	Cur ratio	5.4x

Source: SIAS Research

### Company Update

- **Land sales revenue materialise:** Revenue from Gallant's property business has materialised. We understand that Gallant will recognise land sale revenues of around S\$20m in 4Q06 and another S\$14m for 1Q07 for the sale of 343 ha of land in Bintan to Bintan Treasure Bay Pte Ltd.
- It was announced earlier in January that Malaysian listed Landmarks Bhd will acquire 64.5% stake in Bintan Treasure Bay Pte Ltd, and Landmarks Bhd will be injecting around S\$920m to the development of the Bintan Treasure Bay resort.
- Another group of investors is also slated to be coming into Bintan with an investment of S\$380m to develop a resort complex housing a disco, a bowling alley, shops and a spa, a recent report said. Their plans also include a retirement village and a unique wedding chapel.
- Plans are also in the pipeline to have new ferries that will cut the travelling time from Bintan to Singapore by half. Currently, travelling from Singapore to Bintan by ferry takes nearly one hour.

to be around 5.5%. Bank Indonesia forecasts economic growth to continue rising to 6.0% in 2007.

- **Bintan resorts making a comeback:** We believe that the two recently announced resort investments in Bintan is just the beginning of a rejuvenation in the Bintan resorts. The value in Gallant's landbank may be unlocked sooner than expected with excitement in the Bintan resort industry triggered through the two announced projects. We believe at least 45% of Gallant's 1,500 ha land bank at Lagoi Bay will be sold for development in the coming two years.
- Benefiting from the upcoming developments in Bintan, we forecast Gallant's utility and resort operations revenue growth to average 15% and 17% per annum respectively in the next five years.
- **Price likely higher for future land sales:** For the Bintan Treasure Bay, the price of the land sold is around S\$10 per sqm. We understand that this is because most of the land was swamp land, which required additional costs to make it suitable for development. We estimate future land sale prices to be at an average of at least S\$49 per sqm.

### Outlook

- **Indonesia's economy on track:** The Indonesian economy has picked up steadily from 3.4% in 2001 to 5.6% in 2005. GDP growth for 2006 is estimated

- **Reinvigoration of the Batam SEZ:** The government of Indonesia aims to lure US\$1 billion in new investment in 2007-2010 and create 100,000 new jobs, said a recent economic report by the American

Embassy Information Resource Center,  
Jakarta.

- To reinvigorate the area, it was said that the government planned to clarify its status, laws and regulations; remove import duties except for consumable goods; create model customs and tax offices; ease labor restrictions and reduce the time it takes to start a business to 33 days.
- In light of the positive news so far on the Batam SEZ, we are positive on the growth of Gallant's industrial park business as well. We forecast an average revenue growth of 16.0% per annum in the coming five years for the segment.

### Risks

- **Unfavorable perceptions of Indonesia persist in some investors:** Total foreign direct investments (excluding investments in oil and gas, banking and insurance industry) in Indonesia fell around 33% from US\$8.9b in 2005 to US\$6.0b in 2006 due to bureaucratic hurdles, said the Indonesian state investment agency in Jan 2007.
- According to the report, some investors had said that graft, red tape, bureaucracy, tough labour laws and an unreliable legal system make Indonesia a poor destination to do business compared to other regional countries. While we believe that foreign investments in the Riau Islands will see a growth trend going forward, such unfavorable perceptions of Indonesia as a whole may threaten to deter companies from coming into Batam and Bintan if they are left unchecked.
- **Risk of the resort industry in Bintan failing to take off:** Much of Gallant's worth is in the potential value of its land bank, and the growth in its resort and utilities business through developments in Bintan. If the resort and tourist

industry in Bintan fail to take off, much of Gallant's value will not be realized in the near future.

- Possible threats to tourism in Bintan would be terrorism and the bird-flu. Indonesia had reported five more human deaths caused by the bird flu virus in Jan 2007. This brings the number of deaths caused by the bird flu in Indonesia to 62, which accounts for more than 75% of the worldwide total of 82 deaths. The continued inability of the government to contain the spread of the virus will become increasingly detrimental to Indonesia's image as a holiday location.

### Valuation/ Recommendation

- Gallant's share price has gained substantially since the group's listing last year, making a gain of 97% to S\$0.985 at the end of 2006. The initial gains might have been spurred by speculation of Gallant acquiring a licence to operate a casino in Bintan, but we believe price upside movement was increasingly supported by investors recognising the potential worth of Gallant's land bank.
  - In the early part of 2007, Gallant's share price soared and recently spiked to the current high of S\$1.46.
  - We have revalued Gallant's shares, adopting a combined approach of a current valuation its land bank and a discount free cash flow valuation for its utilities, resort and industrial park operations.
  - We arrived at a raised fair value price of S\$1.53. We are upbeat on Gallant's prospects and expect it to surprise with new developments. Hence we are recommending a 'buy' despite Gallant's current price being just 4.8% shy from its fair value. **(Chan Chiong Kong)**
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## Valuation

### Land Bank

#### 1) Lagoi Bay

Area: 1,500 ha  
 Assume 60% of land sold and 40% developed by Gallant in phases in next 5 years

Present value of land to be sold S\$ 311.9m  
 Value per share **S\$ 0.129**

Key Assumptions:  
 Average land price: S\$49 per sq m  
 Applied discount rate: 11.3%  
 Land price appreciation per annum: 3.5%

Present value of land to be developed S\$ 414.0m  
 Value per share **S\$ 0.172**

Key Assumptions:  
 Land value after development: S\$250 per sq m  
 Return on investment: 30.0%

#### 2) Other land zoned for resort and residential development

Parcel	Intended development timeframe	Area	Estimated present value
Land at Pasir Panjang & Simpang Lagoi	After 2011	3,718.5 ha	S\$ 1,018m
Land Bank 2	After 2016	3,324.7 ha	S\$ 732m
Land Bank 3	For long term development	5,805.9 ha	<u>S\$ 575m</u>
			Total: S\$ 2,324m

Value per share **S\$ 0.964**

Key Assumptions:  
 Average land price: S\$49 per sq m  
 Applied discount rate: 11.3%  
 Land price appreciation per annum: 3.5%

### Utilities, Resort and Industrial Park

Present Value of free cashflow to firm from 2007 to 2012: S\$ 195.1m  
 Terminal Value: S\$ 478.1m  
 Total Present Value: S\$ 673.2m  
 Net debt in 2006: S\$ 38.5m  
 Net Present Value: S\$ 634.7m

Value per share **S\$ 0.26**

Key Assumptions:  
 WACC: 11.3%  
 Tax rate: 30%  
 Terminal growth rate: 3.0%

**Total Value per share: S\$1.53**



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### About the Company

Listed on SGX Sesdaq in June of 2006, Gallant Venture is a holding company with investments in four main businesses - ownership and management of industrial parks, utilities, resort operations and property development.

Gallant Venture currently operates and maintains two industrial parks located in Batam and Bintan and provides support services to Bintan Resorts. Gallant is also the provider of utility services to the industrial parks and resort. In addition, Gallant has a land bank of approximately 18,200 ha in Bintan which are designated for industrial, commercial, residential and resort developments.

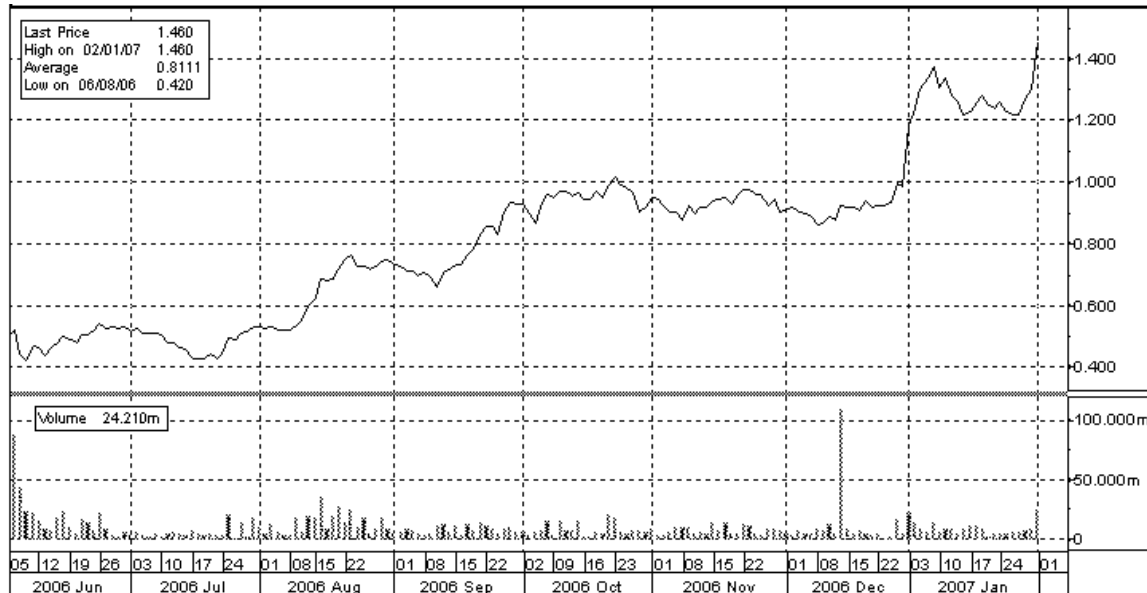
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## FINANCIAL TABLES AND RATIOS

Year End Mar				
<b>Profit &amp; Loss (\$m)</b>				
	<b>FY04</b>	<b>FY05</b>	<b>FY06F</b>	<b>FY07F</b>
Turnover	202.0	227.1	276.6	403.4
EBITDA	82.8	78.0	87.3	110.0
EBIT	31.7	28.7	39.2	62.8
Pretax	22.8	22.2	31.8	55.9
Earnings to shareholders	12.7	6.1	21.5	38.3
EPS (fully diluted -Scts)	0.53	0.25	0.89	1.59
<b>Balance Sheet (\$m)</b>				
Long Term Assets	811.1	796.0	782.2	769.7
Current Assets	691.3	700.6	723.8	769.9
Current Liabilities	106.7	120.3	124.7	142.0
Long Term Liabilities	173.3	149.0	149.0	149.0
Total Equity	1222.5	1227.4	1232.4	1248.7
<b>Cash Flow (\$m)</b>				
Operating Cash Flow	68.1	34.7	67.4	66.2
Investing Cash Flow	-7.0	-31.3	-34.4	-34.7
Financing Cash Flow	-55.0	-12.7	0.0	0.0
Net Cash Increase / (Decrease)	6.0	-9.3	33.0	31.5
Cash at year end	92.9	83.6	116.7	148.1
<b>Financial Ratios</b>				
	<b>FY04</b>	<b>FY05</b>	<b>FY06F</b>	<b>FY07F</b>
Revenue Growth (%)	5.4	12.4	21.8	45.8
EBITDA Growth (%)	7.0	-5.8	11.9	26.0
Earnings Growth (%)	63.0	-51.9	251.5	78.5
EPS Growth (%)	63.0	-51.9	251.5	78.5
EBITDA Margin (%)	15.7	12.6	14.2	15.6
Net Margin (%)	6.3	2.7	7.8	9.5
Current Ratio (x)	6.5	5.8	5.8	5.4
Book value per share (Scts)	0.5	0.5	0.5	0.5
Net Debt/(Cash) per share (Scts)	3.1	3.0	1.6	0.3
Gearing (net) (%)	6.3	6.0	3.2	0.6
Gearing (gross) (%)	14.1	13.0	12.9	12.8
Return on Equity (%)	1.1	0.5	1.8	3.1
Return on Asset (%)	0.8	0.4	1.4	2.5
<b>Valuations</b>				
	<b>FY04</b>	<b>FY05</b>	<b>FY06F</b>	<b>FY07F</b>
Price to sales (x)	17.4	15.5	12.7	8.7
PER (x)	277.1	576.4	164.0	91.9
Price to Book (x)	3.0	2.9	2.9	2.9

Source: SIAS Research

**Price Chart**



Source: Bloomberg

**DISCLAIMER**

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As of the date of the report, the analyst and his immediate family do not hold positions in the securities recommended in this report.

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