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Share Profile/Statistics	
Bloomberg Ticker	HTVB MK Equity
KLCI	968.88
Issued share capital (m)	327.4
Market Capitalisation (RMm)	291.4
52 week High (RM)	1.00
52 week Low (RM)	0.54
Average Volume (3m) '000	367.5
YTD Returns (%)	0.3
5 yr Average ROE (%)	12.8
5 yr Average ROA (%)	5.8
Net gearing (x)	1.1
Altman Z-Score	3
ROCE/WACC	0.83
Beta (x)	1.44
Cash Ratio (x)	0.1
FCF/share (x)	-0.2
P/FCF/share (x)	-
Book Value/share (RM)	1.04

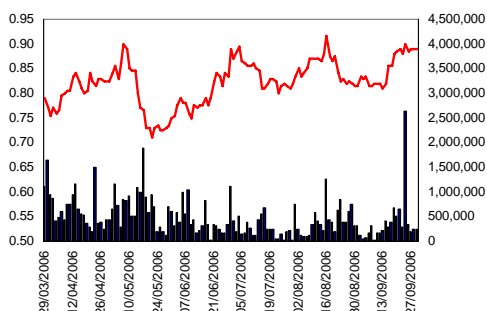
Major Shareholders (%)	
KHL SB	25.8%
United Coconut Fibre SB	14.1%
Prudential Unit Trusts	7.9%
HSBC Holdings	7.8%

Share Performance				
(%)	1m	3m	6m	12m
Absolute	7.9	7.8	12.6	-4.3
Relative	6.8	-6.0	8.5	-12.0

Growth Profile (%)				
	05a	06a	07f	08f
Revenue	10.2	33.4	31.4	12.0
EBITDA	-3.9	11.3	32.4	15.6
PBT	-4.6	-0.9	36.6	13.7
NP	-8.3	10.8	37.0	14.5

Margin (%)				
	05a	06a	07f	08f
EBITDA	10.0	8.3	8.4	8.7
PBT	7.3	5.4	5.6	5.7
NP	5.0	4.2	4.3	4.4

Historical Price Ratio				
(x)	03a	04a	05a	06a
P/Sales	0.4	0.4	0.4	0.3
P/Earnings	10.2	7.0	7.7	6.9
P/Book	0.9	1.0	0.9	0.9



HIAP TECK VENTURE

BUY
Price Target **RM0.89**
RM1.28

We went, We saw, We like...

Belief reinforced! We recently visited Hiap Teck with a plant tour to its newly commenced big diameter plant with 7 fund managers and came back with improved optimism.

Iron is hot... We are now more convinced on Hiap Teck's prospects underpin by a plethora of earning catalysts:

- 1) Replenishment of inventories** by local stockists on all products since March '06 may sustain till end of CY06.
- 2) 9MP** to improve domestic steel demand from 2Q07.
- 3) Sustainable steel demand worldwide** to boost export figures.
- 4) Penetration into new export market** by leveraging on its niche products namely mid and big diameter's SHS from new mill.
- 5) Long presence in overseas market** with diversified customer base offer flexibility to switch focus to better margin market.
- 6) Huge spare capacity for big diameter mill** offers room to improve production figures going forward.
- 7) Forthcoming new capacity** to boost small and mid diameter pipes production that currently running at optimum level.
- 8) Dumping risk negated** after recent 3% cut in export rebate for steel products by Chinese government.
- 9) API certification in the pipeline** and is expected to boost profit margin latest by FY08.
- 10) Commencement of water pipes replacement projects** to benefit HTVB's new big diameter pipes plant.
- 11) 10 years tax holiday for new plant** should help improve bottom line from 2HFY07 onward.
- 12) Stabilised steel prices** to improve earning visibility.

Projection enhanced. We are tweaking our earning forecast mainly on its manufacturing utilisation with net profit of RM57.5m for FY07 and RM65.9m for FY08 or 21% and 11% upward revision respectively.

Maintain BUY with higher fair value. Hiap Teck remains our top pick and maintain our BUY recommendation with a revised **12-month target of RM1.28** based on an eclectic valuation approach of peer PER, peer P/B and historical PER band. Coupled with the decent FY07 dividend yield of 4.1%, the stock may potentially deliver a **12-month total return of 47.9%**.

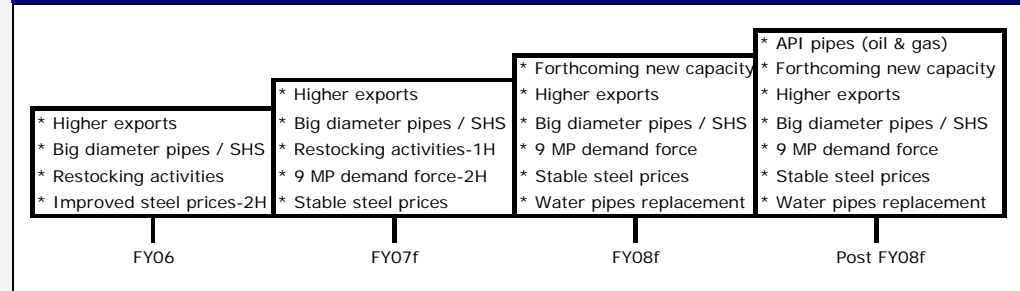
FYE Jul (RMm)	FY04	FY05	*FY06	FY07f	FY08f
Total Revenue	685.8	756.0	1008.3	1324.8	1484.4
Net Profit	41.3	37.9	42.0	57.5	65.9
% chg YoY	100.5	-8.3	10.8	37.0	14.5
Consensus EPS (sen)	-	-	5.8	10.6	-
EPS (sen)	12.6	11.6	12.8	17.6	20.1
Gross DPS (sen)	2.5	2.5	2.5	3.7	4.2
Gross Div. Yield (%)	2.8	2.8	2.8	4.1	4.7
PER (x)	7.0	7.7	6.9	5.1	4.4
P/BV (x)	1.0	0.9	0.9	0.8	0.7
EV/EBITDA (x)	6.6	9.2	8.3	7.6	11.8
ROE (%)	16.2	12.7	12.9	16.0	16.3
ROA (%)	8.5	6.7	6.0	6.9	7.1

* FY06 figures were adjusted against impairment of plant & equipment that non-operating & non-recurring

HIGHLIGHTS

Good Stuff! We recently organised a meeting with Hiap Teck Venture Bhd's (Hiap Teck) management with 7 fund managers and analysts. Almost immediately we had plant tour to the company's newly commenced big diameter mill located near the corporate office. We then proceed with more serious stuff in a Q&A session with management. After one and half hour, we came out convinced that there is significant mismatch between the improving fundamental and valuation of Hiap Teck given the sustainable growth catalyst.

Figure 1: HTVB's Growth Catalysts Ahead



Source: OSK Research

Among the key take-aways from the meeting and plant tour are:

- Existing plant producing small and mid diameter round and square pipes up to 12 inches is presently running at optimum 300,000 tonnes per year (tpy) capacity with 4 month production backlog.
- Part of mid diameter production has been transferred to new mill to support overwhelming demand.
- New plant producing bigger diameter pipes up to 18 inches is running at above 30% utilisation rate and expected to improve to 50% by FY07.
- Penetrated into new export markets by tapping on its niche products namely mid and big diameter pipes (round and square) targeting overseas market like Australia, Singapore, Canada and USA as well as pushing its overall exports contribution to approximately 45% in FY06 from only 28% in FY04. Canada is currently (4QFY06) the second largest export market for the company.
- The company' is finalising its application to American Petroleum Institute (API) for certification and is scheduled to conduct a full test run in early October 2006 to ensure the compliance of API's standards as well as to familiarise with the production flow.
- Hiap Teck is in the final stage of feasibility study for its expansion plan into 2 to 6 inches diameter pipes. The new production line should be ready in 12 months time with 60,000/tpy and CAPEX of RM15m.
- Steel price increased between 5% to 10% q-o-q in 4QFY06 and is expected to stagnate locally for the rest of 2006 as Megasteel SB has tagged its HRC price at RM2,480/MT up to December 2006 delivery, unchanged from August 2006 delivery. International steel prices are also expected to stay firm in the immediate term given the escalating production costs for upstream steel material.
- Trading division may suffer from slower sales in October 2006 due to the festivities. Nonetheless, demand is seen to pickup by early 2007.

- China is not a major threat to the company given the quality issue by mini mills and comparable pricing for major integrated mills.
- Management is in the midst of discussion with its overseas stockists to supply big diameter pipes as well as some preliminary discussion on API pipes that command better profit margin.

KEY CATALYSTS

A plethora of growth catalysts! We are now more upbeat on the company's earnings prospects supported by the following:

Catalyst #1: Re-stocking exercises - sustainable till end 2006

The aggressive de-stocking activities by local stockists for the past one year have lowered inventories since the last plunge in steel prices. As a result, there were inventories replenishment exercises on both manufacturing and trading products since early 2006 before gaining momentum in 2H06 in anticipation of improved demand ahead of the 9MP. We expect this momentum may continue till end of 2006 and boost sales figures for 1HFY07 given the current 4 months production backlog.

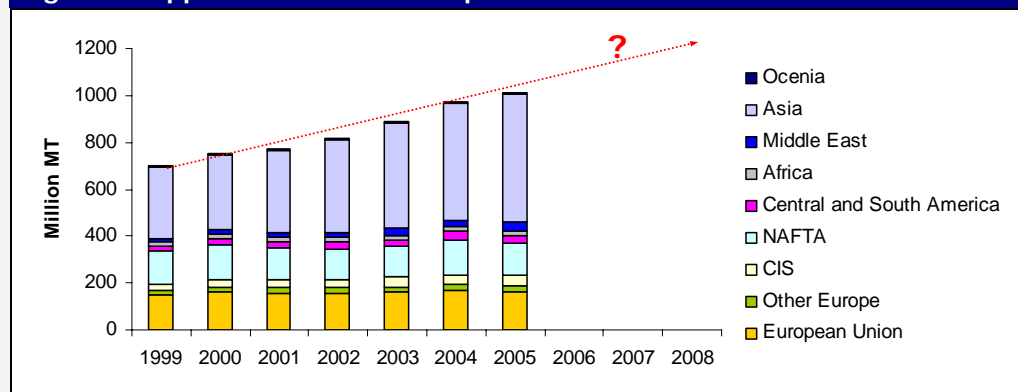
Catalyst #2: 9MP at the doorstep – kick in from 2HFY07 onward

We already saw positive momentum on domestic steel industry especially after recent escalation in steel prices (since 3QFY06) following the stocking up exercise fearing further price increase by contractors while waiting for the execution of 9MP projects. The 31% increase in development expenditure under Budget 2007 to RM46.5bn for the development of schools, universities and housing may continue to push the demand for steel products including Hiap Teck's SHS, scaffolding and other trading items after end of the re-stocking cycle expected by end of CY06.

Catalyst #3: Sustainable steel demand worldwide to boosts export

Global steel consumption posted a 24.1% compounded growth rate since 1999 (refer Figure 2). We see the robust growth to persist attributed predominantly to China and expect a commendable growth at above 15% for the next few years. The International Monetary Fund (IMF) had recently revised up its projection for global economic growth in 2006 and 2007 to 5.1% and 4.9% respectively, the second fastest since 1976 (fastest: 5.3% in 2004) signified robust economy. Such robust growth may eventual drive heavy infrastructure investment in emerging countries. Hiap Teck may leverage on its strong overseas presence to further tap into export markets to gradually raise its overseas contributions.

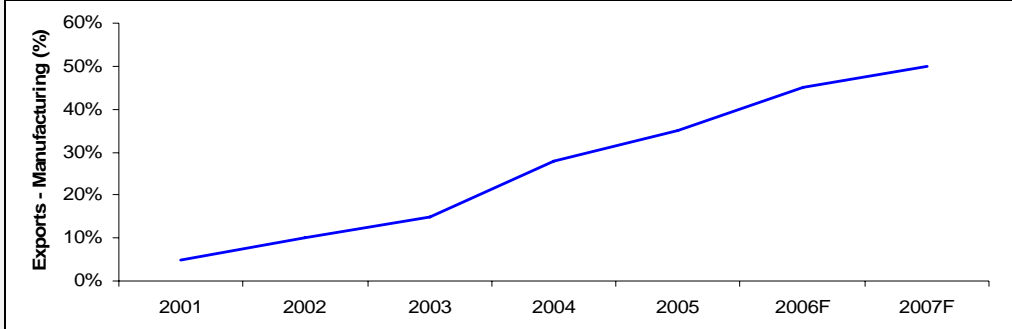
Figure 2: Apparent Steel Consumption Worldwide



Source: IISI

Catalyst #4: Penetration into new export market

Hiap Teck has maintained good relationships for years with its overseas stockists especially from Singapore and Australia, hence we expect export sales to improve further by approximately 50% in FY07 (refer Figure 3). Apart from that, moves to penetrate into the new markets has borne results as Canada (4QFY06) is now the second major export market plus securing some orders from USA.

Figure 3: Escalating Exports for Manufacturing Division

Sources: Company Data, OSK Research

Catalyst #5: Strong and diversified overseas presence

A protracted overseas presence since late 1990s has enabled Hiap Teck to establish a diversified customer base for its manufacturing division with experience to meet the customer's requirement and specification that are different between countries hence giving the company a competitive edge. So far Hiap Teck has presence in Australia, Singapore, Middle East, Canada, USA and others. As a result, the company may enjoy the flexibility to switch markets that offer better demand and margins.

Catalyst #6: Huge spare capacity for big diameter mill

Hiap Teck's new big diameter mill has a rated capacity of 300,000 tpy and is currently running at 30% utilisation rate. Hence, given the low utilisation rate, there is ample room bump up production.

Catalyst #7: Impending new capacity

The existing plant producing small and mid diameter pipes (square and round) is running at optimum level with 4 months production backlog. In view of the huge demand going forward, the company had already announced its expansionary plans and is in the final stage of its feasibility study to put in 1 new production line with 60,000 tpy for 2 to 6 inches diameter pipes (round and square). We expect contribution from the new line to kick in latest by FY08.

Catalyst #8: Dumping risk was partly mitigated

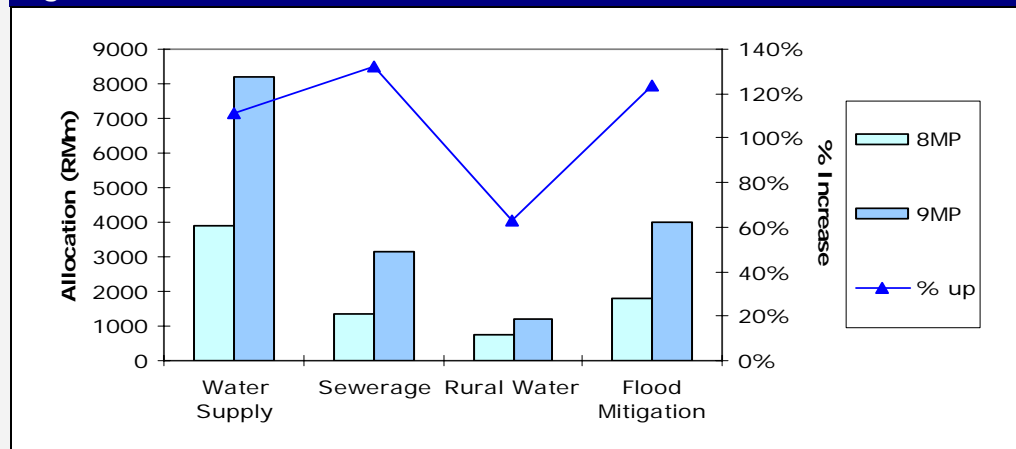
China, which is the single largest risk factor for the steel industry has cut tax rebates on exports of steel and some non-ferrous metals w.e.f. 15 September 2006. The export tax rebate on 142 steel products has been cut from 11% to 8%, and is the second this year after the earlier 2% cut in May 2006 (refer to our steel sector update dated 18 September 2006). We are encouraged by this latest development as this represents a direct 5% slash of steel miller's export margins YTD, hence discouraging massive exports and partially mitigates the massive dumping risk that is disrupting the steel market. Apart from that, we think this is part of a series of actions to force the closure of small mills which is environmental unfriendly, command very thin margins and largely debt-laden.

Catalyst #9: API certification in the pipeline – latest by FY08

Hiap Teck had invested another RM40m to ensure pipes produced by its new mill can be American Petroleum Institute (API) certified by 2007/2008. The company's consultant is finalising the application before submitting to API. Already a full test run is scheduled for early next month to ensure the compliance of API standards. These pipes will then help boost sales and improve margins given the higher prices paid but it may take another 12 to 18 months for certification.

Catalyst #10: Water pipes replacement projects, but execution may take a while

The Government has enhanced the allocation for the water sector under the 9MP (refer Figure 4) Thus Hiap Teck's investment into big diameter plant is timely. Nonetheless, the execution of water pipes replacement is still pending until finalisation of Water Asset Management Company (WAMCO) that may take a while.

Figure 4: Allocation for Water Sector Under 9MP

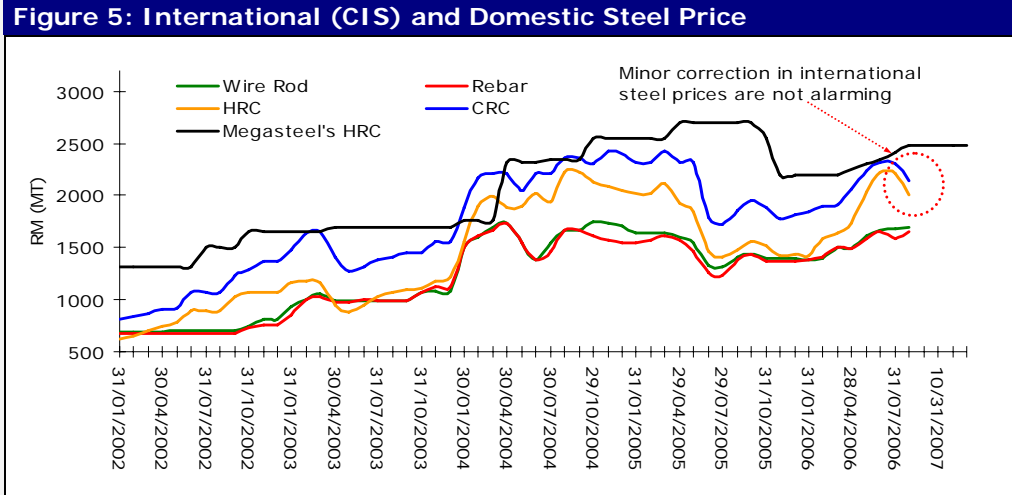
Source: Economic Planning Unit

Catalyst #11: 10 years tax holiday for new plant – by 2HFY07

Hiap Teck was granted a tax free status for 10 years for its pioneer status on the big diameter Electrical Resistance Welding (ERW) pipes. The company will enjoy promising profit margin from the tax savings and improve overall profit margin going forward. As the company is currently in the midst of submitting its paper work to the Inland Revenue Board (IRB) for approval and expect this to take effect latest by 2HFY07.

Catalyst #12: Stabilised steel price - improves earning visibility

Megasteel SB which is the sole producer of HRC in Malaysia has tagged its HRC at RM2,480/MT up to December 2006 delivery or 11.8% increase YTD (refer Figure 5). The International (CIS) HRC price which corrected 19.8% recently after a steep 59% increase since early CY06 is healthy and not alarming. On top of that, the consolidation of international steel player such as between Mittal Steel and Arcelor is set to support the higher steel price going forward. We also notice a mix movement in international steel prices within very narrow range thus, the firmer steel prices may help to improve earnings visibility but may squeeze margin from timing differences between raw material costs vis-à-vis selling prices.

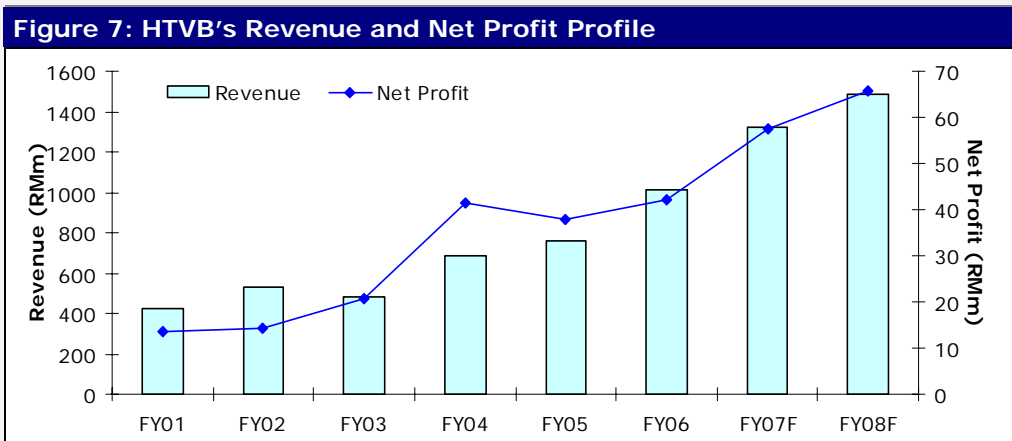


Source: Bloomberg

Re-rating in the offing. Our analysis above is the very foundation supporting our re-rating and hence our improved earnings projection:

- 1) Adjusting up the utilisation rate for the new plant from 30% to 45% for FY07 and from 40% to 50% for FY08.
- 2) Assuming the utilisation rate for existing plant at 90% and 92% for FY07 and FY08 respectively.
- 3) Add RM30 and RM50 margin expansion per tonne of big diameter pipes for FY07 and FY08 respectively.
- 4) 30% utilisation rate for the proposed new 60,000 tpy small diameter plant for FY08.
- 5) 5% increase in trading division turnover based on the actual FY06 trading turnover.

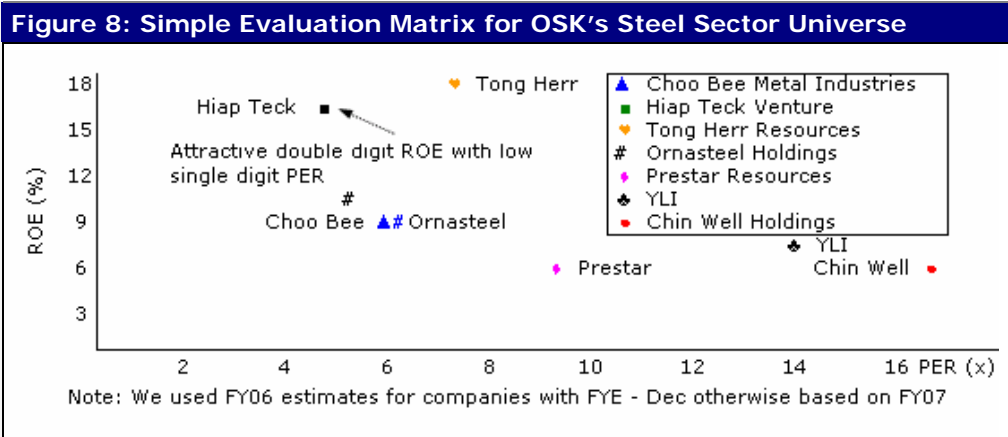
As a result from our latest assumptions, we have pegged Hiap Teck's net profit at RM57.5m for FY07 and RM65.9m for FY08 or a 21% and 11% upward revision respectively.



Sources: Company Data, OSK Research

VALUATION

Despite being involved in a capital intensive steel industry, Hiap Teck continues to optimize its shareholder fund and potentially push its FY07 ROE to 16% and is at present trading at 46% discount against the peer PER of 9.4x and 37% discount against its 2 years historical PER band. We also like its good earnings quality driven by the stronger sales going forward. Therefore, the company is now our **top pick under our steel sector universe.**



Source: OSK Research

RECOMMENDATION

Maintain BUY with improved fair value! We are maintaining our **BUY** recommendation on Hiap Teck with a **12-month target price of RM1.28** based on an eclectic valuation approach of peer PER, peer P/B and historical PER band on FY07 figures. Coupled with the decent dividend yield of 4.1% for FY07, the stock may potentially deliver a **12 month total return of 47.9%**.

We went, We saw, We like... Despite the much improved fundamentals and earnings quality, the stock is still trading at 47.6% discount against the peak of its share price of RM1.70 recorded on 1 November 2005. Thus, we would suggest investors to take a long position on the stock before miss the bandwagon.

Figure 7: HTVB's Valuation Composition

Valuation Method	Fair Value	Remarks
Peer Forward PER	1.65	Peer comparison @ 9.4x
PEBD	1.42	HTVB 2 Year Average @ 8.1x
Peer P/B	0.78	Peer comparison @ 0.67x
Average TARGET PRICE	1.28	43.8% Upside

Source: Bloomberg, OSK Research

OSK Research Guide to Investment Ratings

Buy: Total return of the stock may exceed 10% OR outperform the relevant benchmark index over the next 12 months, whichever is higher

Trading Buy: Total return of the stock may exceed 10% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Total return of the stock may fall within the range of +/- 10% (inclusive) over the next 12 months OR is not expected to outperform or underperform the relevant benchmark index by the same quantum over the same period

Take Profit: Target price has been attained. Look to accumulate at lower levels.

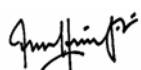
Sell: Total return of the stock may fall more than 10% OR underperform the underlying benchmark index over the next 12 months

* Total Return (capital gain + dividend yield)

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