

21 August 2017

## Magna Prima Berhad 1H17 Above Expectations

Magna Prima Berhad (MAGNA) 1H17 CNP at RM4.6m beat expectations at 70% of our forecast and 67% of consensus estimates on better-than-expected profit margins and higher recognition of unbilled sales. No dividend was announced, as expected. FY17-18E CNP revised up 10-17% to RM7.2-12.0m. Upgrade to **OUTPERFORM** with unchanged TP of RM1.60 based on unchanged 35% RNAV discount.

**1H17 exceeds estimates.** 1H17 core net profit (CNP\*) at RM4.6m came in above expectations, at 70% of our RM6.5m forecast and 67% of consensus's RM6.9m estimate. This was thanks to higher-than-expected PBT margin (1H17 at 31% vs. our 10%) and higher recognition of unbilled sales. No dividend was announced, as expected.

**Core reverses to profits. YoY,** 1H17 CNP reversed to RM4.6m from core loss of RM3.8m on lower tax impact (-67%) as 2Q16 saw a one-off recognition of fair value gain on investment property of RM49.2m. Excluding the fair value gains, core PBT weakened 22% from RM16.1m to RM12.6m on lower development revenue recognized (-11%). **QoQ,** 2Q17 CNP reversed to RM6.0m from core loss of RM1.4m on higher development revenue (2.3x to RM30.9m) from higher recognition of unbilled sales.

**3Q17 earnings could be softer,** as we note that 2Q17 revenue of RM30.9m makes up 63% of unbilled sales of RM49m as of end-Mar 2017. However, in the medium-term, we expect new sales from existing inventory of c.RM200m at Boulevard Business Park, Jalan Kuching, and Desa Mentari, Jalan Kelang Lama, which could make earnings recognition more volatile as momentum of inventory sales is tough to determine while sales recognized provide immediate bottom-line impact. Meanwhile, longer-term earnings should be supported by its Shah Alam and Kepong projects. Investors could see further boost should MAGNA monetize its 2.6 acres of land along Jalan Ampang valued at c.RM400m, which we have not imputed into our estimates. In the long-term, we also look forward potential collaborations with its new major shareholder, Hua Yang Berhad (HUAYANG) with synergies such as similar development perspectives, landbank advantage and affordable housing expertise.

**Revise up FY17-18E CNP by 10-17% to RM7.2-RM12.9m** as we tweak up our margin assumptions. Note that the GP margin expansion is due to recognition of more inventory, which carries higher margins.

**Upgrade to OUTPERFORM with unchanged TP of RM1.60.** Our FD RNAV per share of RM2.94 is driven by an 11% WACC, 15% net margin for planned RM2.5b GDV, RM48.0m unbilled sales, and full warrants conversion. Our TP is based on 35% property RNAV discount rate, among the narrowest for Klang Valley developers because its land banks can be readily launched. We note its FY17-18E FD PERs of 100x and 56x is substantially above peers' average as implied by the price paid by HUAYANG of RM1.85 per share, which affirms the company value on a 'land acquisition basis'. This may have raised the pricing benchmark for the stock ahead of current earnings and tighten the gap of its RNAV discount. We opine that the 5% decline in MAGNA's share price since our initiation is in-line with the sector's recent share price weakness, and we think our recommendation is apt given the earnings recovery, strategic Klang Valley land banks, JV possibilities with HUAYANG and potential windfall from its Jalan Ampang landbank.

# OUTPERFORM ↑

**Price:** RM1.45  
**Target Price:** RM1.60 ↔

**Expected Capital Gain:** RM0.150 +10.3%  
**Expected Divd. Yield:** RM0.007 +0.5%  
**Expected Total Return:** RM0.157 +10.8%

**KLCI Index** 1,776.22

### Stock Information

Bloomberg Ticker	MAGNA MK Equity
Bursa Code	7617
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	332.6
Market Cap (RM m)	482.3
Par value per share (RM)	0.25
52-week range (H)	1.69
52-week range (L)	0.95
Free Float	49%
Beta	0.2
3-mth avg daily vol:	147,489

### Major Shareholders

Prisma Pelangi Sdn Bhd	30.9%
Fantastic Realty Sdn Bhd	13.6%
Datuk Wira Rahadian	6.4%

### Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	142.7	91.8	139.4
EBIT	76.7	17.5	23.3
PBT	67.0	9.6	17.2
<b>Net Profit (NP)</b>	<b>44.8</b>	<b>7.2</b>	<b>12.9</b>
<b>Core NP</b>	<b>7.9</b>	<b>7.2</b>	<b>12.9</b>
Consensus (CNP)	N.A.	6.9	14.1
Earnings Revision	N.A.	10%	17%
Core EPS (sen)	1.60	1.45	2.60
EPS growth (%)	-98%	-9%	79%
DPS (sen)	0.0	0.7	1.2
NTA/Share (RM)	1.22	1.22	1.24
PBV (x)	1.19	1.18	1.17
Core PER (x)	90.8	99.7	55.7
Dbt-to-Eqty ratio (x)	0.33	0.25	0.17
Return on Asset (%)	4.4%	0.8%	1.4%
Return on Eqty.(%)	7.4%	1.2%	2.1%
Dividend Yield (%)	0.0%	0.5%	0.8%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-3.3%	-5.8%	51.0%
Relative (%)	-4.4%	-6.3%	45.8%

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<b>Results Highlights</b>								
<b>FY Dec (RM'm)</b>	<b>2Q17</b>	<b>1Q17</b>	<b>QoQ %</b>	<b>2Q16</b>	<b>YoY%</b>	<b>1H17</b>	<b>1H16</b>	<b>YoY%</b>
<b>Revenue</b>	31.1	9.6	222.9%	21.9	42.2%	40.7	46.4	-12.2%
Op Profit	12.3	7.6	61.4%	57.8	-78.7%	19.9	69.2	-71.2%
Pretax Profit	8.5	4.1	105.4%	55.8	-84.8%	12.6	65.3	-80.7%
Tax	-2.8	-2.5	15.1%	-11.9	-76.3%	-5.3	-16.0	-66.9%
MI	0.4	0.4	-6.0%	0.0	N.M.	0.8	0.1	746.0%
<b>Net Profit</b>	<b>6.0</b>	<b>2.1</b>	<b>188.0%</b>	<b>43.9</b>	<b>-86.2%</b>	<b>8.1</b>	<b>49.4</b>	<b>-83.5%</b>
<b>Core Net Profit</b>	<b>6.0</b>	<b>-1.4</b>	<b>N.M.</b>	<b>-5.4</b>	<b>N.M.</b>	<b>4.6</b>	<b>-3.8</b>	<b>N.M.</b>
<b>Core EPS (sen)</b>	<b>1.5</b>	<b>-0.4</b>	<b>N.M.</b>	<b>-1.4</b>	<b>N.M.</b>	<b>1.2</b>	<b>-1.0</b>	<b>N.M.</b>
Net DPS (sen)	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
EBIT %	39.6%	79.1%		264.0%		48.9%	149.0%	
PBT%	27.2%	42.8%		255.0%		30.9%	140.7%	
Tax %	33.4%	59.6%		21.4%		42.0%	24.5%	

Source: Company, Kenanga Research

<b>Breakdown</b>								
<b>FY Dec (RM'm)</b>	<b>2Q17</b>	<b>1Q17</b>	<b>QoQ %</b>	<b>2Q16</b>	<b>YoY%</b>	<b>1H17</b>	<b>1H16</b>	<b>YoY%</b>
<b>Segmental Revenue</b>								
- Property development	30.9	9.3	232.1%	21.8	41.9%	40.2	46.2	-12.9%
- Construction	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
- Trading	0.0	0.0	N.M.	0.0	N.M.	0.0	0.0	N.M.
- Others	0.2	0.3	-33.5%	0.1	96.5%	0.6	0.3	110.6%
<b>Total Group</b>	<b>31.1</b>	<b>9.6</b>	<b>222.9%</b>	<b>21.9</b>	<b>42.2%</b>	<b>40.7</b>	<b>46.4</b>	<b>-12.2%</b>
<b>Segmental PBT</b>								
- Property development	10.6	3.2	232.0%	4.9	116.9%	13.8	15.5	-11.4%
- Construction	-0.3	2.9	N.M.	1.6	N.M.	2.7	3.4	-21.8%
- Trading	0.0	0.0	-15.4%	-0.1	N.M.	0.0	-0.1	N.M.
- Others & eliminations	-1.8	-2.0	-6.6%	49.3	N.M.	-3.8	46.4	N.M.
<b>Total Profit Before Tax</b>	<b>8.5</b>	<b>4.1</b>	<b>105.4%</b>	<b>55.8</b>	<b>-84.8%</b>	<b>12.6</b>	<b>65.3</b>	<b>-80.7%</b>

Source: Company, Kenanga Research

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## Peer Comparison

NAME	Price (18/8/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	Fwd ROE	Fwd P/BV	Net Profit (RMm)			FY17/18 NP Growth	FY18/19 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY16/17	FY17/18	FY18/19	(%)	(%)	(%)	(x)	FY16/17	FY17/18	FY18/19	(%)	(%)	(RM)	
<b>DEVELOPERS UNDER COVERAGE</b>																
IOI PROPERTIES GROUP BHD*	2.14	11,783	18.2	14.7	14.7	3.4%	4.1%	4.2%	0.63	648.5	800.2	803.6	23.4%	0.4%	2.30	OUTPERFORM
S P SETIA BHD*#	3.28	9,974	12.3	13.1	15.3	4.0%	9.7%	8.0%	1.34	808.0	761.3	653.4	-5.8%	-14.2%	4.08	OUTPERFORM
UEM SUNRISE BHD*	1.13	5,127	34.8	22.0	31.8	0.0%	2.2%	3.4%	0.80	147.3	233.5	161.3	58.5%	-30.9%	1.45	OUTPERFORM
SUNWAY BHD*	1.79	8,553	15.8	16.4	15.8	5.0%	7.3%	6.7%	0.47	541.6	521.7	542.6	-3.7%	4.0%	1.82	MARKET PERFORM
MAH SING GROUP BHD^	1.55	3,736	10.8	11.0	11.4	4.2%	10.1%	10.0%	1.08	346.8	338.9	327.5	-2.3%	-3.4%	1.67	OUTPERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.57	4,623	35.8	41.0	18.6	0.0%	3.7%	4.4%	1.22	129.3	112.9	248.8	-12.7%	120.4%	1.72	MARKET PERFORM
UOA DEVELOPMENT BHD*	2.55	4,419	11.8	11.7	11.3	5.9%	19.4%	9.8%	1.05	373.9	379.2	391.4	1.4%	3.2%	2.63	MARKET PERFORM
MALAYSIAN RESOURCES CORP BHD#	1.10	2,609	10.7	34.3	26.8	0.2%	8.6%	2.4%	0.89	244.1	76.0	97.2	-69%	27.9%	1.32	OUTPERFORM
KSL HOLDINGS BHD	1.24	1,277	6.2	6.2	6.2	0.0%	8.8%	6.9%	0.47	204.6	206.0	205.0	0.7%	-0.5%	1.30	MARKET PERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.72	1,585	8.4	7.1	6.7	5.4%	31.8%	22.7%	1.43	188.0	224.0	238.0	19.1%	6.3%	2.65	MARKET PERFORM
SUNSURIA BERHAD	1.42	1,134	30.9	11.6	7.2	2.2%	6.9%	13.3%	1.44	36.7	98.0	157.0	167.2%	60.1%	1.61	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.39	316	11.0	10.3	10.0	3.2%	2.2%	8.0%	0.41	28.9	30.6	31.6	6.0%	3.3%	1.70	MARKET PERFORM
HUA YANG BHD	0.81	285	4.7	6.6	5.7	1.5%	21.9%	12.2%	0.45	61.0	43.0	50.0	-29.5%	16.3%	0.95	UNDERPERFORM
A&M REALTY BHD	1.44	526	26.2	19.7	15.2	0.0%	3.3%	4.2%	0.82	20.1	26.7	34.6	33.2%	29.5%	3.00	OUTPERFORM
MAGNA PRIMA BHD	1.45	482	10.8	67.0	37.4	0.5%	7.4%	1.2%	1.18	44.8	7.2	12.9	-83.9%	79.2%	1.60	OUTPERFORM
<b>CONSENSUS NUMBERS</b>																
IGB CORPORATION BHD	2.85	3,804	12.8	15.8	15.8	3.5%	6.7%	6.4%	0.77	298.0	240.3	240.3	-19.4%	0.0%	3.00	NEUTRAL
GLOMAC BHD	0.66	477	4.3	8.4	6.7	4.5%	10.7%	5.3%	0.43	110.4	57.1	70.8	-48.3%	24.1%	0.70	NEUTRAL
PARAMOUNT CORP BHD	1.82	772	10.3	12.1	9.6	9.3%	7.0%	14.7%	0.84	75.0	63.6	80.6	-15.2%	26.7%	2.37	BUY
TAMBUN INDAH LAND BHD	1.23	533	4.7	5.9	6.2	7.0%	21.5%	15.3%	0.89	112.2	91.0	86.7	-18.9%	-4.8%	1.52	NEUTRAL
LBS BINA GROUP BHD	1.96	1,329	15.6	11.8	9.2	4.9%	8.4%	9.1%	1.05	85.3	112.6	143.8	32.0%	27.7%	2.30	BUY

\* Core NP and Core PER

^ Last price and TP is Ex-rights and Ex-Bonus.

# MRCB's prices are of ex-rights

Source: Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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