

28 November 2017

Magna Prima Berhad 9M17 Below Expectations

9M17 CNP of RM0.2m came in much weaker than expected, making up only 2% of our and street's full-year estimates due to LAD. No property sales figure provided, but we believe that it should be on track with our target of RM157.0m. No dividend declared as expected. Lowered FY17/18E CNP by 89%/9%. Downgrade to MARKET PERFORM with a lower Target Price of RM1.30.

Below expectations. 9M17 CNP of RM0.2m came in much weaker than expected, making up only 2% of our and street's full-year estimates. The disappointment is mainly due to the provisioning of liquidated and ascertained damages (LAD) for its project in Jalan Kuching. No property sales figure provided, but we believe that it should be on track with our target of RM157.0m. No dividend declared as expected.

Results highlight. 9M17 CNP plunged by 98%, YoY due to the provisioning of LAD amounting to RM8.3m for its Jalan Kuching project. QoQ, 3Q17 registered CNL of RM4.4m vis-à-vis CNP of RM6.0m, also due to similar mentioned reasons above. On a positive note, its revenue improved significantly by 60% driven by the sales of completed units of Jalan Kuching project and The Istana.

Outlook. In the near term, we expect it's near-term prospects to be weak due to kitchen sinking exercise. However, its longer-term earnings should be supported by its Shah Alam and Kepong projects, coupled with its existing inventory of c.RM200.0m at Boulevard Business Park, Jalan Kuching and Desa Mentari, Jalan Kelang Lama. We believe that earnings could be boosted should MAGNA is able monetize its 2.6 acres of land along Jalan Ampang valued at c.RM400m, which we have not imputed into our estimates.

Lowering FY17-18E CNP by 89%/9% to RM0.8m/RM11.7m as we lowered our margin assumptions after factoring in the provisioning exercises.

Downgrade to MARKET PERFORM with a lower TP of RM1.30. Our FD RNAV per share of RM2.94 is driven by 11% WACC, 15% net margin for planned RM2.5b GDV, RM48.0m unbilled sales, and full warrants conversion. Post results, we lowered our TP to RM1.30 (previously, RM1.60) after widening our property RNAV discount from 35% to 50% due to disappointment in earnings. Our applied discount of 50% is in line with the mid-cap average discount rate of 51%.

Risks to our call include: (i) lower-than-expected margins/property sales, higher-than-expected administrative costs, negative real estate policies, and tighter lending environment.

MARKET PERFORM ↓

Price: RM1.29
Target Price: RM1.30 ↓

Expected Capital Gain: RM0.010 +0.8%
Expected Divd. Yield: RM0.000 +0.0%
Expected Total Return: RM0.010 +0.8%

KLCI Index 1,719.86

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)	429.1
Par value per share (RM)	0.25
52-week range (H)	1.69
52-week range (L)	0.96
Free Float	49%
Beta	0.3
3-mth avg daily vol:	22,002

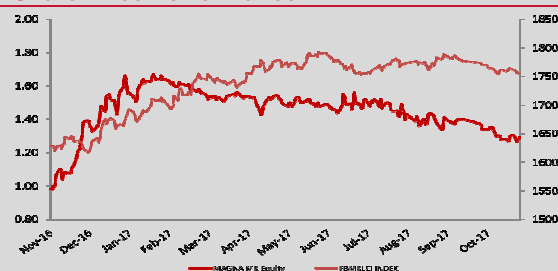
Major Shareholders

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	105.7	139.4
EBIT	76.7	8.9	21.7
PBT	67.0	1.0	15.6
Net Profit (NP)	44.8	0.8	11.7
Core NP	7.9	0.8	11.7
Consensus (CNP)	n.a.	7.2	15.0
Earnings Revision	n.a.	-89%	-9%
Core EPS (sen)	1.60	0.15	2.37
EPS growth (%)	-98%	-90%	1438%
DPS (sen)	0.0	0.0	1.1
NTA/Share (RM)	1.22	1.22	1.23
PBV (x)	1.06	1.06	1.05
Core PER (x)	80.8	838.9	54.5
Dbt-to-Eqty ratio (x)	0.33	0.31	0.18
Return on Asset (%)	4.4%	0.1%	1.3%
Return on Eqty.(%)	7.4%	0.1%	1.9%
Dividend Yield (%)	0.0%	0.0%	0.9%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-5.8%	-9.8%	31.6%
Relative (%)	-4.9%	-6.7%	25.9%

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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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