

17 August 2018

Magna Prima Berhad

1H18 Broadly Within Expectations

1H18 CNP of RM6.9m came in broadly within expectations, making up 59% of our full-year estimate. No dividend declared as expected. Maintain FY18-19E earnings. Upgrade to MARKET PERFORM with an unchanged Target Price of RM0.955.

Broadly within expectations. We deem 1H18 CNP of RM6.9m to be broadly within our expectation at 59%. We are expecting either weaker sales of inventories or possibility of more discounts given out in 2H18 that may result in lower bottom-line due to the challenging property market. No dividend declared as expected.

Results highlight. YoY, 1H18 CNP of RM6.9m was down 15.6% mainly due to: (i) lower property segment revenue contribution (-5.6%) likely from higher revenue recognition from the completion of the Jalan Kuching residential project in 1H17, (ii) higher operating cost that saw EBIT margin at 34.5% (-13.0ppt). QoQ, property segment revenue contribution doubled to RM25.3m, likely due to more inventories being cleared. Despite revenue doubling, CNP only went up 13.7% because of higher operating expenses that saw EBIT margin at 30.2% (-12.6ppts). We believe that there might be a possibility of higher discounts being dished out to encourage more sales of its inventory.

Outlook. We believe that its longer-term earnings should be supported by its Shah Alam and Kepong projects, coupled with existing inventory of c.RM200.0m in Boulevard Business Park, Jalan Kuching and Desa Mentari, Jalan Kelang Lama projects. That said, we also believe that earnings could be boosted should MAGNA successfully monetize its 2.6 acres of land along Jalan Ampang valued at c.RM400m, which we have not yet imputed into our estimates.

Earnings unchanged. Post results, there are no changes to our FY18-19E CNP.

Upgrade to MARKET PERFORM, with an unchanged Target Price of RM0.955. We upgrade MAGNA to MARKET PERFORM because we think that its share price has retraced in line with the overall weaker market sentiment. 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. Our applied discount of 67% is in line with the average RNAV discount of 69% ascribed for the sector.

Risks to our call include: higher-than-expected margins/property sales, lower-than-expected administrative costs, positive real estate policies, and decent lending environment.

MARKET PERFORM ↑

Price: RM1.00
Target Price: RM0.955 ↔

Expected Capital Gain: -RM0.045 -4.5%
Expected Divd. Yield: RM0.011 +1.1%
Expected Total Return: -RM0.034 -3.4%

KLCI Index 1,777.27

Stock Information

| | |
|--------------------------|-----------------|
| Bloomberg Ticker | MAGNA MK Equity |
| Bursa Code | 7617 |
| Listing Market | Main Market |
| Shariah Compliant | Yes |
| Shares Outstanding | 332.6 |
| Market Cap (RM m) | 332.6 |
| Par value per share (RM) | 0.25 |
| 52-week range (H) | 1.49 |
| 52-week range (L) | 0.96 |
| Free Float | 49% |
| Beta | 0.6 |
| 3-mth avg daily vol: | 13,148 |

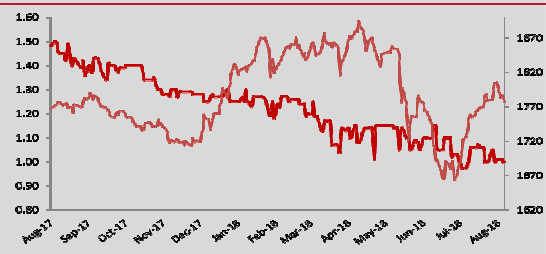
Major Shareholders

| | |
|--------------------------|-------|
| Prisma Pelang Snd Bhd | 30.9% |
| Fantastic Realty Sdn Bhd | 13.6% |
| Bin Mohammed Rahadian | 6.4% |

Summary Earnings Table

| FY Dec (RM m) | 2017A | 2018E | 2019E |
|-----------------------|-------|-------|-------|
| Turnover | 101.0 | 139.1 | 139.7 |
| EBIT | 28.2 | 21.7 | 22.0 |
| PBT | 13.9 | 15.6 | 16.0 |
| Net Profit (NP) | 11.4 | 11.7 | 12.0 |
| Core NP | 6.7 | 11.7 | 12.0 |
| Consensus (CNP) | n.a. | n.a. | n.a. |
| Earnings Revision | n.a. | n.a. | n.a. |
| Core EPS (sen) | 1.60 | 2.36 | 2.42 |
| EPS growth (%) | -98% | 73% | 3% |
| DPS (sen) | 0.0 | 1.1 | 1.1 |
| NTA/Share (RM) | 1.22 | 1.25 | 1.27 |
| PBV (x) | 0.82 | 0.80 | 0.79 |
| Core PER (x) | 62.7 | 42.4 | 41.3 |
| Dbt-to-Eqty ratio (x) | 0.33 | 0.16 | 0.10 |
| Return on Asset (%) | 4.4% | 1.2% | 1.3% |
| Return on Eqty.(%) | 7.4% | 1.9% | 1.9% |
| Dividend Yield (%) | 0.0% | 1.1% | 1.1% |

Share Price Performance



| | 1 mth | 3 mths | 12 mths |
|--------------|-------|--------|---------|
| Absolute (%) | 0.5% | -13.0% | -31.5% |
| Relative (%) | -1.8% | -8.9% | -31.6% |

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| Results Highlight | | | | | | | | |
|--------------------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|
| FYE Dec (RM'm) | 2Q18 | 1Q18 | QoQ | 2Q17 | YoY | 1H18 | 1H17 | YoY |
| Turnover | 25.6 | 12.9 | 98% | 31.1 | -18% | 38.5 | 40.7 | -6% |
| EBITDA | 7.8 | 5.6 | 40% | 11.7 | -33% | 13.4 | 19.3 | -31% |
| Depreciation | -0.1 | 0.0 | 24% | -0.1 | -31% | -0.1 | -0.2 | -39% |
| EBIT | 7.7 | 5.5 | 40% | 11.6 | -33% | 13.3 | 19.2 | -31% |
| Interest inc/(exp) | -3.3 | -3.1 | 7% | -3.2 | 4% | -6.3 | -6.6 | -4% |
| Associates/JV | 0.0 | 0.0 | n.m. | 0.0 | n.m. | 0.0 | 0.0 | n.m. |
| Exceptional items | 0.0 | 0.0 | n.m. | 0.0 | n.m. | 0.0 | 0.0 | n.m. |
| Forex gain/(loss) | 0.0 | 0.0 | n.m. | 0.0 | n.m. | 0.0 | 0.0 | n.m. |
| Pretax profit | 4.5 | 2.5 | 81% | 8.5 | -47% | 6.9 | 12.6 | -45% |
| Taxation | -1.2 | 0.4 | -387% | -2.8 | -57% | -0.8 | -5.3 | -85% |
| Deferred tax | 0.0 | 0.0 | n.m. | 0.0 | n.m. | 0.0 | 0.0 | n.m. |
| Profit after tax | 3.2 | 2.9 | 12% | 5.6 | -42% | 6.1 | 7.3 | -16% |
| Minority interest | 0.4 | 0.3 | 28% | 0.4 | 0% | 0.7 | 0.8 | -13% |
| PATAMI | 3.7 | 3.2 | 14% | 6.0 | -40% | 6.9 | 8.1 | -16% |
| Core PATAMI | 3.7 | 3.2 | 14% | 6.0 | -40% | 6.9 | 8.1 | -16% |
| DPS (sen) | 0.0 | 0.0 | | 0.0 | | 0.0 | 0.0 | |
| EBIT margin | 30% | 43% | | 37% | | 35% | 47.0% | |
| Pretax margin | 17% | 19% | | 27% | | 18% | 31% | |
| NP margin | 17% | 19% | | 27% | | 18% | 31% | |
| CNP margin | 14% | 25% | | 19% | | 18% | 20% | |
| EPS (sen) | 1.1 | 1.0 | | 1.1 | | 2.1 | 2.4 | |
| Core EPS(sen) | 1.1 | 1.0 | | 0.8 | | 2.1 | 2.4 | |
| BV/share (RM) | 1.8 | 1.8 | | 1.4 | | 1.8 | 1.8 | |
| Net gearing (x) | 0.3 | 0.3 | | 1.0 | | 0.3 | 0.4 | |
| Effective tax | 27% | -17% | | 33% | | 11% | 42% | |

Source: Company, Kenanga Research

| Results Highlight | | | | | | | | |
|----------------------------|-------------|-------------|------------|-------------|------------|-------------|-------------|------------|
| External Revenue | 2Q18 | 1Q18 | QoQ | 2Q17 | YoY | 1H18 | 1H17 | YoY |
| Property Development | 25.3 | 12.7 | 100.0% | 30.9 | -18% | 38.0 | 40.2 | -5.6% |
| Construction & Engineering | 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 | 0.3 | 0.3 | 11% | 0.2 | 27% | 0.5 | 0.6 | -3% |
| PBT Segmentation | | | | | | | | |
| Property Development | 6.6 | 3.3 | 98% | 10.6 | -38% | 9.9 | 13.8 | -28% |
| Construction & Engineering | -0.1 | -0.2 | -26% | -0.3 | -52% | -0.3 | 2.7 | -110% |
| Trading | 0.0 | 1.0 | -100% | 0.0 | -64% | 1.0 | 0.0 | -4454% |
| Others | -2.0 | -1.7 | 15% | -1.8 | 9% | -3.8 | -3.8 | -2% |
| PBT margins | | | | | | | | |
| Property Development | 26% | 26% | | 34% | | 26% | 34% | |
| Construction & Engineering | n.m. | n.m. | | n.m. | | n.m. | n.m. | |
| Trading | n.m. | n.m. | | n.m. | | n.m. | n.m. | |
| Others | -712% | -685% | | -833% | | -699% | -688% | |

Source: Company, Kenanga Research

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Peer Comparison

| Name | Last Price | Market | Shariah | Current | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | Net Div.Yld. (%) | Target | Rating |
|---|------------|------------|-----------|---------|----------------|-------------|----------------------|--------------|-------------------------|-------------|-------------|------------|------------|-------------|------------------|------------|---------|
| | (RM) | Cap (RM'm) | Compliant | FYE | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | Price (RM) | |
| PROPERTY DEVELOPERS UNDER COVERAGE | | | | | | | | | | | | | | | | | |
| AMVERTON BHD | 1.08 | 394.3 | Y | 12/2018 | 3.0% | 4.8% | -0.5% | 9.5% | 18.0 | 18.0 | 16.4 | 0.6 | 0.6 | 3.4% | 0.0% | 1.00 | MP |
| CRESCENDO CORPORATION BHD | 1.30 | 295.7 | Y | 01/2019 | 12.2% | 1.6% | -10.4% | 3.7% | 10.4 | 11.6 | 11.2 | 0.4 | 0.3 | 3.5% | 4.6% | 1.30 | MP |
| ECO WORLD DEVELOPMENT GROUP | 1.23 | 3,621.6 | Y | 10/2018 | -1.7% | -0.3% | 45.7% | 55.7% | 32.0 | 22.0 | 14.1 | 1.0 | 1.0 | 3.8% | 0.0% | 1.30 | MP |
| HUA YANG BHD | 0.480 | 169.0 | Y | 03/2019 | -3.2% | 2.2% | 134.4% | 9.4% | 38.3 | 16.3 | 14.9 | 0.3 | 0.3 | 1.7% | 0.0% | 0.465 | MP |
| IOI PROPERTIES GROUP BHD | 1.77 | 9,745.9 | Y | 06/2018 | -25.0% | -5.0% | -22.4% | 4.1% | 11.0 | 14.1 | 13.6 | 0.6 | 0.6 | 4.0% | 3.4% | 1.70 | MP |
| MAGNA PRIMA BHD | 1.00 | 332.6 | Y | 12/2018 | 37.8% | 0.4% | 73.3% | 2.6% | 62.7 | 42.4 | 41.3 | 0.8 | 0.8 | 1.9% | 1.1% | 0.955 | MP |
| MAH SING GROUP BHD | 1.21 | 2,937.5 | Y | 12/2018 | -0.8% | -0.3% | -23.7% | 0.7% | 11.5 | 15.0 | 14.9 | 0.8 | 0.8 | 6.5% | 4.5% | 1.10 | MP |
| MALAYSIAN RESOURCES CORP BHD | 0.835 | 3,666.3 | Y | 12/2018 | -6.1% | 9.1% | 32.6% | 6.6% | 39.8 | 30.0 | 28.1 | 0.9 | 0.9 | 2.8% | 2.1% | 0.700 | MP |
| SP SETIA BHD | 2.91 | 11,352.3 | Y | 12/2018 | 1.3% | 1.9% | -20.8% | 17.3% | 13.0 | 16.4 | 14.0 | 0.8 | 0.8 | 4.8% | 4.0% | 3.50 | OP |
| SUNSURIA BHD | 0.940 | 750.9 | Y | 09/2018 | -1.7% | 21.8% | -7.3% | 27.9% | 8.3 | 8.9 | 7.0 | 1.0 | 0.9 | 10.3% | 0.0% | 1.10 | OP |
| SUNWAY BHD | 1.55 | 7,538.9 | Y | 12/2018 | 2.3% | 4.0% | 1.2% | 6.0% | 13.5 | 13.3 | 12.5 | 1.0 | 0.9 | 7.2% | 4.0% | 1.60 | MP |
| UEM SUNRISE BHD | 0.930 | 4,219.8 | Y | 12/2018 | 6.1% | 9.8% | 23.3% | 6.8% | 15.5 | 12.6 | 11.8 | 0.7 | 0.6 | 4.7% | 1.1% | 0.970 | OP |
| UOA DEVELOPMENT BHD | 2.34 | 4,314.3 | Y | 12/2018 | 5.0% | 8.9% | -17.0% | 10.9% | 10.3 | 12.5 | 11.2 | 1.0 | 0.9 | 7.7% | 6.0% | 2.30 | MP |
| Simple Average | | | | | 2.2% | 4.5% | 16.0% | 12.4% | 22.7 | 17.9 | 16.2 | 0.8 | 0.7 | 4.8% | 2.4% | | |
| CONSENSUS NUMBERS | | | | | | | | | | | | | | | | | |
| GLOMAC BHD | 0.440 | 348.7 | Y | 04/2019 | -17.5% | 27.5% | -26.1% | 46.8% | 11.3 | 15.3 | 10.4 | 0.3 | N.A. | 1.8% | 3.0% | 0.530 | NEUTRAL |
| LBS BINA GROUP BHD | 0.880 | 1,371.0 | Y | 12/2018 | 3.1% | 14.7% | 19.2% | 12.2% | 13.3 | 11.1 | 9.9 | 1.1 | 1.0 | 8.6% | 3.8% | 1.25 | BUY |
| MATRIX CONCEPTS HOLDINGS BHD | 2.02 | 1,519.8 | Y | 03/2019 | 24.4% | 14.0% | 17.1% | 9.1% | 7.1 | 6.1 | 5.6 | 1.3 | 1.1 | 19.0% | 6.9% | 2.37 | BUY |
| PARAMOUNT CORP BHD | 1.88 | 805.2 | Y | 12/2018 | 8.2% | 5.0% | -33.3% | 3.4% | 6.0 | 9.0 | 8.8 | 0.7 | 0.7 | 8.3% | 4.8% | 2.40 | BUY |
| SIME DARBY PROPERTY BHD | 1.27 | 8,637.1 | Y | 12/2018 | -3.3% | 2.1% | -15.3% | -14.1% | 13.8 | 16.3 | 19.0 | 0.9 | 0.9 | 7.4% | 2.4% | 1.63 | BUY |
| TAMBUN INDAH LAND BHD | 0.930 | 403.0 | Y | 12/2018 | -32.1% | 0.4% | -37.3% | 2.4% | 4.8 | 7.7 | 7.5 | 0.7 | 0.7 | 7.9% | 4.8% | 0.868 | NEUTRAL |
| TITIJAYA LAND BHD | 0.400 | 537.7 | Y | 06/2018 | 6.9% | 2.9% | 8.9% | 5.6% | 7.1 | 6.5 | 6.2 | 0.4 | 0.4 | 11.3% | 5.5% | 0.570 | BUY |
| YONG TAI BHD | 1.11 | 539.1 | Y | 06/2018 | 160.8% | 195.3% | 155.9% | 590.4% | 81.4 | 31.8 | 4.6 | 1.4 | 1.1 | 6.3% | 0.0% | 1.87 | BUY |

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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