

17 May 2019

Magna Prima Berhad

1Q19 Below Expectation

1Q19 recorded CNL of RM3.2m, missing our expectation, due mainly to lower EBIT margin, arising from possibly higher rebates given out to clear inventories. No dividend declared, as expected. Moving forward, MAGNA's focus will continue to be on inventory clearing. We cut FY19-20E earnings by 76-35% after factoring in higher rebates to clear unsold units. Maintain UNDERPERFORM with a lower TP of RM0.740 (from RM0.785).

1Q19 core net losses (CNL) missed expectation. 1Q19 recorded CNL of RM3.2m, which is a far cry compared to our FY19E CNP of RM1.6m. While revenue came broadly within expectation, the deviation to our estimate was mainly due to lower EBIT margin, which we believe was caused by higher rebates given out to clear inventories. No dividend declared, as expected.

Results' highlight. YoY-Ytd, 1Q19 recorded CNL of RM3.2m vs 1Q18 CNP of RM3.2m due mainly to: (i) decreased revenue (-21.8%) from lower sales of its completed units from Jalan Kuching residential project, (ii) weaker EBIT margin (-35.1 ppt) possibly due to higher rebates given out, and (iii) higher net interest expense (+32.8%). **QoQ,** 1Q19 recorded lower CNL vs 4Q18 CNL of RM49.8m, attributable to: (i) reversal of unsuccessful sale of 24 units of service apartments in Jalan Kuching residential project that saw negative revenue of RM15.1m in 4Q18, and (ii) lower tax expense (-99.2%) incurred in 1Q19 as the previous quarter recorded unrelieved tax loss.

Outlook. MAGNA's focus will continue to be on clearing its existing inventory of RM254.4m at cost in Boulevard Business Park, Jalan Kuching, and Desa Mentari projects. As for *The View Residence* at Shah Alam, the group aims to re-open booking for the project in 2H19 by offering better sales package to encourage better response. Apart from the projects, we believe that earnings could be boosted if MAGNA successfully monetize its 2.6 acres of land along Jalan Ampang, valued at c.RM400m, which we have not imputed into our estimates.

Slash FY19-20E earnings by 76-35%. Post results, we cut our FY19-20E CNP by 76-35% after lowering our EBIT margin assumption after factoring in higher rebates as MAGNA clear its existing inventories.

Maintain UNDERPERFORM but with a lower Target Price of RM0.740 (from RM0.785). We lower our FD SoP to RM1.79 (from RM1.94) after lowering our net margin assumption to 6% in view of the challenging property market. Our TP is based on property RNAV discount of 70%, which implies a 59% discount (at historical trough level) to FD SoP of RM1.79 due to the volatility shown in earnings in recent quarters.

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

UNDERPERFORM ↔

Price: RM0.820
Target Price: RM0.740 ↓

Expected Capital Gain: -RM0.080 -9.8%
Expected Divd. Yield: RM0.000 -0.0%
Expected Total Return: -RM0.080 -9.8%

KLCI Index 1,599.19

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)	272.8
Par value per share (RM)	0.25
52-week range (H)	1.15
52-week range (L)	0.82
Free Float	49%
Beta	0.4
3-mth avg daily vol:	21,949

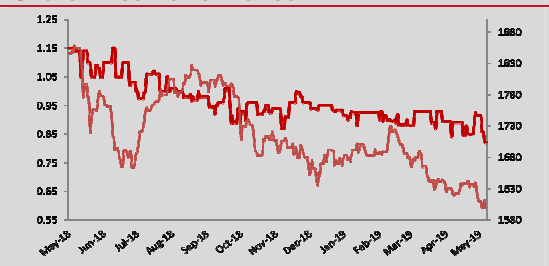
Major Shareholders

Prisma Pelang Snd Bhd	30.9%
Fantastic Realty Sdn Bhd	13.5%
Bin Mohammad Khalil Rahadian Mahmud	6.4%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	38.1	53.4	59.3
EBIT	5.2	12.3	13.8
PBT	-26.1	0.8	2.7
Net Profit (NP)	-53.7	0.4	1.6
Core NP	-36.0	0.4	1.6
Consensus (CNP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	-76%	-35%
Core EPS (sen)	(7.3)	0.1	0.3
EPS growth (%)	n.m.	n.m.	339%
DPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	1.1	1.1	1.1
PBV (x)	0.8	0.8	0.8
Core PER (x)	n.m.	1088.6	248.0
Dbt-to-Eqty ratio (x)	0.4	0.3	0.3
Return on Asset (%)	-5.8%	0.0%	0.2%
Return on Eqty.(%)	-9.6%	0.1%	0.3%
Dividend Yield (%)	0.0%	0.0%	0.0%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-7.9%	-8.9%	-28.1%
Relative (%)	-6.6%	-3.4%	-14.3%

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Results Highlight						
	1Q19	4Q18	QoQ	1Q18	YoY	
FYE Dec (RM'm)	10.1	-15.1	n.m.	12.9	-21.8%	
Turnover	10.1	-15.1	n.m.	12.9	-21.8%	
EBITDA	0.8	-17.1	n.m.	5.6	-85.2%	
Depreciation	0.0	0.0	2.1%	0.0	4.3%	
EBIT	0.8	-17.1	n.m.	5.5	-85.9%	
Interest inc/(exp)	-4.1	-3.5	16.9%	-3.1	32.8%	
Associates/JV	0.0	0.0	n.m.	0.0	n.m.	
Exceptional items	0.0	-17.7	n.m.	0.0	n.m.	
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	
Pretax profit	-3.3	-38.2	-91.4%	2.5	n.m.	
Taxation	-0.2	-29.7	-99.2%	0.4	n.m.	
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	
Profit after tax	-3.5	-67.9	-94.8%	2.9	n.m.	
Minority interest	0.3	0.4	-22.1%	0.3	8.1%	
PATAMI	-3.2	-67.5	-95.3%	3.2	n.m.	
Core PATAMI	-3.2	-49.8	-93.6%	3.2	n.m.	
DPS (sen)	0.0	0.0		0.0		
EBIT margin	8%	114%		43%		
Pretax margin	-33%	254%		19%		
NP margin	-33%	254%		19%		
CNP margin	-32%	331%		25%		
EPS (sen)	-1.0	-20.3		1.0		
Core EPS(sen)	-1.0	-15.0		1.0		
BV/share (RM)	1.6	1.6		1.8		
Net gearing (x)	0.4	0.4		0.3		
Effective tax	-8%	-78%		-17%		

Source: Company, Kenanga Research

Segmental Results						
	1Q19	4Q18	QoQ	1Q18	YoY	
External Revenue	1Q19	4Q18	QoQ	1Q18	YoY	
Property Development	9.9	-15.3	n.m.	12.7	-22.1%	
Construction & Engineering	0.0	0.0	n.m.	0.0	n.m.	
Trading	0.0	0.0	n.m.	0.0	n.m.	
Others	0.2	0.2	16.5%	0.3	-8.6%	
PBT Segmentation						
Property Development	-1.2	-34.9	-96.6%	3.3	n.m.	
Construction & Engineering	-0.2	1.5	n.m.	-0.2	44.1%	
Trading	0.0	0.0	n.m.	1.0	-100.3%	
Others	-1.9	-4.9	-62.1%	-1.7	6.3%	
PBT margins						
Property Development	-12%	228%		26%		
Construction & Engineering	n.m.	n.m.		n.m.		
Trading	n.m.	n.m.		n.m.		
Others	-797%	-2450%		-685%		

Source: Company, Kenanga Research

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SoP Table				
	Remaining GDV (RM'm)	Net Margin (%)	WACC (%)	DCF Value (RM m)***
Unbilled Sales	49	6%	11%	10
Launched but not yet sold	198	6%	11%	53
Projects				
The View Residence	271	6%	11%	13
Kepong 2D	141	6%	11%	5
Magna Suria	1,486	6%	11%	53
Gasing Lifestyle	658	6%	11%	31
Shareholder's Funds (@ 4Q16)				614.0
RNAV				778
Dilution Impact				150
FD SOP				928
FD SOP/share (RM)				MYR 1.79
Property RNAV Discount (excl. warrants effect)				-70%
Implied SOP discount				-59%
TP (RM)				MYR 0.740

Source: 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	1.14	416.2	Y	12/2019	15.2%	-1.4%	-27.5%	2.2%	17.4	24.0	23.5	0.6	0.6	2.4%	0.0%	1.00	UP
ECO WORLD DEVELOPMENT GROUP	0.860	2,532.2	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	15.3	12.4	10.0	0.7	0.6	4.5%	1.2%	1.15	OP
HUA YANG BHD	0.350	123.2	Y	03/2019	9.0%	0.3%	149.1%	22.3%	27.9	11.2	9.2	0.2	0.2	1.8%	0.0%	0.410	MP
IOI PROPERTIES GROUP BHD	1.23	6,772.6	Y	06/2019	-15.0%	-6.0%	0.8%	-3.4%	10.2	10.2	10.5	0.4	0.4	3.6%	4.1%	1.65	OP
LBS BINA GROUP BHD	0.565	880.8	Y	12/2019	31.3%	0.9%	7.9%	3.4%	10.3	9.6	9.3	0.6	0.6	6.6%	3.1%	0.675	MP
MAGNA PRIMA BHD	0.820	272.8	Y	12/2019	40.0%	11.1%	9637.5%	338.9%	N.A.	1,088.6	248.0	0.8	0.8	0.1%	0.0%	0.740	UP
MAH SING GROUP BHD	0.930	2,257.7	Y	12/2019	4.5%	7.0%	-2.5%	1.0%	13.7	14.1	14.0	0.6	0.6	5.2%	4.3%	1.05	OP
MALAYSIAN RESOURCES CORP BHD	0.970	4,267.9	Y	12/2019	5.0%	5.0%	26.9%	19.5%	56.4	44.5	37.2	0.9	0.9	2.0%	1.8%	0.750	UP
SIME DARBY PROPERTY BHD	0.955	6,494.8	Y	12/2019	14.6%	15.1%	7.7%	19.2%	17.7	16.4	13.8	0.7	0.7	4.0%	2.4%	1.10	MP
SP SETIA BHD	2.08	8,387.6	Y	12/2019	7.8%	15.3%	71.3%	53.9%	38.2	22.3	14.5	0.6	0.6	2.5%	3.4%	2.45	OP
SUNSURIA BHD	0.655	582.9	Y	09/2019	-36.0%	25.2%	-31.8%	26.6%	4.3	6.3	5.0	0.6	0.6	10.4%	0.0%	0.760	OP
SUNWAY BHD	1.68	8,209.0	Y	12/2019	1.2%	8.6%	1.4%	15.1%	14.0	13.8	12.0	1.0	1.0	7.5%	3.9%	1.55	MP
UEM SUNRISE BHD	0.870	3,947.6	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	12.1	11.1	12.6	0.6	0.6	4.9%	1.1%	0.850	MP
UOA DEVELOPMENT BHD	2.31	4,259.0	Y	12/2019	0.6%	-0.4%	4.6%	0.9%	12.8	12.2	12.1	0.9	0.9	7.4%	6.1%	2.15	MP
Simple Average					7.9%	3.4%	705.5%	36.6%	19.3	92.6	30.8	0.7	0.6	4.5%	2.2%		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
CONSENSUS NUMBERS																	
GLOMAC BHD	0.360	280.9	Y	04/2019	-37.9%	22.4%	-81.8%	179.8%	9.0	49.3	17.6	0.3	N.A.	0.6%	1.1%	0.390	SELL
MATRIX CONCEPTS HOLDINGS BHD	1.93	1,493.5	Y	03/2019	25.1%	12.1%	-2.3%	11.5%	7.0	7.2	6.4	1.1	1.1	16.2%	6.2%	2.33	BUY
PARAMOUNT CORP BHD	2.10	910.0	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	9.9	9.7	9.2	0.8	N.A.	7.2%	4.3%	2.56	BUY
TAMBUN INDAH LAND BHD	0.760	329.4	Y	12/2019	-14.3%	10.6%	-24.0%	9.5%	5.9	7.8	7.1	0.5	N.A.	7.3%	5.5%	0.933	BUY
TITIJAYA LAND BHD	0.295	378.6	Y	06/2019	-14.3%	13.9%	-28.4%	17.1%	5.2	7.3	6.2	0.3	0.3	3.9%	1.7%	0.385	BUY
YONG TAI BHD	0.350	187.0	Y	06/2019	33.2%	102.7%	-143.0%	42.2%	12.1	N.A.	11.8	0.5	0.5	-3.6%	0.0%	0.398	NEUTRAL

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%

**** The Expected Total Return might contain rounding discrepancy.**

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

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