

28 November 2019

# Mah Sing Group Berhad

## Below Expectations

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**9MFY19 CNP of RM91.4m fell 38% YoY, representing 57%/58% of our/consensus full-year forecasts. No dividend was declared. We are cutting our net profit forecasts by 25% for FY19 and 29% for FY20. Downgrade to MARKET PERFORM with a lower TP of RM0.750 (from RM1.00) as we switch to the adjusted P/BV valuation methodology.**

**Below expectations.** 9MFY19 CNP of RM91.4m is below expectations, accounting for 57%/58% of our/consensus full-year forecasts. The shortfall could be attributed to slower progress billings and lower-than-expected property sales. No dividend was declared as expected.

**Results' highlights.** YoY, 9MFY19 CNP dropped 38% on the back of a 20% decline in turnover. Bottom-line was also dampened by a higher effective tax rate of 26% (versus 22%). QoQ, 3QFY19 CNP was up 35% mainly due to an absence of perpetual securities' coupon payment (which dragged down 2QFY19 by RM27.1m).

**On track to meet FY19 sales target of RM1.5b.** The Group has secured new property sales of RM1.136b in the first nine months, or 76% of the full-year internal target. Management will be focussing on the affordable homes segment (with selling price of below RM700k), which accounts for 81% of the full-year sales target. Unbilled secured sales stood at RM1.7b as of end-Sep 2019, which would provide earnings visibility going forward.

**Earnings cuts.** We have reduced our forward earnings to RM120m (-25%) for FY19 and RM128m (-29%) for FY20 after scaling back our assumptions on progress billings and sales projections.

**Downgrade to MARKET PERFORM with a lower TP of RM0.750 (from RM1.00).** Our SoP valuation (see table overleaf) – which is based on the P/BV valuation method (versus the RNAV method previously) - represents a better gauge on the trough valuations of property stocks amid the prevailing market down-cycle. We have applied a P/BV of 0.53x (minus 1SD below its 3-year historical mean) on the BV of the property business segment (after imputing a 40% discount to its latest available inventory level of completed properties).

**Risks include:** (i) weaker-than-expected property sales, (ii) margin compressions, (iii) changes in real estate policies, and (iv) changes in lending environment.

## MARKET PERFORM ↓

Price : **RM0.690**  
Target Price : **RM0.750** ↓

### Share Price Performance



KLCI	1,587.18
YTD KLCI chg	-6.1%
YTD stock price chg	-24.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MSGB MK EQUITY
Market Cap (RM m)	1,675.1
Shares Outstanding	2,427.7
52-week range (H)	1.05
52-week range (L)	0.68
3-mth avg daily vol:	1,491,098
Free Float	80%
Beta	0.8

### Major Shareholders

Employee Provident Fund Board	8.7%
UrushartaJamaahSdnBhd	5.8%
Kumpulan Wang PersaraanDiperbadankan	5.0%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2,193	1,810	1,927
EBIT	368	294	316
PBT	348	291	309
<b>Net Profit (NP)</b>	<b>190</b>	<b>120</b>	<b>128</b>
<b>Core NP (CNP)</b>	<b>190</b>	<b>120</b>	<b>128</b>
Consensus (CNP)	N.A.	158.1	202.1
Earnings Revision	N.A.	-25%	-29%
FD EPS (sen)	6.8	4.3	4.6
FD EPS growth (%)	-36%	-37%	7%
NDPS (sen)	4.5	4.0	4.0
BV/Share (RM)	1.44	1.45	1.46
FD PER (x)	10.2	16.2	15.1
Price/BV (x)	0.5	0.5	0.5
Net Gearing (x)	-0.2	-0.2	-0.1
Dividend Yield (%)	6.5	5.8	5.8

\* CNP : Defined as core net profit to attributable to ordinary shareholders i.e. net of hybrid capital financing costs (e.g. Perpetual bonds). But note that our CNP excludes one-offs and non-cash adjustments.

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Result Highlight								
FYE Dec (RM m)	3Q19	2Q19	QoQ	3Q18	YoY	9MFY19	9MFY18	YoY
<b>Turnover</b>	<b>415.5</b>	<b>481.2</b>	<b>-14%</b>	<b>504.3</b>	<b>-18%</b>	<b>1,347.1</b>	<b>1,678.3</b>	<b>-20%</b>
<b>EBIT</b>	<b>68.1</b>	<b>69.5</b>	<b>-2%</b>	<b>82.2</b>	<b>-17%</b>	<b>212.5</b>	<b>270.3</b>	<b>-21%</b>
Interest inc/(exp)	1.8	-1.5	n.m.	-0.9	n.m.	-0.5	-6.8	-92%
<b>Pretax profit</b>	<b>69.9</b>	<b>68.0</b>	<b>3%</b>	<b>81.3</b>	<b>-14%</b>	<b>211.9</b>	<b>263.5</b>	<b>-20%</b>
Taxation	-18.6	-17.8	4%	-17.6	5%	-55.6	-58.3	-5%
<b>Profit after tax</b>	<b>51.4</b>	<b>50.3</b>	<b>2%</b>	<b>63.7</b>	<b>-19%</b>	<b>156.3</b>	<b>205.2</b>	<b>-24%</b>
Minority interest	-1.4	0.1	n.m.	0.6	n.m.	-1.0	0.3	n.m.
Perpetual Sukuk	-18.6	0.0	-	-18.3	2%	-36.9	-36.6	1%
Perpetual Securities	0.0	-27.1	-	0.0	-	-27.1	-22.4	21%
<b>PATAMI</b>	<b>31.4</b>	<b>23.2</b>	<b>35%</b>	<b>45.9</b>	<b>-32%</b>	<b>91.4</b>	<b>146.6</b>	<b>-38%</b>
<b>Core PATAMI</b>	<b>31.4</b>	<b>23.2</b>	<b>35%</b>	<b>45.9</b>	<b>-32%</b>	<b>91.4</b>	<b>146.6</b>	<b>-38%</b>
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	16.4%	14.4%		16.3%		15.8%	16.1%	
Pretax margin	16.8%	14.1%		16.1%		15.7%	15.7%	
EPS (sen)	1.3	1.0		1.9		3.8	6.0	
Core EPS(sen)	1.3	1.0		1.9		3.8	6.0	
Effective tax	27%	26%		22%		26%	22%	

Source: Company, Kenanga Research

## MahSing's sum-of-parts valuation

Segment	Value (RMm)	Valuation Basis
Properties	1,925.0	P/BV of 0.53x (-1SD below mean) with inventory adjustment
Plastics	123.1	P/E of 9x
Investment holding & Others	491.3	P/BV of 0.76x (historical mean)
Net cash / (debt) at holding company	(708.0)	
<b>Aggregate valuation</b>	<b>1,831.4</b>	
No of shares (m)	2,427.7	
<b>RNAV per share (RM)</b>	<b>0.75</b>	

Source: Kenanga Research

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### Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				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.	1-Yr. Fwd.		
<b>PROPERTY DEVELOPERS UNDER COVERAGE</b>																		
AMVERTON BHD	1.08	394.3	Y	12/2019	-34.7%	1.3%	-83.6%	30.5%	16.5	100.6	77.1	0.6	0.5	0.5%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.660	1,943.3	Y	10/2019	-1.7%	-16.9%	3.6%	21.5%	11.7	11.2	9.3	0.5	0.5	4.6%	1.4%	0.750	OP	
HUA YANG BHD	0.365	128.5	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	15.6	17.7	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.18	6,497.3	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	9.9	10.2	9.4	0.4	0.3	3.5%	4.2%	1.55	OP	
LBS BINA GROUP BHD	0.500	773.8	Y	12/2019	34.1%	1.5%	-18.1%	10.6%	9.2	11.2	10.1	0.5	0.5	5.1%	2.0%	0.520	MP	
MAGNA PRIMA BHD	0.910	302.7	Y	12/2019	-19.6%	13.0%	-162.4%	-105.9%	N.A.	N.A.	N.A.	0.9	0.9	-5.2%	0.0%	0.695	UP	
MAH SING GROUP BHD	0.690	1,675.1	Y	12/2019	-17.5%	6.5%	-36.9%	7.0%	10.2	16.2	15.1	0.5	0.5	3.4%	5.8%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.745	3,287.0	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	43.3	925.7	32.0	0.7	0.7	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.815	5,542.7	Y	12/2019	129.2%	11.0%	9700.0%	-4.4%	793.0	8.1	8.5	0.6	0.6	7.3%	4.9%	1.00	OP	
SP SETIA BHD	1.32	5,336.1	Y	12/2019	5.5%	24.3%	15.6%	57.6%	25.6	22.1	14.0	0.4	0.4	1.7%	3.2%	1.80	OP	
SUNSURIA BHD	0.620	555.5	Y	09/2019	-2.7%	7.3%	-4.0%	4.8%	4.3	4.1	4.0	0.6	0.5	14.5%	0.0%	0.585	MP	
SUNWAY BHD	1.78	8,736.3	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	14.8	16.2	14.7	1.0	1.0	6.3%	3.3%	1.60	MP	
UEM SUNRISE BHD	0.720	3,267.0	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	10.0	9.5	11.5	0.5	0.5	4.8%	2.2%	0.850	OP	
UOA DEVELOPMENT BHD	1.94	3,814.1	Y	12/2019	-0.5%	-6.4%	9.2%	-8.7%	10.7	9.8	10.8	0.8	0.7	7.7%	7.2%	2.15	MP	
<b>Simple Average</b>					<b>5.3%</b>	<b>8.0%</b>	<b>676.8%</b>	<b>199.5%</b>	<b>81.8</b>	<b>89.3</b>	<b>18.0</b>	<b>0.6</b>	<b>0.6</b>	<b>4.1%</b>	<b>2.4%</b>			
*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																		
<b>CONSENSUS NUMBERS</b>																		
GLOMAC BHD	0.370	288.1	Y	04/2020	11.9%	40.2%	22.6%	87.3%	19.6	16.0	8.5	0.3	N.A.	1.7%	2.4%	0.385	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.89	1,555.1	Y	03/2020	4.4%	18.2%	6.1%	8.5%	7.1	6.7	6.2	1.0	1.0	16.1%	6.7%	2.28	BUY	
PARAMOUNT CORP BHD	1.26	764.4	Y	12/2019	N.A.	N.A.	N.A.	N.A.	8.3	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.760	329.4	Y	12/2019	-11.3%	4.0%	-21.2%	-0.1%	5.9	7.5	7.6	0.5	0.5	6.6%	5.3%	0.840	N.A	
TITIJAYA LAND BHD	0.290	366.3	Y	06/2020	8.4%	20.9%	28.3%	21.5%	11.0	8.6	7.1	0.4	0.3	2.9%	43.4%	0.280	N.A	
YONG TAI BHD	0.215	154.6	Y	06/2020	132.7%	8.3%	-3768.9%	-134.2%	N.A.	N.A.	N.A.	0.4	0.3	-1.9%	0.0%	0.230	N.A	

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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