

25 June 2020

## Magna Prima Berhad 1QFY20 Below Expectation

1QFY20 CNL of RM7.0m came in below our expectation at 33% mainly due to lower-than-expected sales and profit margin achieved during the quarter. No dividend was declared as expected while its debt default payment has raised concerns. Moving forward, MAGNA's focus will continue to be on inventory clearing. Post results, we increased our FY20E and FY21E CNL to RM24.6m and RM19.4m, respectively. Maintain UNDERPERFORM with lower TP of RM0.520 (based on PBV of 0.40x) from RM0.550.

**Below expectation.** 1QFY20 CNL of RM7.0m came in below our expectation at 33% of our full-year estimate, the deviation was mainly due to: (i) lower-than-expected sales achieved during the quarter and (ii) lower-than-expected profit margin recorded. No dividend declared, as expected.

**Results' highlight. YoY,** 1QFY20 registered higher losses of RM7.0m (+120%) compared to RM3.2m in 1QFY19, largely due to: (i) drop in revenue by 80% caused by lower sales of shop offices in Kepong, and (ii) lower profit margin achieved due to higher interest cost (+41%) during the quarter. QoQ, the current quarter recorded lower losses by 41% compared to the preceding quarter of RM11.8m despite drop in revenue, mainly due to lower interest cost incurred (-23%) and higher gross margin from the sales of property in Kepong.

**Default Payment.** MAGNA has on 24 June 2020, received a letter of demand cum Recall from Alliance Bank to repay the balance of term loan totaling RM37.8m and to cancel the term loan facility. We think that the default payment will not significantly affect the company's financial position and solvency given that (i) a land with market value of RM200m is secured against the bank facilities with Alliance Bank, and (ii) the total default payment represented only 7.9% of MAGNA's total net asset as at 31 Mar 2020. Currently the company is actively scheduling a meeting with the bank to reschedule the loan facility. However, in the event that the company fails to reschedule the loan facilities, it might face liquidity issue given that the Group has gross borrowings of RM207.5m (of which 89% are short term debt) as at 31 Mar 2020. Its weak financial position reaffirms our bearish view on the stock.

**Outlook.** Moving forward, we believe MAGNA's focus will continue to be on clearing existing inventory in its Boulevard Business Park, Jalan Kuching, and Desa Mentari projects. Apart from these, management is also seeking to sell off non-strategic land in order to reduce the gearing level for which its net-debt-to-equity currently stands at 0.42x.

**Earnings estimate.** Post results, we increased our FY20E and FY21E CNL by 18% and 6% to RM24.6m and RM19.4, respectively, in view of lower sales post Covid-19 pandemic.

**Maintain UNDERPERFORM with lower Target Price of RM0.520 (from RM0.550).** Our TP is based on P/BV of 0.40x (at minus 2.5SD of its 3-year historical band) on an adjusted FY21E BV/share of RM1.30 (after imputing a 40% discount to its latest available inventory level of completed properties). Our revised TP implies 71% discount to our SoP valuation of RM1.79 per share (partial GDV and partial land bank basis).

**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: RM0.520 ↓**

**Expected Capital Gain: -RM0.3 -36.5%**  
**Expected Divd. Yield: RM0.0 -0.00%**  
**Expected Total Return: -RM0.3 -36.5%**

**KLCI Index** 1,502.63

### 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)	1.25
52-week range (L)	0.70
Free Float	32%
Beta	0.2
3-mth avg daily vol:	47,207

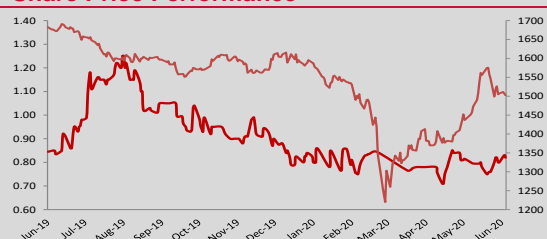
### Major Shareholders

Prisma Pelang Sdn Bhd	30.9%
Fantastic Realty Sdn Bhd	21.2%
Datuk Seri Rahadian Mahmud Bin Mohammad Khalil	6.4%

### Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Turnover	32.2	28.0	37.5
EBIT	-7.8	-5.9	-3.6
PBT	-31.5	-25.5	-21.0
<b>Net Profit (NP)</b>	-32.7	-24.6	-19.4
<b>Core NP</b>	-28.5	-24.6	-19.4
Consensus (CNP)	N.A.	N.A.	N.A.
Earnings Revision	N.A.	-18%	-6%
Core EPS (sen)	(8.3)	(7.2)	(5.7)
EPS growth (%)	14	-14	-21
DPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	1.5	1.4	1.3
PBV (x)	0.6	0.6	0.6
Core PER (x)	(9.9)	(11.4)	(14.5)
Dbt-to-Eqty ratio (x)	0.4	0.3	0.4
Return on Asset (%)	-3.9	-3.1	-2.5
Return on Eqty (%)	-6.8	-5.2	-4.3
Dividend Yield (%)	0.0	0.0	0.0

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	0.6%	-3.0%	-3.0%
Relative (%)	-4.0%	-19.3%	7.4%

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**Results Highlight**

<b>FYE Dec (RM m)</b>	<b>1QFY20</b>	<b>4QFY19</b>	<b>QoQ</b>	<b>1QFY19</b>	<b>YoY</b>
<b>Turnover</b>	<b>2.0</b>	<b>9.3</b>	<b>-79%</b>	<b>10.1</b>	<b>-80%</b>
EBITDA	-1.3	-2.0	-35%	0.7	-279%
Depreciation	0.0	-0.1	-100%	0.0	-100%
<b>EBIT</b>	<b>-1.3</b>	<b>-2.1</b>	<b>-38%</b>	<b>0.8</b>	<b>-268%</b>
Interest inc/(exp)	-5.7	-7.5	-23%	-4.1	41%
<b>Pretax profit</b>	<b>-7.1</b>	<b>-9.6</b>	<b>-27%</b>	<b>-3.3</b>	<b>115%</b>
Taxation	-0.3	-2.8	-89%	-0.2	18%
<b>Profit after tax</b>	<b>-7.3</b>	<b>-12.4</b>	<b>-41%</b>	<b>-3.5</b>	<b>108%</b>
Minority interest	0.3	0.5	-34%	0.3	-1%
<b>PATAMI</b>	<b>-7.0</b>	<b>-11.8</b>	<b>-41%</b>	<b>-3.2</b>	<b>120%</b>
<b>Core PATAMI</b>	<b>-7.0</b>	<b>-11.8</b>	<b>-41%</b>	<b>-3.2</b>	<b>120%</b>
DPS (sen)	0.0	0.0		0.0	
EBIT margin	-66%	-23%		8%	
Pretax margin	-355%	-104%		-33%	
NP margin	-355%	-104%		-33%	
CNP margin	-353%	-128%		-32%	
EPS (sen)	-2.1	-3.6		-1.0	
Core EPS(sen)	-2.1	-3.6		-1.0	
BV/share (RM)	1.4	1.5		1.6	
Net gearing (x)	0.4	0.4		0.4	
Effective tax	-4%	-29%		-8%	

Source: Company, Kenanga Research

**Segmental Results**

<b>External Revenue</b>	<b>1QFY20</b>	<b>4QFY19</b>	<b>QoQ</b>	<b>1QFY19</b>	<b>YoY</b>
Property Development	2.0	9.2	-79%	9.9	-80%
Construction & Engineering	0.0	0.0	N.M.	0.0	N.M.
Trading	0.0	0.0	N.M.	0.0	N.M.
Others	0.0	0.1	-64%	0.2	-86%
<b>PBT Segmentation</b>					
Property Development	-5.4	-4.3	25%	-1.2	351%
Construction & Engineering	-0.2	-1.3	-83%	-0.2	-4%
Trading	0.0	0.0	-25%	0.0	0%
Others	-1.5	-4.0	-61%	-1.9	-17%
<b>PBT margins</b>					
Property Development	-275%	-47%		-12%	
Construction & Engineering	N.M.	N.M.		N.M.	
Trading	N.M.	N.M.		N.M.	
Others	-4655%	-4356%		-797%	

Source: Company, 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.			
<b>PROPERTY DEVELOPERS UNDER COVERAGE</b>																		
ECO WORLD DEVELOPMENT GROUP	0.420	1,236.6	Y	10/2020	-28.3%	5.1%	-1.0%	-7.5%	6.2	5.7	5.3	0.3	0.3	4.4%	2.6%	0.410	OP	
IOI PROPERTIES GROUP BHD	1.01	5,561.2	Y	06/2020	-20.0%	18.6%	-19.1%	28.7%	8.4	10.4	8.1	0.3	0.3	2.9%	3.0%	1.21	OP	
LBS BINA GROUP BHD	0.360	545.1	Y	12/2020	-30.5%	2.5%	8.5%	5.2%	6.6	8.1	7.3	0.4	0.4	5.6%	4.2%	0.330	MP	
MAGNA PRIMA BHD	0.820	272.8	Y	12/2020	-13.0%	33.9%	-186.3%	-178.9%	N.A.	N.A.	N.A.	0.6	0.6	-5.2%	0.0%	0.520	UP	
MAH SING GROUP BHD	0.525	1,274.5	Y	12/2020	-20.6%	49.0%	-45.9%	108.5%	11.7	21.9	10.3	0.4	0.4	1.7%	5.7%	0.450	MP	
MALAYSIAN RESOURCES CORP BHD	0.470	2,073.7	Y	12/2020	-36.4%	42.7%	174.3%	70.8%	87.0	79.7	31.8	0.4	0.4	1.4%	0.0%	0.750	OP	
SIME DARBY PROPERTY BHD	0.700	4,760.6	Y	12/2019	-49.3%	6.6%	-42.1%	21.1%	6.7	11.6	9.6	0.5	0.5	4.3%	2.6%	0.880	OP	
SP SETIA BHD	0.880	3,557.4	Y	12/2020	-9.2%	19.0%	13.8%	81.4%	14.0	12.2	6.7	0.3	0.2	2.0%	2.5%	0.860	OP	
SUNWAY BHD	1.38	6,763.9	Y	12/2020	-14.9%	32.5%	-34.1%	43.5%	10.6	16.1	11.2	0.7	0.7	4.4%	3.1%	1.68	OP	
UEM SUNRISE BHD	0.440	1,996.5	Y	12/2020	-39.6%	6.7%	-70.2%	25.9%	6.4	7.1	8.2	0.3	0.3	1.4%	0.0%	0.565	OP	
UOA DEVELOPMENT BHD	1.74	3,420.9	Y	12/2020	6.6%	15.7%	-9.0%	13.3%	9.4	9.7	8.5	0.7	0.7	7.0%	8.0%	1.79	OP	
<b>Simple Average</b>					<b>-23.2%</b>	<b>21.1%</b>	<b>-19.2%</b>	<b>19.3%</b>	<b>16.7</b>	<b>18.2</b>	<b>10.7</b>	<b>0.4</b>	<b>0.4</b>	<b>2.7%</b>	<b>2.9%</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

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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