MKH Berhad

Earnings On Track

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MKH's 1QFY25 results met expectations with better earnings from its plantation segment. We like MKH for its expanding plantation business in Kalimantan. Additionally, we still appreciate its exposure to affordable and transit-oriented development (TOD) property offerings, and maintain our forecasts, and SoP-TP of RM1.64. Our OUTPERFORM call is also maintained.

MKH's 1QFY25 core net profit of RM25.0m met expectations at 29% and 30% of our full-year forecast and full-year consensus estimate, respectively.

YoY, its 1QFY25 revenue declined by 18% on moderate top line performance, due to poorer property development (largely from higher profit recognition from MIRAI Residences @ Kajang 2 Precint 1, Akina @ Kajang 2 Precint 3). However, core net profit rose by 5% from better profit from the plantation division as a result of higher crude palm oil (CPO) coupled with higher average selling price of CPO (RM3,848/MT, +17%) and palm kernel (RM2,659/MT, +79%).

QoQ, its 1QFY25 revenue declined by 2% from the above-mentioned. All in, its core net profit increased by 33% from better profit from its plantation division.

Outlook. Landed retail commercial shops with a total GDV of RM835.6m will be introduced in FY25 to fuel MKH's property pipeline, with launches staggered based on take-up rates. Unbilled sales of RM562.8m should sustain its property development earnings over the next two years. Its TOD projects will continue to attract buyers for their accessibility to public transport. We expect a stable outlook for its plantation segment on firm CPO prices and a rising production volume supported by stable demand for CPO from high-consumption countries such as China and India.

Forecasts. Maintained.

Valuations. We maintain SoP-derived TP ofRM1.64 as we ascribed discount to RNAV of 60% (average: 50%) from its slower realizability of GDV. Additionally, our (i) 13x FY25F PER to its plantation sector earnings, at a 20% discount from its large cap peers owing to its smaller scale operations, and (ii) 12x FY25F PER on its hotel & property investment segment, also at a 20% discount from larger property investors are unchanged. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 6).

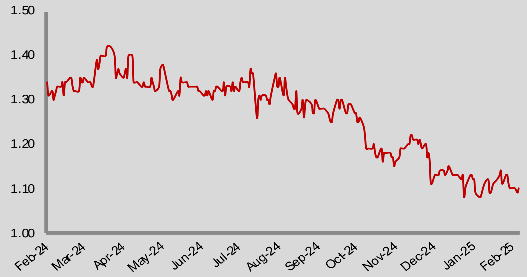
We continue to like MKH as they offer several unique propositions in the property development space, and potential in its plantation footprint. Additionally, the group's low gearing (FY23 at net cash) provides strong flexibility should the group decide to ramp up key business segment. The pending spin-off listing of its plantation division may attract buying interest. Maintain **OUTPERFORM.**

Risk to our call include: (i) overhang in the high-rise, affordable home segment, (ii) unfavourable CPO price fluctuations, (iii) higher-than-expected input and production costs, and (iv) regulatory changes, namely concerning the palm oil industry in Indonesia

OUTPERFORM ↔

Price:	**RM1.10**
Target Price:	**RM1.64** ↔

Share Price Performance



KLCI	1,586.60
YTD KLCI chg	-3.4%
YTD stock price chg	-2.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MSGB MK Equity
Market Cap (RM m)	634.9
Shares Outstanding	577.1
52-week range (H)	1.42
52-week range (L)	1.08
3-mth avg. daily vol.	182,106
Free Float	48%
Beta	0.81

Major Shareholders

Mayang Teratai SdnBhd	41.0%
Amanah Saham Nasional	9.2%
Mayang Teratai Limited	2.1%

Summary Earnings Table

FYE Dec (RM m)	2024A	2025F	2026F
Turnover	1,060.7	1,060.4	1,101.8
Operating Profit	157.0	179.7	187.2
Profit Before Tax	144.5	167.3	177.0
Net Profit (NP)	**73.8**	**85.4**	**90.3**
Core NP (CNP)	**73.8**	**85.4**	**90.3**
Consensus (CNP)	-	81.7	88.7
Earnings Revision	-	-	-
FD EPS (sen)	12.8	14.8	15.6
FD EPS Growth (%)	-1.1	15.8	5.8
NDPS (sen)	4.0	4.0	4.5
BV/Share (RM)	3.2	3.3	3.4
FD PER (x)	8.6	8.0	7.6
Price/BV (x)	0.3	0.4	0.4
Net Gearing (x)	(0.0)	(0.1)	(0.1)
Dividend Yield (%)	3.6	3.6	4.1

Result Highlight

FYE Sep (RM m)	1Q FY25	4Q FY24	QoQ Chg	1Q FY24	YoY Chg	3M FY25	3M FY24	YoY Chg
Revenue	249.0	254.6	-2.2%	303.5	-17.9%	249.0	303.5	-17.9%
Cost of Sales	-165.0	-176.8	-6.7%	-229.8	-28.2%	-165.0	-229.8	-28.2%
Gross Profit	**84.0**	**77.8**	**7.9%**	**73.6**	**14.1%**	**84.0**	**73.6**	**14.1%**
Selling and marketing expenses	-5.1	-5.9	-13.4%	-4.8	5.7%	-5.1	-4.8	5.7%
Administrative Expenses	-25.1	-25.3	-0.8%	-21.3	18.1%	-25.1	-21.3	18.1%
Other income/(expenses)	4.4	0.6	676.7%	-2.7	-262.2%	4.4	-2.7	-262.2%
Operating Profit	**58.2**	**47.2**	**23.3%**	**44.8**	**0.3**	**58.2**	**44.8**	**29.7%**
Associate Contributions	1.5	2.0	-25.5%	0.9	64.1%	1.5	0.9	64.1%
Net Interest Income/(Expense)	-6.2	-10.1	-38.3%	-5.5	12.2%	-6.2	-5.5	12.2%
Profit Before Tax	**53.5**	**39.1**	**36.6%**	**40.2**	**32.9%**	**53.5**	**40.2**	**32.9%**
Taxation	-16.4	-12.3	33.4%	-12.6	30.5%	-16.4	-12.6	30.5%
Minority Interest	-12.1	-8.2	47.3%	-4.0	201.8%	-12.1	-4.0	201.8%
Net Profit	**25.0**	**18.6**	**34.0%**	**23.6**	**5.6%**	**25.0**	**23.6**	**5.6%**
Adjustments	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Core Net Profit	**25.0**	**18.6**	**34.0%**	**23.6**	**5.6%**	**25.0**	**23.6**	**5.6%**
Gross Profit Margin	33.7%	30.6%		24.3%		33.7%	24.3%	
Operating Margin	23.4%	18.5%		14.8%		23.4%	14.8%	
Pretax Margin	21.5%	15.4%		13.3%		21.5%	13.3%	
Net Margin	10.0%	7.3%		7.8%		10.0%	7.8%	
Effective Tax Rate	-30.7%	-31.5%		-31.3%		-30.7%	-31.3%	
Net Gearing	(0.06)	(0.04)		(0.02)		(0.06)	(0.02)	

Source: Kenanga Research

Segmental Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
External Revenue								
Property Development & Construction	116.3	138.9	-16.3%	178.6	-34.9%	116.3	178.6	-34.9%
Plantation	102.7	90.6	13.3%	82.3	24.7%	102.7	82.3	24.7%
Hotel & Property Investment	8.8	7.9	10.5%	9.0	-2.4%	8.8	9.0	-2.4%
Trading	19.9	16.1	23.8%	32.5	-38.6%	19.9	32.5	-38.6%
Manufacturing	0.0	0.1	-100.0%	0.3	-100.0%	0.0	0.3	-100.0%
Investment Holding	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Others	1.4	0.9	45.5%	0.8	61.1%	1.4	0.8	61.1%
Total Revenue	**249.0**	**254.6**	**-2.2%**	**303.5**	**-17.9%**	**249.0**	**303.5**	**-17.9%**
Operating Profit								
Property Development & Construction	9.9	4.8	108.1%	25.4	-61.1%	9.9	25.4	-61.1%
Plantation	41.2	26.2	57.7%	14.2	189.7%	41.2	14.2	189.7%
Hotel & Property Investment	3.3	10.8	-69.0%	3.7	-9.5%	3.3	3.7	-9.5%
Trading	0.6	0.7	-5.5%	1.3	-50.7%	0.6	1.3	-50.7%
Manufacturing	0.0	-0.6	-100.0%	0.1	-100.0%	0.0	0.1	-100.0%
Investment Holding	5.0	5.8	-14.1%	4.1	21.6%	5.0	4.1	21.6%
Others	-5.7	-5.7	0.9%	-5.7	-0.1%	-5.7	-5.7	-0.1%
Total Operating Profit	**54.3**	**41.8**	**29.9%**	**43.1**	**26.1%**	**54.3**	**43.1**	**26.1%**
OP Margin								
Property Development & Construction	8.5%	3.4%		14.2%		8.5%	14.2%	
Plantation	40.2%	28.9%		17.3%		40.2%	17.3%	
Hotel & Property Investment	38.1%	135.7%		41.1%		38.1%	41.1%	
Trading	3.2%	4.1%		3.9%		3.2%	3.9%	
Manufacturing	N.M	-482.8%		38.6%		N.M	38.6%	
Investment Holding	N.M.	N.M.		N.M.		N.M.	N.M.	
Others	-420.4%	-606.0%		-677.8%		-420.4%	-677.8%	
Total OP Margin	**21.8%**	**16.4%**		**14.2%**		**21.8%**	**14.2%**	

Source: Kenanga Research

MKH's Property RNAV

Project	Remaining Area (acres)	Remaining GDV (RM b)	NPV of profit (effective) (RM m)
Kajang - Semenyih			
Kajang 2 Precinct 1	270.0	3,240.0	165.9
Kajang 2 Precinct 2 (JV)	180.0	2,450.0	125.4
Kajang 2 Precinct 3 (incl. JV)	80.0	346.0	21.0
Kajang East	3.8	66.0	4.4
Kajang East Precinct 5 (incl. JV)	24.2	459.0	26.7
MKH Youth City	10.2	641.0	38.9
MKH City	6.7	792.0	46.0
Hillpark Residence 2	9.2	446.0	28.3
Greater KL			
Hillpark @ Shah Alam (JV)	22.5	38.0	2.4
Mahkota Cheras (JV)	6.9	435.0	27.6
MKH World	12.0	746.0	45.2
SS5 @ Kelana Jaya	2.0	50.0	2.9
Unbilled Sales		547.3	33.2
Sector Shareholders' Funds (FY23)			1,246.0
		Total	**1,813.8**
		Discount to RNAV	60%
		RNAV	**725.5**
		Shares (m)	586.5
		RNAV/Share (RM)	**1.24**

Source: Company, Kenanga Research

MKH's Sum-of-Parts

Segment	Value (RM m)	Valuation basis
Property Development & Construction	725.5	60% discount to RNAV, in line with industry peer average supported by strong focus on affordable products
Plantation	454.4	13x PER on FY25F Net Profit, being a 15% discount from large cap planters
Hotel & Property Investment	18.9	12x PER on FY25F Net Profit, being a 20% discount from property investment & REITs
Aggregate Valuation	**1,198.8**	
- Less holding company discount	20%	
No. of shares (m)	586.5	
FV per share (RM)	**1.64**	

Source: Company, Kenanga Research

Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net. Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PROPERTY DEVELOPERS																	
IOI PROPERTIES GROUP BHD	UP	1.99	1.69	-15.1%	10,957.2	N	06/2025	9.8	10.5	5.1%	8.0%	20.4	18.9	0.4	2.2%	4.5	2.3%
MAH SING GROUP BHD	OP	1.30	2.46	89.2%	3,328.2	Y	12/2025	10.2	11.0	14.6%	8.5%	12.8	11.8	0.8	6.5%	4.0	3.1%
MKH BHD	OP	1.10	1.64	49.1%	634.9	Y	09/2025	14.6	15.4	15.7%	5.7%	7.6	7.1	0.3	4.0%	4.0	3.6%
S P SETIA BHD	UP	1.35	1.25	-7.4%	6,753.5	Y	12/2024	8.8	5.8	97.5%	-34.2%	15.3	23.3	0.4	3.5%	5.0	3.7%
SIME DARBY PROPERTY BHD	OP	1.47	1.79	21.8%	9,997.2	Y	12/2025	8.0	8.1	36.7%	1.4%	18.4	18.1	0.9	5.2%	2.8	1.9%
SUNWAY BHD	UP	4.73	3.35	-29.2%	29,221.8	Y	12/2025	14.7	15.4	27.2%	5.0%	32.2	30.6	1.8	6.7%	6.0	1.3%
UOA DEVELOPMENT BHD	MP	1.82	1.82	0.0%	4,775.3	Y	12/2025	10.5	11.0	4.9%	4.9%	17.4	16.6	0.8	4.5%	10.0	5.5%
SECTOR AGGREGATE					**65,668.1**					**26.4%**	**-0.3%**	**22.2**	**22.3**	**0.8**	**4.6%**		**3.0%**

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★	★	
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★		
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

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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