

## Stock Idea

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## MKH Bhd

## NOT RATED

		Major Shareholders (%)	Stock Information	Company Description
Target	RM2.34	Chen family 47.0%	Market cap (RMm) 585.0	MKH is a reputable property developer in Kajang. It also involved in property investment, oil palm plantation, trading of building materials and furniture manufacturing.
Previous	-	Public Bank Group of Funds 9.0%	Share Capital (m) 291.0	
Price	RM2.01		OSK 188 Ticker MKH	
			Industry Property development	

## Local Boy Makes Good

**MKH Bhd (MKH)**, formerly known as Metro Kajang Holdings Bhd, is a reputable Kajang-based property developer. Its fundamentals are underpinned by high profit recognition from its property development projects, anticipated maiden contribution from its plantation division in FY13 and contribution from its turnkey construction contract. The company became a Shariah-compliant counter after it sold off its non-*halal* livestock business, with less than 5% of its current revenue generated by its non-Shariah compliant activities. Pegging a 5-year average PER of 8.33x on its FY13 earnings, we derive RM2.34 FV, which suggests a potential upside of 16.4% from the current share price.

**Reputable property developer in Kajang.** MKH is a well-established property developer in Kajang. Currently, the company has seven property development projects located in Kajang, Semenyih, Bangsar and Melawati. As at end-March 2012, it had total unbilled sales of RM398.3m. Having secured sales of RM204.8m in 1HFY12, MKH is targeting for RM500m in new sales for FY12.

**RM675m turnkey construction contract.** In April, the company clinched a five-year turnkey construction contract worth RM675m from Puncak Alam Resources to build residential and commercial units on 550 acres of land in Ijok, Kuala Selangor. We are incorporating this project's earnings contribution into our FY13 forecast. However, this being an ad hoc project, we do not expect similar contracts in the next two years.

**Positive contribution from oil palm plantations in FY13.** In 2008, MKH acquired 15,942ha of land in East Kalimantan, on which it has planted about 15,000ha of oil palm, with over 3,200ha expected to reach maturity by end-FY12. MKH constructed a 60-tonne/hour palm oil mill in Nov 2011 which is strategically located about 35km from a jetty. In short, its palm oil operations have entered the CPO production phase but have yet to achieve economies of scale. We expect positive earnings contribution from the plantation division starting from FY13, during which more oil palm trees are anticipated to start maturing.

**Hiving off non-core business.** In Jan 2012, the company disposed of its non-core livestock business for RM64m, representing a premium of 4.4% on the consolidated net asset value of the livestock business. In all, MKH reaped a gain of RM29.2m after stripping out its total investment cost of RM34.8m. The move allows MKH to focus on its core businesses, namely property development, property investment, construction, and oil palm plantation, as well as to pare down its debt. MKH is now a Shariah-compliant stock, with less than 5% of its total revenue coming from non-Shariah compliant activities.

**FV RM2.34.** We have a fair value of RM2.34 on MKH, which pegs it at a 5-year average PER of 8.33x on its FY13 earnings. MKH plans to maintain its 5 sen per share dividend for FY12, or a 22.2% dividend payout ratio, which translates into a dividend yield of 2.5%. We like MKH for its: (i) prudent management, (ii) unbroken profit record since commencing business more than 20 years ago, (iii) Shariah-compliant status after the disposal of its livestock business, and (iv) strong earnings growth outlook, primarily driven by the growth of its core businesses of property development and oil palm plantation.

FYE June (RMm)	FY09	FY10	FY11	FY12f	FY13f
Revenue	370.2	255.9	306.0	450.4	555.9
Net Profit	41.7	30.6	38.0	65.5	81.8
% chg y-o-y	-19.3	-26.6	24.3	72.3	24.9
Consensus	-	-	-	n.a	n.a
EPS (sen)	18.2	10.5	13.1	22.5	28.1
Gross DPS (sen)	5.0	5.0	5.0	5.0	5.0
Gross dividend yield (%)	2.5	2.5	2.5	2.5	2.5
ROE (%)	6.4	4.6	5.2	8.7	10.7
ROA (%)	4.4	2.9	3.0	4.9	6.0
PER (x)	11.1	19.2	15.5	9.0	7.2
BV/share (RM)	2.8	2.3	2.5	2.6	2.6
P/BV (x)	0.7	0.9	0.8	0.8	0.8

## Background

**Reputable property developer in “satay” town.** Besides being a property developer, MKH is also involved in property investment, oil palm plantation, construction, trading of building materials and furniture manufacturing. It also owns Prescott-Metro Inn, a 3-star hotel with 102 rooms, in Kajang town. It also has two malls – Metro Point Complex and Plaza Metro Kajang – which enjoy high occupancy of 90% and 99% respectively. In addition, MKH also owns some office lots as well as a number of land plots in Kajang and Semenyih to lease to hypermarkets and fast-food restaurants. The property investment segment has been providing a steady and recurring income stream over the years. Meanwhile, the trading business complements its property development and construction businesses as the former supplies building materials to MKH’s subcontractors. The company also has furniture manufacturing facilities in Kunshan China, with most of the furniture produced exported to the US, Europe and Australia. However, both the top- and bottom-lines of the furniture segment have declined, no thanks to the deteriorating external environment as well as escalating raw material prices and labour costs.

## Property Development

**Unbilled sales of RM398.3m.** Currently, the company has five property development projects in Kajang and Semenyih, and one project each in Bangsar and Melawati. Having secured sales of RM204.8m in 1HFY12, MKH is targeting to post total new sales of RM500m in FY12. As at end-March 2012, MKH’s total unbilled sales stood at RM398.3m.

Figure 1: MKH’s ongoing and future property development projects

Projects	Land area (acres)	GDV (RMm)	Total value launched (RMm)	Take-up rate (%)	Unbilled sales (RMm)
<u>Ongoing projects:</u>					
Hillpark Homes	110	274.0	234.1	88%	59.7
Sentosa Heights	12	82.1	81.8	47%	10.1
Pelangi Semenyih 2	168.2	376.6	224.4	87%	81.2
Saville @ Melawati	2.65	189.7	189.5	80%	115.2
Kajang 2	273	2,610.0	116.6	85%	47.5
Saville @the Park, Bangsar	2.9	290.0	177.0	68%	68.2
Pelangi Seri Alam	45.8	201.0	57.6	34%	16.4
<u>Future projects:</u>					
Kajang Boulevard	3.9	172.0	-	-	-
Kajang East	132.0	600.0	-	-	-
Reko Avenue	6.0	180.0	-	-	-
<b>Total</b>		<b>4,975.4</b>	<b>1,081.0</b>		<b>398.3</b>

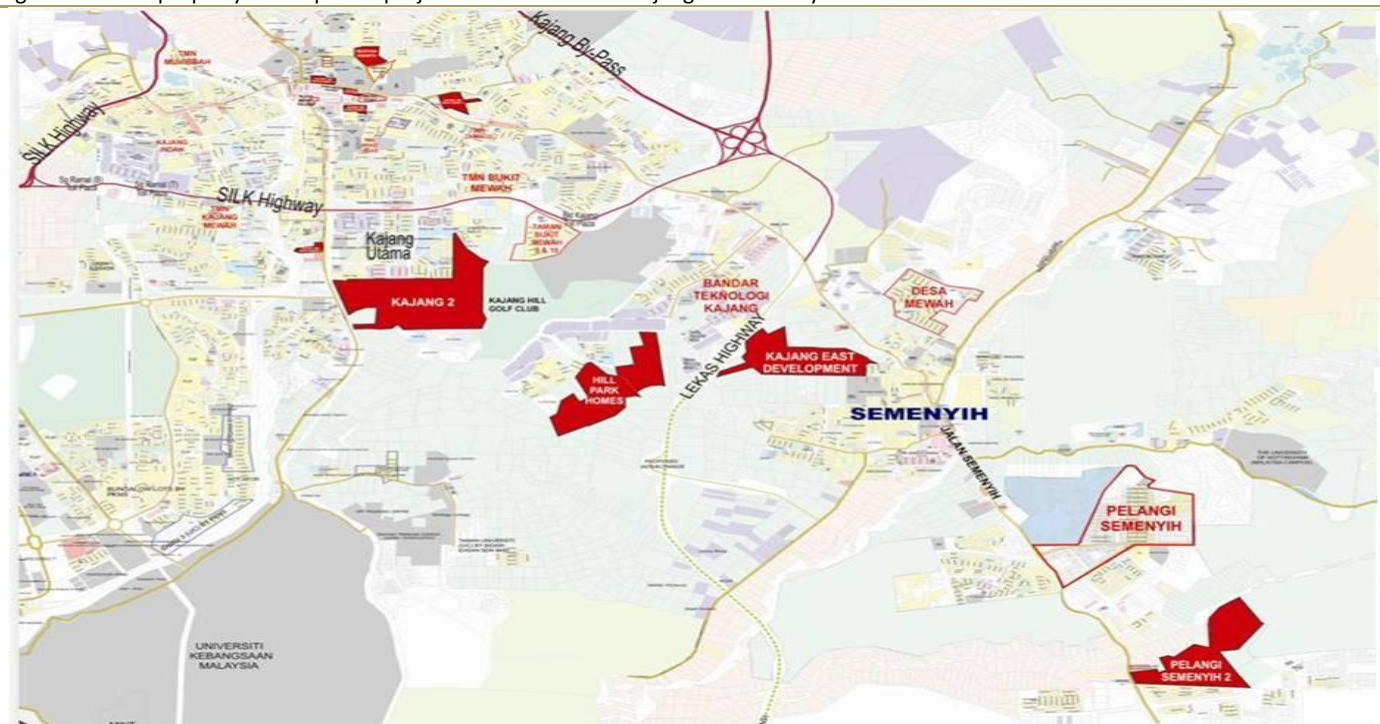
Source: Company, OSK Retail Research

**High-end projects to boost margin.** Besides its flagship projects in Kajang and Semenyih, MKH expects substantial contributions from its Saville@The Park project in Bangsar going forward. Due to its prime location, the first block of this high-end condominium project was well-received, achieving an impressive take-up rate of 60% within two months of its launch.

**Property Carnival to perk up sales.** MKH anticipates that its 31<sup>st</sup> Anniversary Property Carnival, which runs from March to Sept 2012, will boost the sales of its properties significantly. Towards this end, the event will involve customer loyalty programmes and buyer-get-buyer programmes as well as lower downpayments, SPAs and loan legal fee waivers, stamp duty fee waivers and giveaways.

**Turnkey construction contract for RM675m.** In April, the company clinched a turnkey construction contract from Puncak Alam Resources to develop 550 acres of land in Ijok, Kuala Selangor. This 5-year contract, which involves building residential and commercial units in Kuala Selangor, will allow MKH to generate additional revenue of about RM135m per year. We are incorporating this project’s earnings contribution into our FY13 forecast. We view this as an ad hoc project and do not expect similar contracts to appear in the next two years.

Figure 2: MKH's property development projects and landbank in Kajang and Semenyih



Source: Company

### Oil Palm Plantation

**Plantations to start contributing positively from FY13.** MKH acquired 15,942ha of land in East Kalimantan in 2008, on which it has planted about 15,000ha with oil palm, with over 3,200ha expected to reach maturity by end-FY12. MKH constructed a 60-tonne/hour palm oil mill in Nov 2011 that is strategically located about 35km from a jetty. The company's palm oil operations have entered the CPO production phase but have yet to achieve economies of scale. As such, we expect positive earnings contribution from the plantation division starting from FY13, during which more oil palm trees are anticipated to start maturing.

Figure 3 : MKH's oil palm plantation estate in East Kalimantan



Source: Company

## Livestock Business Divested

**Chopping off non-core business.** In Jan 2012, MKH disposed of its non-core livestock business for RM64m, at 4.4% premium to the consolidated net asset value of this business. All in, the company reaped a gain of RM29.2m after stripping out its total investment cost of RM34.8m. The move allowed MKH to focus on its core businesses of property development, property investment, construction, and oil palm plantations, as well as pare down its debt. MKH is now a Shariah-compliant stock, with less than 5% of its total revenue coming from non-Shariah compliant activities.

## 1HFY12 Results Review

**Commendable 1HFY12 results.** MKH's 1HFY12 results were commendable, with 1H earnings surging more than one-fold to RM32.4m on the back of a 108% jump in revenue to RM226.4m. This could be mainly attributed to the higher profit recognition for its ongoing and new projects, including Hill Park Home, Pelangi Semenyih 2, Saville@Melawati and Kajang 2. However, the group's overall earnings were crimped by the subpar performance of the plantation and manufacturing divisions. Its plantation business in East Kalimantan is still operating at sub-optimal levels, with only about 500ha of matured planted area currently, while its furniture manufacturing operation in China is beset with escalating raw material costs and softening demand.

Figure 4 : 1HFY12 quarter result

FYE Sep	1Q12	2Q12	Q-o-q chg	YTD FY12	YTD FY11	Y-o-y chg	Comments
Revenue	111.0	115.5	4.0	226.4	108.8	108.2	Higher sales on the back of higher percentage of profit recognition from ongoing and new projects from its property and construction divisions
Operating expenses	-75.9	-76.1	0.2	-152.0	-76.1	99.7	
Gross profit	35.1	39.4	12.3	74.5	32.7	127.8	
Other income	1.2	0.7	-38.9	1.9	3.1	-39.5	
Distribution expenses	-2.9	-3.7	25.6	-6.6	-2.5	167.3	
Administrative expenses	-8.3	-13.1	58.4	-21.4	-16.1	33.3	
Other expenses	-1.9	-1.2	-35.4	-3.1	-1.8	78.2	
EBIT	23.1	22.1	-4.6	45.2	15.5	191.1	Higher with improvements in all business segments, except plantation and manufacturing
Share of profit of an associate	1.2	2.2		3.4	6.8		
Finance costs	-3.6	-5.3	48.0	-8.9	-6.0	47.0	
Profit before tax	20.7	19.0	-8.3	39.7	16.3	143.4	
Taxation	-5.2	-4.4	-15.8	-9.5	-3.2	201.8	
Profit from discontinued operations	0.6	0.6	3.9	1.2	1.4	-14.1	
Minority interests	-0.4	-0.7	69.4	-1.0	0.1	-1887.9	
Net profit	16.5	15.9	-3.7	32.4	14.5	123.6	
Reported EPS (sen)	6.3	5.47	-12.5	11.15	4.98	123.9	
BIT margin (%)	20.8	19.1	-8.3	20.0	14.3	39.8	
NTA/ share (RM)	2.83	2.8		2.8	2.77		

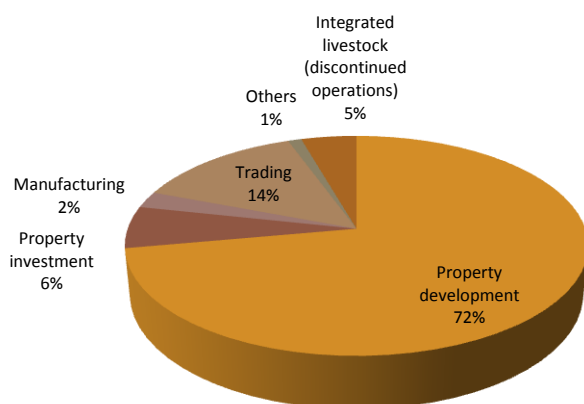
Source: Bursa Malaysia, OSK Retail Research

## Valuation &amp; Recommendation

**RM2.34 FV.** We have a fair value of RM2.34 on MKH, which pegs it at a 5-year average PER of 8.33x on its FY13 earnings. Our FY13 earnings are derived from its property development projects, relatively stable recurring income from property investment segment, RM13.5m earnings from the RM135m annual revenue recognition from the turnkey construction contract by assuming 10% margin, about RM8m earnings contribution from its plantation business and relatively flattish performance from its manufacturing business. MKH plans to maintain its 5 sen per share dividend for FY12, or a 22.2% dividend payout ratio, which translates into a dividend yield of 2.5%. Overall, we like MKH's: **(i)** prudent management **(ii)** its unbroken profit record since commencing business more than 20 years ago, **(iii)** its Shariah-compliant status after disposing of its livestock business, and **(iv)** strong earnings growth outlook, primarily driven by the growth of its core businesses of property development and oil palm plantation.

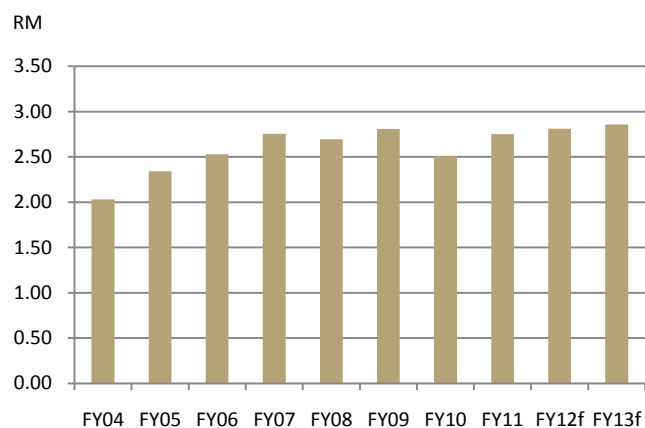
## Appendix : Financials

Figure 1: Revenue breakdown by business segment



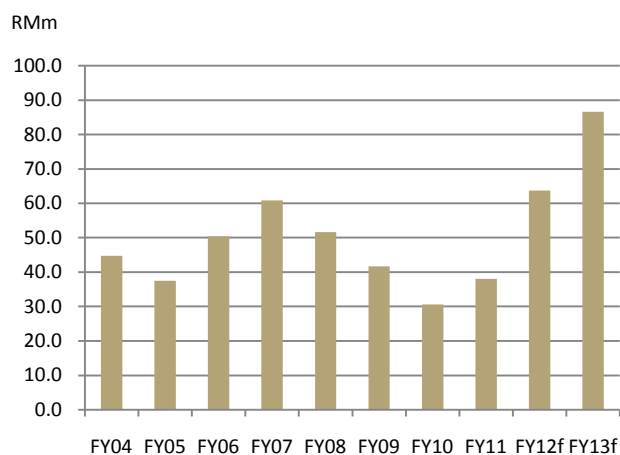
Source: Bursa Malaysia, OSK

Figure 2: NTA / share



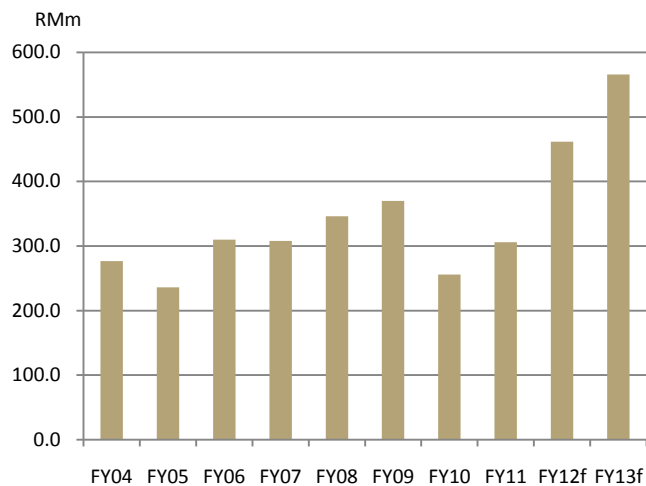
Source: Bursa Malaysia, OSK

Figure 3: Earnings trend



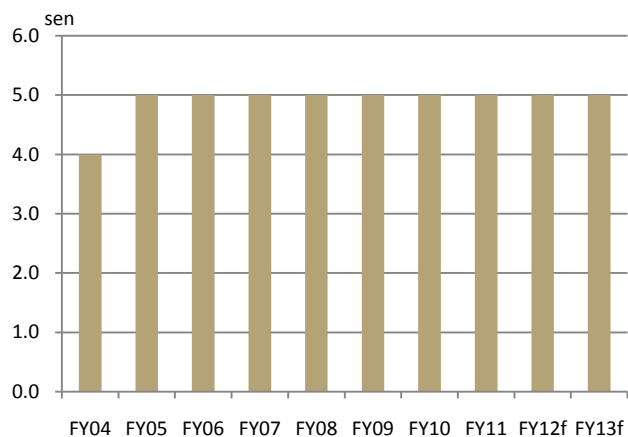
Source: Bursa Malaysia, OSK

Figure 4: Revenue trend



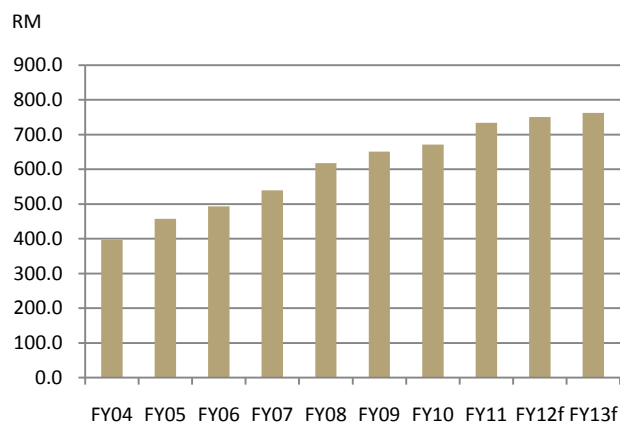
Source: Bursa Malaysia, OSK

Figure 5: Historical dividends



Source: Bursa Malaysia, OSK

Figure 6: Shareholders' equity



Source: Bursa Malaysia, OSK

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