



MKH Bhd

Property player with 15,942 HA of Plantation

Overweight

Fair value

RM3.00 (+49%)

Stock Data	
Price (RM)	2.01
Stock code	6114
Bloomberg Ticker	MKH MK
Listing	Main Market
Share Cap (RM mn)	264.59
Market Cap (RM mn)	585.00
No. of Shares	
Outstanding (mn)	291.00
Par value (RM)	1.00
52-wk high (RM)	2.18
52-wk low (RM)	1.14

Major shareholders

Chen Choy & Sons Realty	43.07
PBB GRP Off Fund	9.04
Chen Lok Loi	2.08

Financial Data	
12 month trailing PER (x)	10.90
BV per share (RM)	2.55
P/BV (x)	0.79
ROE (%)	5.41
Beta (x)	1.14
Altman Z Score	1.66
Dividend yield (%)	2.26

Relative Performance (%)	
1-month	-2.03
3-month	14.33
6-month	27.12
12-month	33.51
YTD	29.37

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Investment Highlights

Corporate Profile. MKH Berhad is mainly involved in property development and construction, providing building and investment holding and management services, trading activities, and plantations. It also offers recreational club operation, money lending and provision of insurance broking services. MKH was incorporated in Malaysia as a private limited company on 27 September 1979 under the name of Srijang Bena Sdn. Bhd. It was listed on the Main Market of the Bursa Malaysia on 18 October 1995.

Key beneficiaries of the MRT extension. MKH is among some of the key beneficiaries of the MRT extension. The Sungai Buloh-Kajang MRT line extends to the Kajang town area. Metro Kajang has most of its landbank around Kajang and Northern Semenyih, which is at the borders of Kajang.

Kajang the latest horizon for developers. Many developers are currently moving into Kajang, Semenyih and Bangi. Other developers with large presence includes Gamuda, Ndayu, Dijaya, SP Setia and Mah Sing.

Entry Push. Its entry has pushed prices and expectations of lifestyle for the area. Currently a new double storey typically ranges from RM500,000 to RM650,000 per unit. New Semi-ds are around or above the RM1mil range. These ranges normally are either gated, guarded, have facilities or a combination.

MKH edge. Typical land acquisition cost for MKH around Kajang has been around RM6 to RM7 range. Newer competitors have typically entered at around RM18 to RM25, for comparable locations. SP Setia had acquired for cheaper than the typical RM18 to RM25 range but is however very far and requires substantially more infra cost. This provides MKH with a larger pricing buffer and potentially higher margins.

Decent pipeline. MKH has a strong pipeline of unbilled sales totaling RM398.3mil. This is 2x FY11's revenue. Total remaining GDV is RM5.5bil which would grow MKH's revenue, earnings and provide a steady stream of projects.

Plantation land catalyst. MKH has 15,942 Ha of plantation land in Kalimantan, Indonesia. We see this as a huge catalyst for MKH. MKH has already planted most of the land during 2008 to 2011. Planted area as at March 2012 stands at about 15,000 Ha. We note that management had prior experience in plantations and are not new to the field.

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Palm Oil Mill. MKH has been construction a 60mt/hr palm oil mill which will commence production in 2QFY12. This is within the vicinity of MKH's planted landbank and would enhance its efficiency

Large contribution. The plantation land will gradually begin to mature and is expected to begin contribution in FY13. We estimate that the plantation land itself could potential double to triple current earnings over the next few years. The land would begin its golden age in about 4 years' time.

Recommendation. We have a mid-longer term target price of RM3.00 for MKH. We like MKH for its stability, large potential property margins and large growth catalysts. The group has also good recurring revenue from property investments and has the option to enhance this further if some of the development properties are kept.

Financial Highlights					
FYE 30 Sept	Unit	FY09	FY10	FY11	FY12F
Revenue	RM mn	370.2	289.2	306.0	343.5
Cost of sales	RM mn	(268.8)	(206.1)	(213.4)	(233.9)
Gross profit	RM mn	101.3	83.1	92.6	109.6
Other income	RM mn	12.2	17.7	15.4	12.8
Sales and marketing expenses	RM mn	(5.9)	(8.3)	(17.6)	(19.1)
Administrative expenses	RM mn	(35.7)	(38.4)	(36.2)	(33.8)
Other expenses	RM mn	(13.8)	(5.7)	(10.6)	(6.3)
Operating profit	RM mn	58.2	48.5	43.7	63.2
Finance costs	RM mn	(9.1)	(10.0)	(16.2)	(17.8)
Associates share	RM mn	8.7	3.4	15.4	15.4
Profit before tax	RM mn	57.7	41.9	42.9	60.8
Taxation	RM mn	(15.0)	(10.9)	(8.1)	(10.1)
Profit after tax	RM mn	42.7	30.9	34.8	50.7
Minority interests	RM mn	1.1	0.4	(0.3)	(1.5)
Net profit	RM mn	43.8	31.3	34.5	49.2
EPS	sen	15.05	10.75	11.84	16.90
Growth					
Revenue	%	7	(22)	6	12
Gross profit	%	10	(18)	11	18
PBI	%	(19)	(27)	2	42
Net profit	%	(15)	(29)	10	43
Margin					
Gross profit	%	27	29	30	32
Operating profit	%	16	17	14	18
PBI	%	16	14	14	18
Net profit	%	12	11	11	14

Source: Company, Analyst estimates