

Traders Spectrum

Malaysia Equity Research PP 15211/04/2013(031974)

25 Oct 2012

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MKH Berhad Multi-year re-rating story

Trading Buy

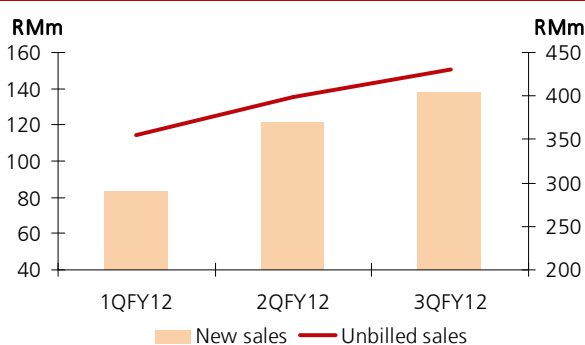
- Perching on an inflection point of multi-year re-rating
- Tremendous growth prospects from plantation business to catapult next wave of earnings growth
- Record high unbilled sales from property developments set to ride on MRT connectivity
- Fair value of RM3.00, implying 30% upside potential

Strong growth momentum. MKH (formerly known as Metro Kajang Holdings; share price: RM2.31, market cap: RM672m) is predominantly a property developer focusing in Kajang and Semenyih area with over 600 acres of land bank to capture the niche market from the neighbouring townships. Its 9MFY12 earnings has risen 124% y-o-y to RM47m, driven by successful key projects in Kajang, Semenyih and Bangsar which achieved a commendable 77% take-up rate collectively.

Best kept secret in plantation. We believe that this will be the next significant re-rating catalyst for MKH given its 15,942 ha plantation land in East Kalimantan with a 60MT/hour mill. MKH started venturing into the plantation business in 2008 and has since fully planted 15,000 ha (inclusive of 2,300 ha plasma development) which is impressive given the slow new planting progress seen at other upstream planters in Indonesia over the past few years. Its plantation business is still loss-making (RM12m operating loss for 9MFY12) due to high operational costs as only over 3,000 ha of trees are newly mature (started bearing fruit in 2HCY12). However, maiden positive earnings is expected in FY13 to kick-start strong contribution from plantation. Assuming a conservative RM5k profit/ha, its fully mature estates could contribute an additional RM65m to MKH's bottom-line by 2017 (vs RM38m profit in FY11).

Undemanding valuation. Annualising MKH's 9MFY12 EPS of 16.2sen, MKH is currently trading at 11x FY12 EPS and 0.9x FY12 BVPS. We believe the impending strong and sustained exponential growth coming from its plantation business will be the next growth driver for MKH. Our back-of-envelope calculation estimates that MKH is poised to achieve an impressive three-year earnings CAGR of 29%. Its property development segment also stands to be one of the largest beneficiaries of the MRT project. We believe that MKH is perched on an inflection point of a multi-year re-rating given the strong growth prospects driven by its core business of property development and plantation. We arrive at our indicative fair value at RM3.00, based on 11x FY13 EPS (+26% y-o-y).

Robust property sales outlook



Source: Company, DBS Vickers

Plantation to contribute significantly going forward

Plantation schedule

Year	area (ha)	Current Age	Status
2008	3,500	year 4	mature
2009	5,600	year 3	immature
2010	4,700	year 2	immature
2011	1,200	year 1	immature
Total	15,000		

Weighted average age: 2.76

Quah He Wei - 603-2711 2222 - hewei@hwangdbsvickers.com.my

Ed: OY

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Game-changer from MRT. Growth momentum from its property sales has been more than encouraging with its 9MFY12 sales of RM343m, boosting its unbilled sales to record high of RM431m (2.1x FY11 property revenue) as at Jun12. Despite concerns on slowing property sales in selected markets, MKH has achieved record unbilled sales this year which we attribute to the rising demand for mid-market housing, improved connectivity via MRT in its focus market, and growing affluence in Kajang/Semenyih areas. We believe that better accessibility with Greater KL with two proposed MRT stations in Kajang under the Sungai Buloh-Kajang MRT line will continue to underpin robust property sales going forward.

Strong property launch pipeline. MKH still has RM5bn of projects to be launched in the pipeline to sustain its earnings growth. The group is targeting RM500m new property sales in FY12 which we believe is highly probable as 86% of the target has been achieved in 9MFY12. Saville@the Park, Bangsar (RM290m GDV), Pelangi Semenyih 2 (RM377m GDV) and Pelangi Seri Alam (RM200m GDV) will help to further increase its unbilled sales as subsequent phases are rolled out progressively in the near term.

Undervalued Kajang land bank. MKH's 273 acres of freehold land in Kajang is its crown jewel given the escalating land prices in recent years, with established developers like SP Setia (RM13psf) and Dijaya (RM26psf) swooping up large tract of land bank in Kajang. We understand that MKH's cost of the land bank is relatively low at c.RM8psf, implying a strong margin for its future property launches. In addition, the two proposed MRT stations in Kajang (completion by 2016) will continue to draw interest from mass public in MKH's strategically-located properties in Kajang.

Investment properties to underpin recurring income. Plaza Metro Kajang (600k sf; 99% tenanted) and Metro Point Complex (357k sf; 92% tenanted) make up MKH's core investment properties portfolio where the properties generate healthy recurring profit for the group, contributing 14% of its 9MFY12 pre-tax profit. MKH also has four parcels of commercial land in Kajang and Semenyih leased to two hypermarkets and two fast-food restaurants.

Construction arm. MKH recently secured a five-year turnkey construction contract worth RM675m in Apr12 for the construction of residential and commercial units in Kuala Selangor. This massive contract illustrates MKH's competitiveness in the construction sector which could be utilised for its own property projects for better cost control and project management.

Potential disposal of non-core business. MKH has completed the disposal of its non-halal livestock farming business for RM64m cash (21x PE, 1.05x PB) in Jan12. Potentially, it could dispose of its furniture manufacturing business in China (RM20m net asset) which is hardly profitable (RM0.8m operating profit for 9MFY12) to raise money for its future expansion plan, especially for its property business. This could further improve its balance sheet which stands at a 48% net gearing as at Jun12.

Summary of projects (as at Mar12)

Existing projects	Location	Launched GDV RMm	Take-up %	Unbilled sales RMm
Hill Park Homes	Semenyih	234.1	87.5	59.7
Sentosa Heights	Kajang	81.8	46.8	10.1
Kajang 2	Kajang	116.6	85.4	47.5
Pelangi Semenyih 2	Semenyih	224.4	87.3	81.2
Saville@Melawati	Setapak	189.5	80.1	115.2
Saville@the Park, Bangsar	Pantai Dalam	177.0	38.5	68.2
Pelangi Seri Alam 1	Puncak Alam	57.6	33.5	16.4
				398.3

Source: Company, DBS Vickers

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Wong Ming Tek, Head of Research