

Malaysia Company Focus

MKH Bhd

Bloomberg: MKH MK | Reuters: METR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Feb 2014

BUY RM3.02 KLCI : 1,789.23

Price Target : 12-Month RM 5.40

Reason for Report : Company update

Potential Catalyst: Stronger property sales and CPO prices

DBSV vs Consensus: First to cover the stock

Analyst

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Price Relative



Forecasts and Valuation

FY Sep (RM m)	2013A	2014F	2015F	2016F
Turnover	688	773	977	1,271
EBITDA	183	195	267	365
Pre-tax Profit	136	171	241	339
Net Profit	103	135	190	267
Net Pft (Pre Ex.)	119	135	190	267
EPS (sen)	29.6	38.6	54.5	76.6
EPS Pre Ex. (sen)	34.1	38.6	54.5	76.6
EPS Gth (%)	15	31	41	41
EPS Gth Pre Ex (%)	63	13	41	41
Diluted EPS (sen)	29.6	38.6	54.5	76.6
Net DPS (sen)	7.5	10.0	10.0	15.0
BV Per Share (sen)	272.4	303.6	348.0	414.6
PE (X)	10.2	7.8	5.5	3.9
PE Pre Ex. (X)	8.9	7.8	5.5	3.9
P/Cash Flow (X)	9.7	5.1	7.4	5.4
EV/EBITDA (X)	8.0	7.2	5.2	3.7
Net Div Yield (%)	2.5	3.3	3.3	5.0
P/Book Value (X)	1.1	1.0	0.9	0.7
Net Debt/Equity (X)	0.4	0.3	0.3	0.2
ROAE (%)	12.0	13.4	16.7	20.1

Consensus EPS (sen): 38.0 55.0 77.0
Other Broker Recs: B: 2 S: 0 H: 0

ICB Industry : Real Estate

ICB Sector: Real Estate Investment & Services

Principal Business: MKH has long been recognised as an established township developer in Kajang/Semenyih and Greater Klang Valley. Its 16k ha oil palm estates in Indonesia has started to contribute significantly

Source: Company, HwangDBS Vickers, Bloomberg Finance L.P

Don't miss the boat

- **Exponential earnings growth (3-year CAGR of 31%) driven by property and plantation**
- **Potential listing of plantation operation upon full maturity of oil palm estates will unlock value**
- **Maintain BUY with RM5.40 SOP-derived TP**

Above the rest. Our recent meeting with the management reinforced our conviction that MKH is on the horizon of a multi-year rerating. Contrary to market expectation of a slowing property market, MKH's affordable housing projects continue to gain traction among its buyers which are typically genuine homebuyers/upgraders. Its RM890m launch pipeline for FY14 includes the impact of recent cooling measures by the federal government, and is expected to further boost its record high unbilled sales of RM503m (as at Sep13). Meanwhile, cost pressures should be mitigated by its established track record with internal project management expertise and building materials trading arm.

Not resting on laurels. Coming from a low base, MKH's plantation profits will be growing at an astounding 69% CAGR over FY13-16F. Nevertheless, MKH is still seeking more plantation land in Indonesia, potentially emulating the resounding success of its 14.4k fully-planted oil palm estates (16MT/ha FFB yield despite a young age profile of c.4 years). The management is confident of its well-managed estates hitting 30MT/ha yields upon full maturity. In the longer term, MKH may float its plantation operation to unlock value for shareholders. MKH's current valuation implies its plantation business (>RM1bn market value) is accorded zero value, which is unjustified.

High conviction pick. MKH is a rare gem that offers both deep value and strong earnings growth. Its current bargain valuation at 5.5x PE is an attractive entry level given visible, exponential growth potential. The solid earnings delivery will be a strong rerating catalyst as investors start to see value in the stock.

At A Glance

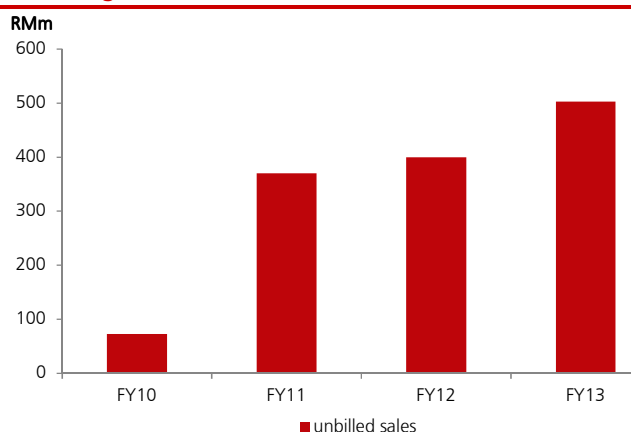
Issued Capital (m shrs)	349
Mkt. Cap (RMm/US\$m)	1,055 / 315
Major Shareholders	
Chen Choy & Sons Realty (%)	43.1
Public Bank Grp Off Fund (%)	9.8
Free Float (%)	47.1
Avg. Daily Vol.('000)	1,224

Poised to scale greater heights

Some of the key questions raised by fund managers/clients included the potential impact of weaker sentiment in the property market. The management clarified that its launch pipeline for FY14 valued at RM893m (vs RM581m sales in FY13) already takes into consideration a relatively slower market this year after recent cooling measures.

In fact, MKH's recent sales have been encouraging, thanks to its focus on the affordable housing segment. Its attractively priced properties in established townships are likely to gain traction as its target market comprises mainly genuine first-time homebuyers and upgraders. Meanwhile, earnings visibility will be sustained by record-high unbilled sales of RM503m (as at Sep13) – a 7-fold increase from only RM73m in FY10.

Record high unbilled sales



Source: HwangDBS Vickers, Company

The management attributes the strong interest in its Kajang/Semenyih properties to its affordable products that offer a quality lifestyle preferred by the increasingly discerning homebuyers. There will be improved connectivity with two MRT stations under construction. Kajang/Semenyih has also gained traction in recent years as a choice residential location, as evident in the strong population growth driven by urban migration.

MKH has enough land bank to last up to six years but is always hungry for good land bank. It is continuously seeking to buy land to ensure long-term earnings.

Getting plantation business for free

The market has failed to appreciate the strong growth potential offered by MKH's plantation business. There could be a substantial rerating when its young oil palms start to mature and deliver strong earnings. Coming from a low base, MKH's plantation profit will be growing at an astounding 69% CAGR over FY13-16F. We expect plantation contribution to increase to 29% and 39% of Group earnings in FY14 and FY15, respectively. It is the cheapest plantation proxy at 5x PE – an undeserving 70% discount to its small-mid-cap peers' average of 16x.

To recap, MKH ventured into oil palm cultivation in Indonesia in Jan 2008 after acquiring 15,942 ha of plantation land in East Kalimantan (35 years + 25 years lease, renewable for another 30 years). Within a short span of four years, by 2011, MKH had managed to achieve 14.4k ha of planted area with a 60MT/hour palm oil mill in full operation since Oct11. The plantation division posted maiden profits in FY13, and earnings are projected to grow exponentially at 31% (3-year) CAGR when the trees enter the strongest growth cycle.

MKH is also looking to expand its plantation land bank by acquiring another 20k ha of land in Kalimantan. Talks are ongoing and it could take a few more months before the deal is finalised. This deal will help to sustain its long-term growth prospects. The management may consider spinning off its plantation business via an IPO upon full maturity of the young trees, to unlock value for its shareholders. At current valuation, the market is assigning zero value to its plantation business which we estimate is worth more than RM1bn. In short, MKH's shareholders are getting the plantation business for free!

There have been concerns over forex losses arising from its US\$80m borrowings for the Indonesian plantation business. This is actually common among upstream plantation operators in Indonesia, which will more often than not suffer unrealised forex losses due to unfavourable fluctuations in the IDR/USD rate. We take comfort there will not be any major capex for the estates from here on as the trees have started to contribute strongly to the Group's bottom line.

SOP valuation

SOP	RMm	RM/share	Remarks
Shareholders fund	442	1.27	Exclude plantation, land bank
Land bank valuation	524	1.50	35% discount to RNAV
Plantation	1,015	2.91	95% stake; DCF (WACC 8.7%, TG 1.5%)
	1,982	5.67	
Warrant proceeds	66	-	conversion@RM2.26
Total	2,047	5.41	Fully diluted basis
TP 5.40			

Source: HwangDBS Vickers

Property land bank RNAV

Project	Location	Land (acre)	Tenure	market value	
				RMpsf	RMm
Kajang 2	Kajang	220	FH	25	234.1
Hill Park Shah Alam	Puncak Alam	558	LH	6.7	159.1
MKH Avenue I	Kajang city	3	LH	120	15.3
MKH Avenue II	Kajang city	15	LH	80	51.1
Pelanggi Heights	Pajam	45	FH	10	19.2
Hill Park Homes 3	Semenyih	28	FH	20	23.8
Kajang East	Semenyih	138	FH	20	117.5
Future projects					
Hill Park Homes 4	Semenyih	75	FH	20	63.8
Saville@Kajang	Kajang city	6	FH	60	15.3
MKH World	Serdang	12	FH	150	76.6
MKH City	Kajang city	6	LH	120	30.6
Total		1,106			806

Source: HwangDBS Vickers, Company

Plantation DCF valuation

DCF	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Operating profit	55.9	103.5	137.4	159.1	173.4	180.9	184.4	184.1	182.0	178.4
(-) tax	(14.0)	(25.9)	(34.4)	(39.8)	(43.3)	(45.2)	(46.1)	(46.0)	(45.5)	(44.6)
Operating profit after tax	41.9	77.7	103.1	119.3	130.0	135.7	138.3	138.1	136.5	133.8
(+) depreciation	11.4	11.9	12.5	13.2	13.8	14.5	15.2	16.0	16.8	17.6
Operating cash flow	53.3	89.6	115.6	132.5	143.8	150.2	153.6	154.1	153.3	151.5
(-) capex	(50.0)	(21.2)	(21.8)	(22.5)	(23.2)	(23.9)	(24.6)	(25.3)	(26.1)	(26.9)
Free cash flow	3.3	68.4	93.8	110.0	120.7	126.3	129.0	128.8	127.2	124.6
NPV	620.3									
PV of residual value	748.4									
Firm value	1,368.7									
(-) borrowings	300.0									
Equity value	1,068.7									

Source: HwangDBS Vickers, Company

Company Focus

MKH Bhd

Key Assumptions

FY Sep	2011A	2012A	2013A	2014F	2015F	2016F
CPO ASP (RM/MT)				2,366.5	2,486.3	2,608.5
FFB production (MT)				271,681.3	340,780.5	382,445.0
property sales (RMm)				640.0	736.0	990.0

Sensitivity Analysis

	2014
CPO price +/- 5%	Net Profit +/- 4%
Property sales +/- 5%	Net Profit +/- 1%

Segmental Breakdown

FY Sep	2011A	2012A	2013A	2014F	2015F	2016F
Revenues (RM m)						
Property development & construction	203	391	476	498	610	863
Hotel & property investment	32	32	32	34	36	38
Trading	59	63	67	72	78	85
Manufacturing	11	13	9	9	10	10
Plantation	0	45	101	159	244	276
Total	306	545	688	773	977	1,271
EBIT (RM m)						
Property development & construction	26	82	115	115	139	202
Hotel & property investment	13	13	15	15	16	17
Trading	3	4	4	5	5	6
Manufacturing	0	1	0	0	0	0
Plantation	(9)	0	29	56	104	137
Total	34	101	163	192	264	362
EBIT Margins (%)						
Property development & construction	12.6	21.0	24.2	23.2	22.8	23.4
Hotel & property investment	41.8	41.4	46.9	45.0	45.0	45.0
Trading	5.9	7.1	6.7	7.0	7.0	7.0
Manufacturing	4.1	8.2	(2.3)	1.0	1.5	1.8
Plantation	N/A	0.5	28.3	35.1	42.5	49.7
Total	11.1	18.6	23.7	24.8	27.0	28.5

Riding on two MRT stations in Kajang

Exponential growth driven by maturing trees

Low land cost advantage

Source: Company, HwangDBS Vickers

Income Statement (RM m)

FY Sep	2011A	2012A	2013A	2014F	2015F	2016F
Revenue	306	545	688	773	977	1,271
Cost of Goods Sold	(213)	(362)	(441)	(427)	(550)	(737)
Gross Profit	93	183	247	346	427	535
Other Opng (Exp)/Inc	(58)	(90)	(90)	(154)	(163)	(173)
Operating Profit	35	93	158	192	264	362
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	15	15	11	3	3	3
Net Interest (Exp)/Inc	(16)	(22)	(17)	(23)	(26)	(26)
Exceptional Gain/(Loss)	12	14	(16)	0	0	0
Pre-tax Profit	46	100	136	171	241	339
Tax	(8)	(27)	(29)	(36)	(51)	(71)
Minority Interest	0	2	(3)	0	0	(1)
Preference Dividend	0	0	0	0	0	0
Net Profit	38	75	103	135	190	267
Net Profit before Except.	26	61	119	135	190	267
EBITDA	56	114	183	195	267	365

Growth

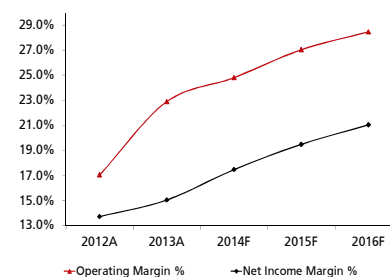
Revenue Gth (%)	19.6	78.2	26.2	12.3	26.4	30.1
EBITDA Gth (%)	40.2	105.6	59.8	6.7	37.3	36.6
Opg Profit Gth (%)	10.1	169.0	69.7	21.8	37.8	37.0
Net Profit Gth (%)	24.3	96.3	38.5	30.5	41.0	40.6

Margins & Ratio

Gross Margins (%)	30.3	33.5	36.0	44.7	43.7	42.0
Opg Profit Margin (%)	11.3	17.0	22.9	24.8	27.0	28.5
Net Profit Margin (%)	12.4	13.7	15.0	17.5	19.5	21.0
ROAE (%)	5.4	9.9	12.0	13.4	16.7	20.1
ROA (%)	3.3	5.4	6.2	7.0	9.0	11.2
ROCE (%)	2.7	5.4	8.4	9.0	11.5	14.2
Div Payout Ratio (%)	26.1	14.6	25.3	25.9	18.4	19.6
Net Interest Cover (x)	2.1	4.3	9.2	8.2	10.1	13.9

Source: Company, HwangDBS Vickers

Margins Trend



Margins to be lifted by
plantation business

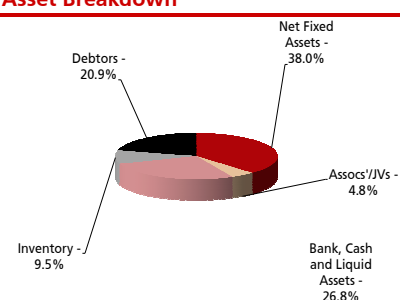
Company Focus

MKH Bhd

Balance Sheet (RM m)

FY Sep	2011A	2012A	2013A	2014F	2015F	2016F
Net Fixed Assets	124	163	163	243	323	403
Invt in Associates & JVs	38	50	28	31	34	37
Other LT Assets	718	801	976	1,026	1,048	1,069
Cash & ST Invt	63	110	123	172	179	237
Inventory	12	43	41	61	77	100
Debtors	93	94	113	134	169	220
Other Current Assets	232	233	407	336	396	488
Total Assets	1,279	1,495	1,851	2,003	2,226	2,555
ST Debt	133	193	107	107	107	107
Creditor	74	140	182	198	251	326
Other Current Liab	43	26	40	67	82	102
LT Debt	243	307	415	415	415	415
Other LT Liabilities	52	55	152	152	152	152
Shareholder's Equity	734	775	951	1,060	1,216	1,448
Minority Interests	0	(2)	3	3	4	4
Total Cap. & Liab.	1,279	1,495	1,851	2,003	2,226	2,555
Non-Cash Wkg. Capital	220	204	339	266	310	380
Net Cash/(Debt)	(314)	(391)	(399)	(350)	(343)	(285)
Debtors Turn (avg days)	99.0	62.6	54.9	58.2	56.6	55.9
Creditors Turn (avg days)	122.8	109.7	137.6	162.4	149.1	142.9
Inventory Turn (avg days)	24.7	28.0	35.8	43.4	45.7	43.8
Asset Turnover (x)	0.3	0.4	0.4	0.4	0.5	0.5
Current Ratio (x)	1.6	1.3	2.1	1.9	1.9	2.0
Quick Ratio (x)	0.6	0.6	0.7	0.8	0.8	0.9
Net Debt/Equity (X)	0.4	0.5	0.4	0.3	0.3	0.2
Net Debt/Equity ex MI (X)	0.4	0.5	0.4	0.3	0.3	0.2
Capex to Debt (%)	27.0	18.1	33.4	15.3	15.3	15.3

Asset Breakdown



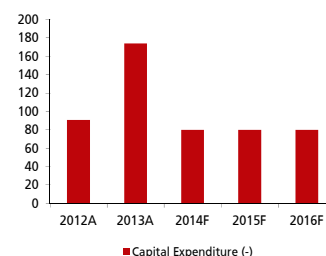
42% net gearing as at Sep13

Source: Company, HwangDBS Vickers

Cash Flow Statement (RM m)

FY Sep	2011A	2012A	2013A	2014F	2015F	2016F
Pre-Tax Profit	46	100	136	171	241	339
Dep. & Amort.	6	7	14	0	0	0
Tax Paid	(14)	(29)	(36)	(9)	(36)	(51)
Assoc. & JV Inc/(loss)	(15)	(15)	(11)	(3)	(3)	(3)
Chg in Wkg.Cap.	(23)	(53)	(6)	46	(59)	(90)
Other Operating CF	(5)	9	13	0	0	0
Net Operating CF	(5)	20	109	205	143	195
Capital Exp.(net)	(102)	(91)	(174)	(80)	(80)	(80)
Other Invs.(net)	(58)	(51)	(24)	(50)	(21)	(22)
Invs in Assoc. & JV	0	0	0	0	0	0
Div from Assoc & JV	2	0	34	0	0	0
Other Investing CF	2	57	0	0	0	0
Net Investing CF	(155)	(86)	(164)	(130)	(101)	(102)
Div Paid	(9)	(10)	(13)	(26)	(35)	(35)
Chg in Gross Debt	127	112	49	0	0	0
Capital Issues	0	0	52	0	0	0
Other Financing CF	2	0	0	0	0	0
Net Financing CF	120	102	88	(26)	(35)	(35)
Currency Adjustments	13	11	(20)	0	0	0
Chg in Cash	(27)	47	13	49	7	58
Opg CFPS (sen)	6.8	24.8	33.1	45.5	57.9	81.7
Free CFPS (sen)	(40.3)	(24.5)	(18.6)	35.8	18.1	33.0

Capital Expenditure



For plantation business

Source: Company, HwangDBS Vickers

Quarterly / Interim Income Statement (RM m)

FY Sep	3Q2011	4Q2011	1Q2012	2Q2012	3Q2012	4Q2012
Revenue	139	180	148	137	185	218
Cost of Goods Sold	(92)	(119)	(92)	(92)	(115)	(142)
Gross Profit	47	61	56	45	70	76
Other Oper. (Exp)/Inc	(28)	(34)	(17)	(20)	(22)	(32)
Operating Profit	19	27	40	25	48	45
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	6	5	10	0	0	1
Net Interest (Exp)/Inc	(6)	(6)	(4)	(5)	(6)	(2)
Exceptional Gain/(Loss)	0	13	(1)	0	2	(17)
Pre-tax Profit	20	38	45	20	44	27
Tax	(6)	(12)	(9)	(5)	(12)	(2)
Minority Interest	1	0	(2)	(2)	0	0
Net Profit	15	27	34	13	32	24
Net profit bef Except.	15	14	35	13	30	41
EBITDA	26	32	50	25	48	45

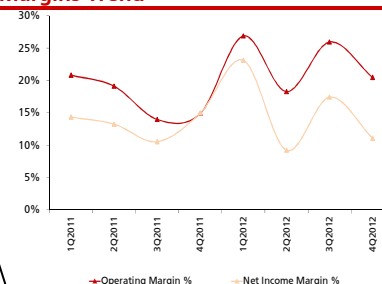
Growth

Revenue Gth (%)	20.4	29.4	(17.8)	(7.2)	35.1	17.5
EBITDA Gth (%)	5.6	24.0	57.8	(49.5)	88.8	(5.6)
Opg Profit Gth (%)	(11.9)	38.0	48.2	(36.9)	91.6	(7.3)
Net Profit Gth (%)	(4.1)	83.6	27.0	(63.0)	155.0	(25.2)

Margins

Gross Margins (%)	34.1	34.0	38.1	32.7	37.8	35.0
Opg Profit Margins (%)	14.0	14.9	26.9	18.3	26.0	20.5
Net Profit Margins (%)	10.6	15.0	23.1	9.2	17.4	11.1

Margins Trend



Record high sales

Largely due to forex losses arising from USD borrowings for Indonesian plantation business

Boosted by plantation contribution

Quarterly Segmental Breakdown

FY Sep	3Q2011	4Q2011	1Q2012	2Q2012	3Q2012	4Q2012
Revenues (RM m)						
Property development & construction	103	116	102	87	120	167
Hotel & property investment	8	10	8	8	9	8
Trading	16	15	15	16	20	16
Manufacturing	4	3	3	2	3	2
Plantation	8	35	19	23	33	25
Others	0	0	1	1	0	0
Total	139	180	148	137	185	218

Segmental EBIT (RM m)

Property development & construction	26	16	28	14	30	42
Hotel & property investment	3	3	4	4	5	2
Trading	1	1	1	1	1	1
Manufacturing	1	0	0	(0)	0	(0)
Plantation	(7)	12	5	6	9	8
Others	(5)	(6)	1	(0)	(0)	6
Total	19	27	39	25	46	60

Source: Company, HwangDBS Vickers

DBSV recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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