

Company Focus

MKH Bhd

Bloomberg: MKH MK | Reuters: METR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

17 Mar 2014

BUY RM4.28 KLCI : 1,805.12

Price Target : 12-Month RM 5.40

Reason for Report : Post-roadshow 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)	14.5	11.1	7.9	5.6
PE Pre Ex. (X)	12.5	11.1	7.9	5.6
P/Cash Flow (X)	13.7	7.3	10.4	7.7
EV/EBITDA (X)	10.4	9.5	6.9	4.9
Net Div Yield (%)	1.8	2.3	2.3	3.5
P/Book Value (X)	1.6	1.4	1.2	1.0
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: 3 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

Up the ante

- **Strong and sustainable property sales driven by robust demand for affordable homes**
- **Plantation earnings could surprise on the upside with bullish CPO prices and exponential FFB volume growth**
- **Reiterate high-conviction BUY with RM5.40 TP**

The best is yet to come. Affordable homes will remain MKH's bread-and-butter. Demand for properties in this segment remains overwhelming despite generally weaker sentiment in the property market. MKH's property sales have accelerated this year to RM280m (by end-Feb), suggesting they will meet their FY14 target of RM800m (vs RM580m in FY13) supported by RM912m worth of planned launches. Their distinct advantage - low land cost in Kajang/Semenyih of c.RM9psf vs ~RM25psf entry cost for peers - will allow for more flexibility in product mix and pricing as urban migration and MRT connectivity continue to drive demand for affordable housing in the area.

Reaping the harvest. Bullish CPO prices - RM2,900/MT currently - suggest upside potential to our conservative projection of RM2,570/MT for FY14. Every 5% increment over our assumption would lift our FY14F earnings by 4%. As it is, we forecast plantation earnings will grow at an astounding 69% CAGR over FY13-16F, largely premised on 20% CAGR in FFB production, the highest in our Malaysian plantation universe. Meanwhile, management is seeking more plantation land to grow the segment and eventually unlock value via a public listing when the estates reach full maturity by 2017.

High conviction BUY. MKH is a rare gem that offers both deep value and strong earnings growth. Although the share price has surged 58% since our initiation report on 2 Jan 2014, current valuation at 8x FY15 EPS remains an attractive entry level given its visible and exponential growth potential. Solid earnings delivery in subsequent quarters will be a strong rerating catalyst.

At A Glance

Issued Capital (m shrs)	349
Mkt. Cap (RMm/US\$m)	1,495 / 456
Major Shareholders	
Chen Choy & Sons Realty (%)	43.1
Public Bank Grp Off Fund (%)	9.8
Free Float (%)	47.1
Avg. Daily Vol.('000)	1,655

FAQs at roadshow

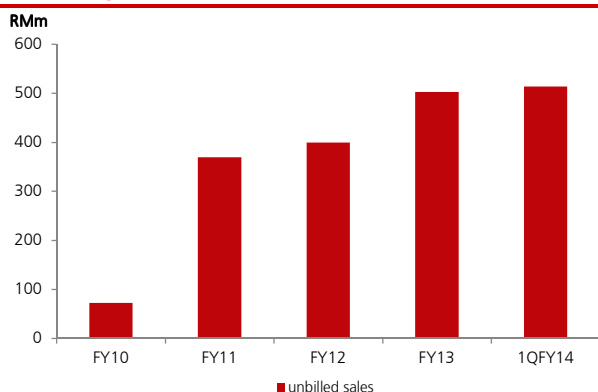
We hosted MKH on a one-day non-deal roadshow in Singapore. Below are some of the key questions raised by investors at the meetings that were addressed by the management.

How is MKH different from other property developers?

What sets MKH apart from the rest is its low land cost and established brand name in Kajang/Semenyih. With these factors, the Group is strongly positioned against competitors rushing to Kajang/Semenyih in recent years as affordability becomes a key issue in the city centre.

MKH's property business has relatively low gearing thanks to the low cost of land acquired several years back. This will give the company flexibility in pricing and launch schedules. Affordable housing forms the core of MKH's products and is likely to underpin strong sales going forward.

Record high unbilled sales



Source: HwangDBS Vickers, Company

Will resources be a constraint if MKH wants to roll out more property projects?

MKH has no problem supplying more houses to the market as long as there is demand for the products. The Group has its own project management team to supervise construction progress. If the Group's track record is anything to go by, this issue is not a concern for MKH.

How will MKH grow recurring income from investment properties?

MKH is looking to grow the recurring income base with pockets of commercial land which are ripe for development. For instance, the 5.6-acre land for MKH City (RM500m GDV) which is within walking distance to the Kajang MRT station is intended to hold a shopping mall, hotel and office tower with 1m sf GFA. MKH will probably retain some of the properties to further boost its investment properties portfolio. There will also be some investment properties at the flagship development, Kajang 2. Also, certain land in Kajang/Semenyih under long-term leases to fast-food restaurants and hypermarkets are ripe for commercial development as the townships mature.

Will MKH expand the property development business to Penang or Iskandar Malaysia?

The focus is currently still the Klang Valley, although the Group has looked into opportunities in Penang and Iskandar Malaysia. It is unlikely that MKH will go into Iskandar Malaysia as luxurious high-rise condominiums are not MKH's niche products. Meanwhile, Penang mainland could be a target market for MKH depending on the opportunities, as land prices there have skyrocketed over the past few years.

Are there concerns about slowing property sales following the cooling measures imposed by the Malaysian government?

Property sales have been encouraging over the past few years. While the cooling measures have dented sentiment to a certain extent, MKH has started to see some pick-up in sales this year. Affordable houses are likely to do well as property prices in prime areas are getting increasingly beyond the reach of the masses. Within Klang Valley, property demand has continued to outpace supply, which means sales should remain robust.

MKH's property buyers are mostly first-time house buyers/upgraders who are unlikely to be involved in property speculation. Also, MKH has never offered the developer interest-bearing scheme, suggesting more sustainable property sales vis-à-vis peers.

What is the land-banking strategy?

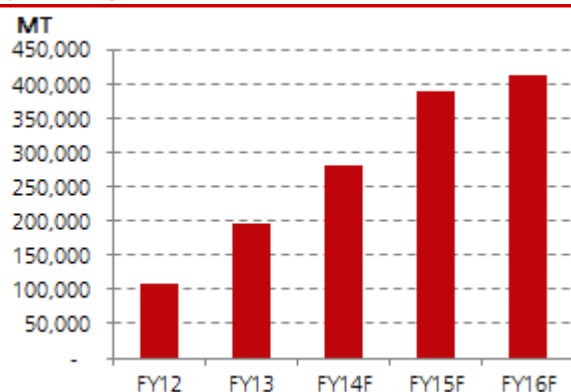
MKH has been constantly looking for quality land bank. Apart from buying land directly from the owners, MKH also considers JVs with landowners/government to replenish land bank.

Why the decision to venture into plantation in 2008?

This may be a new venture for MKH but it is a sector that is close to the Chen family's heart. The family was involved in the plantation business as far back as 40 years ago before disposing the business. Nevertheless, MKH chairman, Tan Sri Alex Chen has always been passionate about the business, which has led to the involvement in this relatively lucrative business in East Kalimantan when the opportunity arose in 2008.

Will MKH consider a listing to unlock value of the plantation business?

This is an option that MKH has considered. However, MKH has to grow the plantation business first. MKH plans to double the plantation land bank so that the division will be sizeable enough to be a standalone business unit. MKH is seeking to acquire more plantation land, although it is getting more expensive to buy quality plantation land in Indonesia.

3-year FFB production CAGR of 20%

Source: HwangDBS Vickers, Company

Company Focus

MKH Bhd

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

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

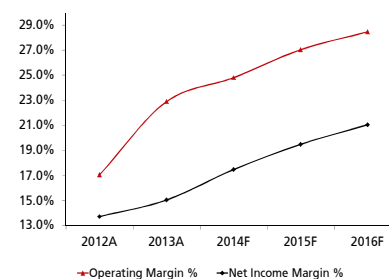
Revenue Gth (%)	19.6	78.2	26.2	12.3	26.4	30.1
EBITDA Gth (%)	40.2	105.6	59.8	6.7	37.3	36.6
Opg Profit Gth (%)	10.1	169.0	69.7	21.8	37.8	37.0
Net Profit Gth (%)	24.3	96.3	38.5	30.5	41.0	40.6

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

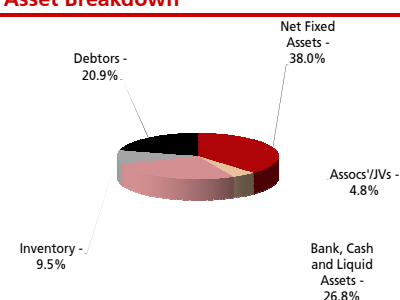


Margins to be lifted by
plantation business

Balance Sheet (RM m)

FY Sep	2011A	2012A	2013A	2014F	2015F	2016F
Net Fixed Assets	124	163	163	243	323	403
Invts in Associates & JVs	38	50	28	31	34	37
Other LT Assets	718	801	976	1,026	1,048	1,069
Cash & ST Invts	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



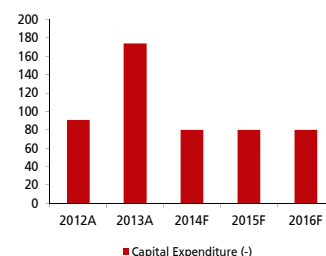
50% net gearing as at Dec13

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



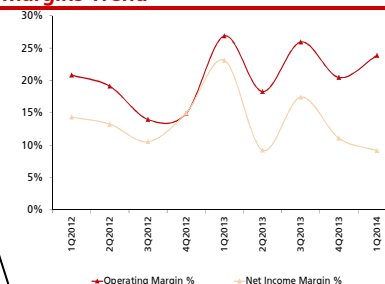
For plantation business

Source: Company, HwangDBS Vickers

Quarterly / Interim Income Statement (RM m)

FY Sep	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014
Revenue	180	148	137	185	218	182
Cost of Goods Sold	(142)	(92)	(92)	(115)	(142)	(118)
Gross Profit	61	56	45	70	76	64
Other Oper. (Exp)/Inc	(34)	(17)	(20)	(22)	(32)	(21)
Operating Profit	27	40	25	48	45	44
Other Non Opg (Exp)/Inc	0	0	0	0	0	0
Associates & JV Inc	5	10	0	0	1	1
Net Interest (Exp)/Inc	(6)	(4)	(5)	(6)	(2)	(5)
Exceptional Gain/(Loss)	13	(1)	0	2	(17)	(15)
Pre-tax Profit	38	45	20	44	27	25
Tax	(12)	(9)	(5)	(12)	(2)	(6)
Minority Interest	0	(2)	(2)	0	0	(2)
Net Profit	27	34	13	32	24	17
Net profit bef Except.	14	35	13	30	41	32
EBITDA	32	50	25	48	45	45

Margins Trend



Record high sales

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

Boosted by plantation contribution

Growth

Revenue Gth (%)	29.4	(17.8)	(7.2)	35.1	17.5	(16.2)
EBITDA Gth (%)	24.0	57.8	(49.5)	88.8	(5.6)	(1.4)
Opg Profit Gth (%)	38.0	48.2	(36.9)	91.6	(7.3)	(2.3)
Net Profit Gth (%)	83.6	27.0	(63.0)	155.0	(25.2)	(30.8)

Margins

Gross Margins (%)	34.0	38.1	32.7	37.8	35.0	35.3
Opg Profit Margins (%)	14.9	26.9	18.3	26.0	20.5	23.9
Net Profit Margins (%)	15.0	23.1	9.2	17.4	11.1	9.2

Quarterly Segmental Breakdown

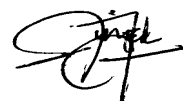
FY Sep	4Q2012	1Q2013	2Q2013	3Q2013	4Q2013	1Q2014
Revenues (RM m)						
Property development & construction	116	102	87	120	167	125
Hotel & property investment	10	8	8	9	8	8
Trading	15	15	16	20	16	12
Manufacturing	3	3	2	3	2	3
Plantation	35	19	23	33	25	34
Others	0	1	1	0	0	0
Total	180	148	137	185	218	182

Segmental EBIT (RM m)

Property development & construction	16	28	14	30	42	27
Hotel & property investment	3	4	4	5	2	4
Trading	1	1	1	1	1	1
Manufacturing	0	0	(0)	0	(0)	0
Plantation	12	6	6	9	8	16
Others	(8)	0	(1)	(2)	5	2
Total	25	40	24	44	59	50

Source: Company, HwangDBS Vickers

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