

Malaysia Company Focus

MKH Bhd

Bloomberg: MKH MKI Reuters: METR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

1 Dec 2014

BUY RM3.10 KLCI : 1,820.89

Price Target :12-Month RM5.40 (Prev RM5.70)

Reason for Report :4QFY14 results, TP revision

Potential Catalyst: Higher property sales and CPO prices

Where we differ: First to cover

Analyst

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Result Summary

FY Sep (RM m)	4Q 2014	4Q 2013	3Q 2014	yoy % chg	qoq % chg
P&L Items					
Turnover	223.6	217.9	212.3	2.6	5.3
Gross Profit	67.6	76.3	72.8	(11.4)	(7.2)
Opg Profit	54.1	60.3	50.0	(10.4)	8.2
EBITDA	54.5	61.0	50.2	(10.6)	8.6
Net Profit	23.2	24.2	11.6	(3.8)	100.3
Other Data					
Gross Margin (%)	30.2	35.0	34.3		
Opg Margin (%)	24.2	27.7	23.5		
Net Margin (%)	10.4	11.1	5.5		

Financial Summary

FY Sep (RM m)	2014A	2015F	2016F	2017F
Turnover	807	850	1,178	1,155
Operating Profit	199	228	322	325
EBITDA	220	249	346	351
Net Pft (Pre Ex.)	103	134	187	200
EPS (sen)	24.4	31.9	44.6	47.7
EPS Pre Ex. (sen)	24.5	31.9	44.6	47.7
EPS Gth (%)	(1)	31	40	7
EPS Gth Pre Ex (%)	(14)	30	40	7
Net DPS (sen)	8.0	10.0	10.0	12.5
BV Per Share (sen)	246.3	270.2	304.8	342.5
PE (X)	12.7	9.7	7.0	6.5
PE Pre Ex. (X)	12.6	9.7	7.0	6.5
EV/EBITDA (X)	7.9	6.2	4.4	4.1
Net Div Yield (%)	2.6	3.2	3.2	4.0
P/Book Value (X)	1.3	1.1	1.0	0.9
Net Debt/Equity (X)	0.4	0.2	0.1	0.0
ROAE (%)	10.3	12.4	15.5	14.7

At A Glance

Issued Capital (m shrs)	419
Mkt. Cap (RMm/US\$m)	1,300 / 383
Avg. Daily Vol.('000)	466

ICB Industry :Real Estate

ICB Sector: Real Estate Investment & Services

Principal Business:MKH is an established township developer in Kajang/Semenyih and Greater Klang Valley. Its 16k ha of oil palm estates in Indonesia have started to contribute significantly.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Looking forward to FY15

- **4QFY14 results missed expectations**
- **Record high unbilled sales of RM823m to underpin earnings visibility**
- **Revised down FY15-16F earnings by 22%/27%**
- **Maintain BUY, TP lowered to RM5.40**

Highlights

Weak quarter

- Stripping out RM22.2m FV gain on investment properties, RM5.3munrealised FX loss and RM10.7m unwinding of discounted trade payables (pursuant to FRS 139), MKH's 4QFY14 core earnings came in at RM14.3m (-49% q-o-q, -65% y-o-y), taking FY14 core profit to RM103m (-1% y-o-y).
- The weaker-than-expected performance was largely attributable to the higher operating expenses as well as slower profit recognition from its newly-launched property projects (Hillpark Shah Alam, Pelangi Heights, Kajang East and MKH Avenue) which are still in the preliminary development stages.

Outlook

Record high property sales

- MKH achieved RM820m property sales in FY14, compared to RM580m in FY13, representing an impressive 41% growth despite the weaker market sentiment. Unbilled sales were at record high of RM823m (+64% y-o-y), offering strong earnings visibility over the next 2 years. We believe that MKH's core focus on affordable housing will continue to underpin robust property sales going forward, as the Group is targeting RM850m property sales in FY15.

Plantation volume growth more than offset price weakness

- 4QFY14 FFB volume grew 13% q-o-q and 36% y-o-y to 90k MT, taking FY14 FFB production to 295k MT (+33% y-o-y). We expect FFB volume to grow by 30% in FY15 which will more than offset current weak CPO prices.

More conservative earnings forecast

- We nudged down our FY15-16F earnings by 22%/27% after imputing DBS' latest CPO price assumption, lower property sales and weaker margins across its business segments to account for the cost inflationary pressures.

Valuation

We reiterate our BUY rating for MKH with a revised SOP-derived TP of RM5.40. We continue to like MKH for its

MKH Bhd

undemanding valuation as well as clear earnings visibility anchored by its twin drivers in property and plantations.

Risks

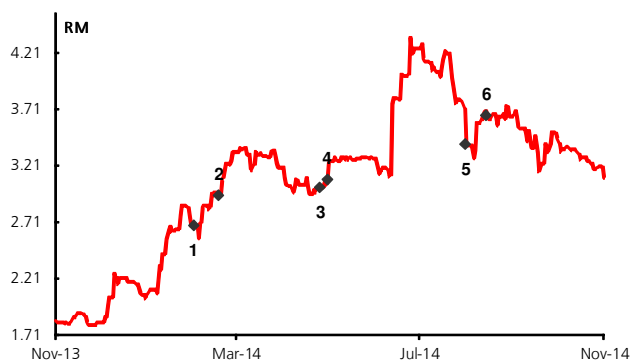
Margin compression

- Rising construction cost could erode profit margins for property projects. Exposure to fluctuations in CPO prices can add to margin volatility.

Weaker property sales

- Rising household debt and softer consumer sentiment may lead to lower property sales

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

AllianceDBS recommendations are based on an 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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