Company Focus

MKH Bhd

Bloomberg: MKH MK | Reuters: METR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

16 Feb 2015

BUY RM2.81 KLCI : 1,800.95

Price Target : 12-Month RM 4.10
Shariah Compliant: Yes
Reason for Report : 1QFY15 results
Potential Catalyst: Higher property sales and CPO price
Where we differ: First to cover

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Result Summary

FY Sep (RM m)	1Q 2015	1Q 2014	4Q 2014	yoy % chg	qoq % chg
P&L Items					
Turnover	207.6	182.5	223.6	13.8	(7.1)
Gross Profit	73.2	64.3	67.6	13.8	8.3
Opg Profit	53.7	48.6	54.1	10.4	(0.8)
EBITDA	59.6	52.8	59.4	12.9	0.3
Net Profit	30.1	16.7	23.2	80.1	29.9
Other Data					
Gross Margin (%)	35.3	35.3	30.2		
Opg Margin (%)	25.9	26.7	24.2		
Net Margin (%)	14.5	9.2	10.4		

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)	11.5	8.8	6.3	5.9
PE Pre Ex. (X)	11.5	8.8	6.3	5.9
EV/EBITDA (X)	7.3	5.7	4.1	3.7
Net Div Yield (%)	2.8	3.6	3.6	4.4
P/Book Value (X)	1.1	1.0	0.9	0.8
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)	1,179 / 330
Avg. Daily Vol.('000)	337

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.

Decent quarter

- **1QFY15 results met expectations**
- **Strong unbilled sales of RM801m to underpin earnings visibility**
- **Maintain BUY and RM4.10 TP**

Highlights

In line

- MKH reported 1QFY15 core profit of RM30m (+110% q-o-q, -6% y-o-y), on the back of RM208m revenue (-7% q-o-q, +14% y-o-y).
- Property and Plantation divisions remain its largest earnings contributors, comprising 51% and 37% of 1QFY15 EBIT, respectively. 1QFY15 EBIT margin was steady at 25.9%, compared to 24.2% in 4QFY15 and 26.7% in 1QFY14.
- Meanwhile, balance sheet was healthy with 39.5% net gearing as at Dec14. We notice that its net debt levels have been reducing over the past few quarters, suggesting strong cash flow generation.

Outlook

Strong earnings visibility

- MKH's unbilled sales of RM801m (1.5x FY15F property revenue) will underpin its near-term earnings visibility. MKH did not launch any projects in 1QFY15 (Sep-Dec14), but remains committed to its RM1.3bn launch pipeline where most of the projects will be launched in 2QFY15 and 3QFY15. This is likely to help achieve its FY15 sales target of RM850m. We believe that MKH's core focus on affordable housing will continue to underpin robust property sales going forward.

Plantation volume growth more than offset price weakness

- MKH's plantation business remains one of the best gems in the Group. Its FFB production has been growing exponentially due its young age profile. Volume growth will remain on its uptrend for the next 2-3 years before maturing, which will then provide steady recurring earnings to MKH

Valuation

We reiterate our BUY rating for MKH with SOP-derived TP of RM4.10. We continue to like MKH for its 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.

DISCLOSURE

Stock rating definitions

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 > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure
bn = billion
BV = book value
CF = cash flow
CAGR = compounded annual growth rate
Capex = capital expenditure
CY = calendar year
Div yld = dividend yield
DCF = discounted cash flow
DDM = dividend discount model
DPS = dividend per share
EBIT = earnings before interest & tax
EBITDA = EBIT before depreciation and amortisation
EPS = earnings per share
EV = enterprise value
FCF = free cash flow
FV = fair value
FY = financial year
m = million
M-o-m = month-on-month
NAV = net assets value
NM = not meaningful
NTA = net tangible assets
NR = not rated
p.a. = per annum
PAT = profit after tax
PBT = profit before tax
P/B = price / book ratio
P/E = price / earnings ratio
PEG = P/E ratio to growth ratio
q-o-q = quarter-on-quarter
RM = Ringgit
ROA = return on assets
ROE = return on equity
TP = target price
trn = trillion
WACC = weighted average cost of capital
y-o-y = year-on-year
YTD = year-to-date

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