

Company Focus

MKH Bhd

Bloomberg: MKH MK | Reuters: METR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

29 May 2015

BUY RM2.40 KLCI : 1,755.56

Price Target : 12-Month RM 3.80 (prev RM4.10)

Shariah Compliant : Yes

Reason for Report : 2QFY15 results

Potential Catalyst: Higher property sales and CPO price

Where we differ: First to cover

Analyst

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Result Summary

FY Sep (RM m)	2Q 2015	2Q 2014	1Q 2015	% Chg y-o-y	% Chg q-o-q
P&L Items					
Turnover	229.7	188.1	207.6	22.1	10.6
Gross Profit	71.3	75.6	73.2	(5.7)	(2.6)
Opg Profit	44.2	51.7	53.7	(14.5)	(17.7)
EBITDA	50.9	52.8	60.0	(3.5)	(15.1)
Net Profit	10.9	50.7	30.1	(78.5)	(63.8)
Other Data					
Gross Margin (%)	31.0	40.2	35.3		
Opg Margin (%)	19.2	27.5	25.9		
Net Margin (%)	4.7	26.9	14.5		

Financial Summary

FY Sep (RM m)	2014A	2015F	2016F	2017F
Turnover	807	807	1,040	1,023
Operating Profit	199	214	276	285
EBITDA	220	235	299	311
Net Pft (Pre Ex.)	103	115	156	172
EPS (sen)	24.4	27.5	37.3	41.0
EPS Pre Ex. (sen)	24.5	27.5	37.3	41.0
EPS Gth (%)	(1)	13	35	10
EPS Gth Pre Ex (%)	(14)	12	35	10
Net DPS (sen)	8.0	10.0	10.0	12.5
BV Per Share (sen)	246.3	265.8	293.1	324.1
PE (X)	9.8	8.7	6.4	5.8
PE Pre Ex. (X)	9.8	8.7	6.4	5.8
EV/EBITDA (X)	6.5	5.8	4.7	4.4
Net Div Yield (%)	3.3	4.2	4.2	5.2
P/Book Value (X)	1.0	0.9	0.8	0.7
Net Debt/Equity (X)	0.4	0.3	0.3	0.2
ROAE (%)	10.3	10.8	13.3	13.3

At A Glance

Issued Capital (m shrs)	419
Mkt. Cap (RMm/US\$m)	1,007 / 276
Avg. Daily Vol.('000)	204

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.

Weak plantation earnings

- 2QFY15 results missed expectations
- Cut FY15-17F earnings by 14-16% on lower CPO price assumption and slower property sales
- Strong unbilled sales of RM843m to drive near-term earnings momentum
- Maintain BUY, revised SOP-derived TP to RM3.80

Highlights

Below expectation

- Excluding RM13.8m unrealised FX loss, MKH's 2QFY15 core profit still fell 29% q-o-q and 26% y-o-y to RM21.3m, taking 1HFY15 core earnings to RM51.2m (-15% y-o-y).
- The weaker-than-expected result was largely due to weak plantation earnings as EBIT fell 81% q-o-q and 74% y-o-y to RM4m. We understand the Group had delayed some CPO sales in 2QFY15 because of weak selling prices.
- Nevertheless, Property outperformed with segmental EBIT growing 31% q-o-q and 19% y-o-y driven by higher progress billings. This is also the highest property EBIT achieved since 1QFY14.

Outlook

Strong earnings visibility

- MKH's unbilled sales of RM843m (1.6x FY15F property revenue) will underpin near-term earnings visibility. Despite the cautious sentiment, MKH achieved commendable RM208m in property sales in 2QFY15 (vs RM87m in 1QFY15) by focusing on affordable homes. This implies it will meet the RM850m sales target for FY15.

Plantation earnings prospects intact

- 2QFY15 is a seasonally slow quarter for plantations, but the outlook for 2HFY15 remains promising. We assumed 16% and 12% FFB volume growth for FY15 and FY16, respectively. Volume will continue to grow for the next 2-3 years before the estates start to mature and provide steady recurring earnings to MKH.

Cut FY15-17F earnings by 14%/16%/14%

- We now assume FY15/16/17F CPO ASP of RM2,160/RM2,190/RM2,308 per MT given the prevailing low CPO price. Also, we pushed down some launches, including Saville@Puchong and MKH Avenue 2.

Valuation

We trimmed our SOP-derived TP to RM3.80 following the earnings downgrade. We continue to like MKH for its undemanding valuation as well as clear earnings visibility anchored by twin drivers, property and plantations.

Risks**Margin compression**

- Rising construction cost could erode profit margins for property projects. Exposure to fluctuations in CPO prices could make margins more volatile.

Weaker property sales

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

Segmental breakdown

Revenue	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	QoQ	YoY
Property development & construction	125	119	142	143	119	169	42%	41%
Hotel & property investment	8	9	9	16	9	9	-2%	-5%
Trading	12	16	16	13	15	15	0%	-7%
Manufacturing	3	3	4	3	2	3	2%	-10%
Plantation	34	41	42	48	62	35	-44%	-14%
	182	188	212	224	208	230	11%	22%
Core EBIT								
Property development & construction	27	30	28	27	27	35	31%	19%
Hotel & property investment	4	6	5	3	5	3	-28%	-43%
Trading	1	1	1	1	1	1	-27%	-3%
Manufacturing	0	(0)	0	0	0	0	-83%	-134%
Plantation	16	14	16	12	19	4	-81%	-74%
Others	2	(2)	(1)	(2)	0	(1)		
	50	49	49	41	53	43	-19%	-13%
EBIT margin								
Property development & construction	21%	25%	20%	19%	23%	21%		
Hotel & property investment	53%	64%	54%	18%	52%	38%		
Trading	7%	7%	8%	5%	10%	7%		
Manufacturing	8%	-5%	12%	11%	10%	2%		
Plantation	47%	35%	39%	25%	31%	11%		
	27%	26%	23%	18%	25%	19%		

Target Price & Ratings History



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

Source: AllianceDBS

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

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Published and Printed by
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