

Company Focus

MKH Bhd

Bloomberg: MKH MK | Reuters: METR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

30 Nov 2015

BUY

Last Traded Price: RM2.23 (KLCI : 1,682.59)

Price Target : RM2.80 (26% upside) (Prev RM2.80)

Shariah Compliant: Yes

Reason for Report : 4QFY15 results

Potential Catalyst: Higher property sales and CPO prices

Where we differ: First to cover

Analyst

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Result Summary

FY Sep (RMm)	4Q 2015	4Q 2014	3Q 2015	yoy % chg	qoq % chg
P&L Items					
Turnover	349	224	256	55.9	36.3
Gross Profit	101	67.6	76.4	49.3	32.2
Opg Profit	81.9	54.1	46.0	51.4	78.2
EBITDA	87.7	59.9	52.5	46.4	67.0
Net Profit	24.4	23.3	20.9	5.0	16.9
Other Data					
Gross Margin (%)	29.0	30.2	29.9		
Opg Margin (%)	23.5	24.2	18.0		
Net Margin (%)	7.0	10.4	8.2		

Financial Summary

FY Sep (RMm)	2015A	2016F	2017F	2018F
Revenue	1,042	1,081	1,101	1,100
Operating Profit	214	239	249	265
EBITDA	239	266	278	298
Net Pft (Pre Ex.)	114	127	140	149
EPS (sen)	20.6	30.4	33.3	35.6
EPS Pre Ex. (sen)	27.3	30.4	33.3	35.6
EPS Gth (%)	(16)	47	10	7
EPS Gth Pre Ex (%)	11	11	10	7
Net DPS (sen)	7.00	8.00	10.00	10.00
BV Per Share (sen)	263	286	312	337
PE (X)	10.8	7.3	6.7	6.3
PE Pre Ex. (X)	8.2	7.3	6.7	6.3
EV/EBITDA (X)	6.2	5.4	5.2	4.7
Net Div Yield (%)	3.1	3.6	4.5	4.5
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	0.5	0.4	0.3	0.3
ROAE (%)	8.1	11.1	11.1	11.0

At A Glance

Issued Capital (m shrs)	419
Mkt. Cap (RMm/US\$m)	935 / 219
3m Avg. Daily Val (US\$m)	0.07

ICB Industry : Real Estate

ICB Sector: Real Estate Investment & Services

Principal Business: MKH is an established township developer in Kajang/Semenyih and Klang Valley with an uninterrupted 25-year profit track record. It also has a plantation business with 16k ha of oil palm estates in Indonesia.

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

Lifted by excellent property earnings

- **4QFY15 results exceed expectations**
- **Record high unbilled sales of RM920m to underpin strong earnings visibility**
- **Declared 7 sen interim DPS**
- **Maintain BUY and RM2.80 TP**

Highlights

Strong 4QFY15

- Excluding exceptional items (RM17.7m unrealised FX loss, RM9m FV gain on investment properties, RM12.2m unwinding of discounted payables), 4QFY15 core profit surged 53% q-o-q and 169% y-o-y to RM59.8m. This takes FY15 core earnings to RM114m (+11% y-o-y).
- The stellar 4QFY15 performance was largely attributable to the property division as segmental EBIT improved by 225% q-o-q and 189% y-o-y to RM79m, driven by the progressive billings of its high unbilled sales.
- Nevertheless, plantation division disappointed with RM5.5m operating loss in 4QFY15 (RM15.1m EBIT in 3QFY15, RM12m EBIT in 4QFY14) as its CPO ASP was negatively affected by the imposition of US\$50/MT levy on CPO export in Indonesia effective Jul15 which led to a larger discount to MPOB's CPO price. Also, there were additional fertilising application and mill maintenance expenses in 4QFY15 which resulted in higher overall cost.

Dividend for shareholders

- MKH continues to reward its shareholders with a 7 sen DPS in FY15 which is payable on 31 Dec 2015. Its balance sheet remains healthy with 48% net gearing.

Outlook

All-time high unbilled sales of RM920m

- MKH's 4QFY15 property sales hit RM372m (+103% q-o-q, +37% y-o-y), taking FY15 sales to RM850m (+4% y-o-y) which is a commendable achievement given the challenging market outlook. Therefore, unbilled sales stood at RM920m (vs 823m in FY14, RM503m in FY13) which will provide strong earnings visibility over the next 2-3 years. We believe its core focus on affordable housing via a large portfolio of development projects across Klang Valley will continue to underpin robust property sales going forward.

Better days ahead for plantation

- MKH's FY15 FFB production came in strongly at 370k MT (+25% y-o-y) given the young age profile of c. 6 years. However, weaker-than-expected ASP has eroded its

profitability. We are projecting FFB production growth of 12% and 8% for FY16 and FY17 respectively. A sustainable recovery of CPO price will be a major catalyst for MKH because of naturally high operating leverage for the plantation business.

Slight revision to FY16-17F earnings

- We nudged down our FY16-17F earnings by 2%/1% after imputing lower effective CPO ASP which is offset by faster progressive billings from some of the property development projects.

Valuation:

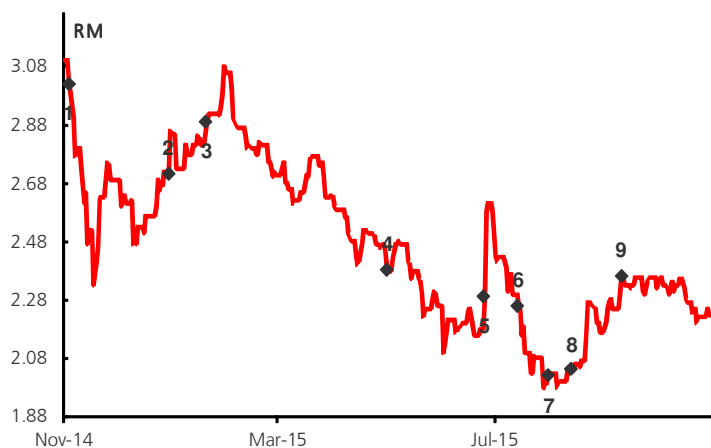
We reiterate our BUY rating for MKH with SOP-derived TP of RM2.80. We continue to like MKH for its undemanding valuation as well as clear earnings visibility anchored by its twin drivers in property and plantations.

Key Risks:

Margin compression. Rising construction cost could erode profit margins for property projects. Exposure to fluctuations in CPO prices can increase the volatility.

Weaker property sales. Rising household debt and softer consumer sentiment may lead to lower property sales. The hurdles potential buyers are facing in getting bank financing have also resulted in generally lower sales.

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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