

Malaysia Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Jun 2016

MKH Bhd (MKH MK) : **BUY**

Mkt. Cap: US\$258m | **3m Avg. Daily Val:** US\$0.26m

Last Traded Price : RM2.51

Price Target : RM3.20 (27% upside)

Company Guide

MKH Bhd



Summary of our point of view, and highlights the relevant data points, which are actively tracked

Analyst

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Growing plantation business

- **Acquisition of 2,445-hectare oil palm plantation adjoining existing plantation land in East Kalimantan**
- **Bargain acquisition to boost plantation land acreage by 15%**
- **Maintain BUY and RM3.20 TP**

News

MKH has entered into an agreement with Ivakijaya Sdn Bhd to acquire a 75% stake in PT. Sawit Prima Sakti (PTSPS) for RM15m. PTSPS owns approximately 2,445.49 hectares of oil palm plantation land in East Kalimantan. The proposed acquisition is expected to be completed in 4QCY16.

Comment

The plantation land, located 50km north-east of Samarinda and 133km north of Balikpapan, is adjoining and contiguous to MKH's existing oil palm plantation land of 15,942 ha. The plantation land is also 79% planted with oil palm trees with a weighted average age of 1 year old as most of the trees were planted between 2013-2016.

Given the impressive track record of MKH's existing plantation land with an expected FFB yield of 29/MT in FY16 despite its young age profile of 7 years old, we believe there could be further synergies derived from PTSPS' plantation land. The additional FFB production will also ensure steady FFB contribution to its 90MT CPO mill, potentially enhancing its mill operational efficiency.

The proposed acquisition consideration of RM15m implies EV/ha of ~RM40k/ha which is relatively cheap as fully mature plantation land can be valued at RM60-70k/ha.

In terms of earnings impact, PTSPS will only contribute meaningfully from FY19 onwards given the young age profile as we estimate that earnings contribution from PTSPS is <2% for FY17-18F. Therefore, we maintain our earnings forecast for now.

Valuation

We reiterate our BUY rating for MKH with SOP-derived TP of RM3.20. We continue to like MKH for its undemanding valuation as well as clear earnings visibility anchored by its twin drivers in property and plantations, leading to a record year in FY16.

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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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