

3Q FY Dec 2009 Results

Dijaya Corporation Berhad

- Very strong 3Q09, full year forecast exceeded
- Boosted by RM20m write-back, better property sales
- Two new Tropicana launches planned soon
- Rights issue will boost cash, stock attractively priced

BUY

Price
RM1.04

Market capitalization
RM472 million*

Board
Main

Board
FBM Emas Syariah

Sector
Properties

Stock code
5401

Analyst
Kevin Khoo

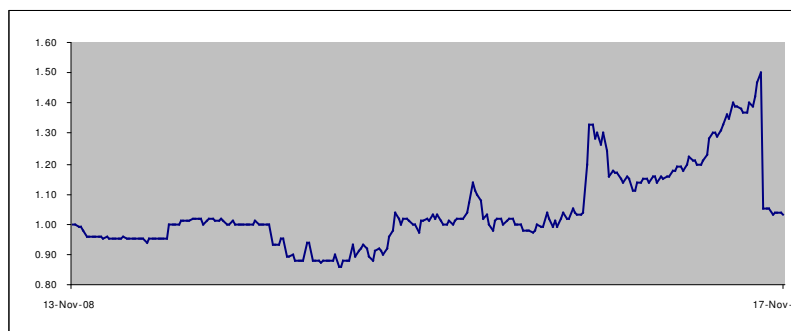
Key stock statistics	FYDec08	FYDec09E
EPS (sen)	12.7	19.9
P/E (x)	8.2	5.2
DPS (sen)	2.0	2.0
NTA/share (RM)	2.39	1.90*
Issued capital (mil)	454.2*	
52-week price range (RM)	0.87-1.47	

Major shareholders (%)

Tan Sri Danny Tan 63.3%

*Note: *post rights issue*

Share Price Chart



3Q FY Dec 2009 Results Highlights

Year end Dec (RMm)	9mth-09	9mth-08	% chg
Turnover	209.3	170.0	23.1
Pre-tax profit	64.3	40.8	57.5
Tax	(12.1)	(20.6)	(41.1)
Minorities	(5.7)	(10.9)	(47.2)
Net profit	46.4	9.4	396
EPS (sen)	17.9	3.6	
Pre-tax margin (%)	30.7	24.0	
Net margin (%)	22.2	5.5	

After a weak 2Q09, Dijaya Corp posted robust results for 3Q FY Dec 2009 that far exceeded expectations, boosted largely by an investment provision write-back totaling RM20 million.

The company tends to have lumpy quarterly profit recognition, depending on the status of project billings and completion.

3Q09 net profit surged to RM32.4 million, from just RM1.4 million a year ago and RM4.4 million in 2Q09. Turnover rose 11.4% y-y to RM97.3 million, while pre-tax profit more than doubled from RM19.4 million to RM41.2 million.

Cumulative net profit of RM46.4 million for the nine months to Sept 2009 have exceeded our earlier full year forecast of RM31.3 million, which we are revising to RM51.6 million. For the nine-month period, revenue increased 23.1% to RM209.3 million while pre-tax profit rose 57.5% to RM64.3 million.

The strong performance in 3Q09 was due to the combination of a one-off RM20 million investment provision write-back, better property sales and progress billings and a maiden profit at Tropicana City Mall, compared with start-up losses earlier.

The one-off provision write-back relates to its portfolio of investment securities, which originally cost the company RM121.7 million and was written down over the years.

The market value of these securities rose by about RM20 million in 3Q09 to RM67.6 million. This is included in the balance sheet as "other investments" under long term assets totaling RM38.8 million, and RM29.2 million in marketable securities under current assets.

Dijaya's investment properties, which consist largely of Tropicana City Mall, saw a maiden profit of RM2.8 million in 3Q09, compared with total start-up losses of RM4.1 million in 1H09. As a result, cumulative losses year-to-date for this division have been reduced to RM1.35 million.

Property earnings continue to be driven by its ongoing developments, namely the Tropics Suites at Tropicana City, Casa Indah 2 and Villa Green at Tropicana Indah and the shophouses at TSB Sungei Buloh Commercial Centre.

The company chalked up property sales of RM271.7 million for the nine months to Sept 2009. Its unbilled sales totaled RM273.7 million as at Sept 2009, and will underpin income over the next year, together with its new planned launches.

Dijaya remains one of very few ungeared listed developers. It boasts a strong balance sheet, which will be strengthened further by the rights issue.

Despite spending RM66.2 million for two earlier land purchases (in Kajang and Cheras) and ongoing funding for the Tropicana City Mall development, the company remains debt-free with net cash and equivalents of RM23.6 million in Sept 2009, up from RM12.7 million in June 2009.

Outlook & recommendation

Dijaya is in the midst of completing its two-call rights issue, involving 3 rights shares priced at RM1.00 each (but shareholders only need to pay RM0.80, and the balance capitalized by the company) and 2 free warrants for every 4 shares held. On 6 Nov 2009, its shares traded ex for the issue.

With this, Dijaya's issued share base will rise from 259.6 million to 454.2 million shares, and up to 584 million shares upon full conversion of warrants.

The rights issue will raise estimated gross proceeds of RM194.7 million, which will make Dijaya one of the richest listed developers. Before this, it was already one of very few ungeared listed developers.

The company theoretically does not need the rights issue, as it is still in net cash position, although this has fallen to RM23.6 million in Sept 2009 from RM141 million in Dec 2007, due to funding for the mall.

Nonetheless, the proceeds will be useful to fund the Tropicana City Mall and office tower, which are being kept for rental. It will free up cash for other acquisitions or to fund its two new projects in Tropicana. It recently proposed to buy 1.8 acres of land along Jalan Kelang Lama for RM19.5 million.

Sentiment for properties has improved markedly in recent months, especially since mid-2009, as the global economic recovery, low interest rates, the stock market boom, innovative financing schemes and strong mortgage approvals from banks helped boost demand.

To be sure, most developers are still cautious when it comes to launches, especially for higher-end condominiums. There have been more successful launches of landed properties, which can be easier phased according to demand. Much of the sales have also been driven by inventory clearing.

However, there are several recent potential dampeners for the property sector, whose impact is yet unknown.

Last month, the government decided to re-impose the real property gains tax (RPGT), which was lifted since 2007. The RPGT, effective Jan 2010, will be a flat 5% on property gains, irrespective of how long they have been held prior to sale.

We expect this measure to negatively affect sentiment for properties, although the amount is small. The government is reportedly re-looking at this following negative feedback from the sector.

The other is rising mortgage rates. Mortgage rates fell to as low as 3.2% (BLR-2.3%) as banks aggressively competed for loans, and demand for loans from the corporate sector stayed low.

There are now concerted efforts by the banks to limit the price discounting and support margins, as rates have been driven to unrealistically low levels. Most banks have since imposed a collectively lowest rate of about BLR-1.8%, or around 3.7%, starting this month.

While this is also a negative, its impact will not be as major as the RPGT. Mortgage rates were unrealistically low earlier, leading to a rash of refinancing. Even at BLR-1.8%, rates are still historically very low. Recall that they were BLR-positive prior to the 1997-98 financial crisis.

Dijaya's two new launches

Dijaya has also been focusing on selling its inventory with good success.

In the first nine months of 2009, it managed to generate property sales of RM271.7 million. Most of these were from The Tropics Suites in Tropicana City, on top of Tropicana Mall, where the take-up rate has increased from 70% to 98%.

The strong sales here is largely due to the fact that these units were held back last year and only released to the market this year, pending the opening of the mall in Dec 2008.

There is latent underlying demand in the well-established and matured Damansara-SS2 area, where supply is limited.

Indeed, the launch of SDB Properties' high-end condos in SS2, called Five Stones, was very well received, despite relative high prices starting at RM800,000, or RM470 psf.

Dijaya's current unbilled sales stands at RM273.7 million as at Sept 2009, mostly from the Tropics Suites and TSB Sungei Buloh. These will support earnings for the next year.

The company will soon launch the two projects in Tropicana Golf and Country Resort, which will help replenish its unbilled order-book and support earnings after next year. It will also launch several luxury semi-detached and detached homes in adjoining Tropicana Indah.

It has opened preliminary registration for the two Tropicana projects. Tropicana Grande will be launched first, as early as the end of this year or 1Q2010 while Tropicana Avenue will be launched in 1H2010.

Tropicana Grande consists of about 300 luxury condominiums with large built-up space of 2,300-6,000 sq ft. The project is located in a prime spot on 5.2 acres near the entrance to the Tropicana Golf & Country Resort. Estimated GDV for the project is RM400 million.

Tropicana Avenue, a commercial development, comprises three blocks of 9 and 11 storey shop-offices on 7 acres, with GDV of RM205 million. This is located opposite Casa Tropicana and the entrance to Tropicana Indah.

While there is strong demand within the prime SS2 – Damansara area as noted and evidenced by sales of The Tropics and Five Stones, there is also a new unexpected event that may dampen demand for the two new Tropicana projects, and possibly delay its launch.

This involves the closure earlier this week of Jalan Tanjung Bandar Utama by Bandar Utama City Corp, developer of the neighbouring Bandar Utama township. Bandar Utama is the owner of a small strip of land through which the road passes.

This road is one of the main thoroughfares serving the Tropicana and wider Kota Damansara areas and is an essential link for Tropicana residents to reach Bandar Utama, the SS2 area, Damansara Utama, Damansara Jaya and to the Damansara-Puchong highway.

The severing of this link has limited the accessibility of Tropicana, increased traffic congestion and reduced the appeal of the Tropicana address. It is unclear what is the next course of action, as the various parties are in discussion together with state authorities to resolve the issue.

We have adjusted our forecasts for the rights issue, which will affect 2010 onwards.

We expect net profit of RM51.6 million in 2009, up 57% from RM32.8 million in 2008, boosted by exceptional gains. Apart from the RM20 million provision write-back, Dijaya also booked in RM11 million of gains from the sale of its Tanjung Malim land and RM0.6 million from the sale of shares, both in 1Q09.

For 2010, we expect a slightly lower net profit of RM49.4 million due to the lack of exceptional gains, but with higher property contributions due to the two new launches and higher income from the Tropicana City Mall and office tower, which will be ready for occupancy.

We maintain our **BUY** recommendation. Despite some dilutive effect from the rights issue, valuations are still attractive and Dijaya will be in a very strong financial position with over RM200 million in net cash.

On an ex-all basis, at RM1.04, the stock is trading at undemanding P/E multiples of 9.6 and 8.4 times for 2010-11 earnings.

Its NTA per share will fall from RM2.40 in Dec 2008 to an estimated RM1.90 in Dec 2009 after the rights issue, but its shares are still trading and a steep 45% below NTA, which is also severely understated due to low land costs.

Profit & Loss Analysis

Year end Dec (RM mil)	2007	2008	2009E	2010E*
Turnover	254.5	247.1	244.6	288.0
Operating profit	73.9	73.9	61.0	73.8
Depreciation	(6.0)	(6.5)	(7.0)	(7.5)
Interest income/(exp)	2.0	3.0	-	7.7
Provisions written back			20.0	
Associates	1.7	3.2	3.5	3.9
Pre-tax profit	71.6	73.6	77.5	77.9
Tax	(15.7)	(24.7)	(15.5)	(20.3)
Minorities	(7.1)	(16.1)	(10.4)	(8.3)
Net profit	48.8	32.8	51.6	49.4
Operating margin (%)	29.0	29.9	24.9	25.6
Pre-tax margin (%)	28.1	29.8	31.7	27.1
Net margin (%)	19.2	13.3	21.1	17.1
Effective tax rate (%)	21.9	33.6	20.0	26.0

Per Share Data

Year end Dec	2007	2008	2009E	2010E*
EPS (sen)	18.8	12.7	19.9	10.9
P/E (x)	5.5	8.2	5.2	9.6
Dividend (sen)	4.0	2.0	2.0	2.0
Dividend yield (%)	3.8	1.9	1.9	1.9
Payout (%)	16	12	7	14
Book value (RM)	2.34	2.40	1.90*	2.00
Price/Book value (x)	0.45	0.43	0.55	0.52
Cashflow/share (sen)	23.9	21.3	18.9	14.3
Price/Cashflow (x)	4.4	4.9	5.5	7.3
Gearing ratio (%)	Net cash	Net cash	Net cash	Net cash
ROE (%)	8.0	5.3	6.0%	5.4%

Note: * adjusted for rights issue



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