

Dijaya Corporation

Buy

PROPERTY

Bloomberg Ticker: DJC MK | Bursa Code: 5401

Earnings to take off next year

Dijaya's share price has been sold down amidst various concerns, just as earnings are about to take off next year after an aggressive property acquisition drive. If, as we believe, the Malaysian property sector resumes its run in 2013 after consolidating this year, Dijaya shares could be re-rated to our target price of RM1.57 in 12 months' time for a 51% capital gain.

Aggressive property acquisitions since 2010

- Dijaya Corporation (Dijaya) is a property development and investment company.** The Tropicana Golf and Country Resort (TGCR) was injected into Jasa Megah Industries Bhd as a backdoor listing in 1995, which was subsequently renamed Dijaya Corporation Bhd in 1997.
- Aggressive property acquisitions since 2010.** After about 15 years completing the TGCR and its second golf resort project, Damansara Indah Resort Homes, Dijaya has been aggressively acquiring new land bank since 2010. Consequently, its balance sheet turned from net cash of RM30m in FY10 to net debt of RM871m in FY11 and RM906m in 1HFY12.
- Amalgamation exercise in 2012 completed.** In August 2012, Dijaya completed an amalgamation exercise in which it acquired all the private property assets of its major shareholder, Tan Sri Dato' Danny Tan Chee Sing (Danny Tan) for RM934.7m. This was satisfied by RM250m cash and the issue of RM684.7m 3% 10-year redeemable convertible unsecured loan stock (RCULS) to Danny Tan. This was a 4% discount to the RM974.6m open market valuation of companies/properties that were acquired.
- Recently completed rights issue not fully taken up.** In October 2012, Dijaya completed a 4:5 rights @ RM1.20 per share and 1 bonus share for every 4 rights subscribed. Danny Tan subscribed for RM250m worth of rights shares (to offset the RM250m cash consideration for injecting his private property assets), which was 85% of his entitlement. The remaining rights were only 47% subscribed, raising an additional RM69m proceeds for Dijaya. As a result, Danny Tan's stake in Dijaya increased from 66.4% to 71.4%. His brother, Tan Sri Dato' Seri Vincent Tan Chee Yion indirectly holds another 6.7% of Dijaya.
- Dijaya today has 913 acres of land bank spread evenly across the key states of Malaysia.** By gross development value (GDV), 37% is in the Klang Valley, 28% in Johor/Negeri Sembilan and 27% in Penang. Dijaya also has investment properties with total lettable area of 1.4m sft.

Share price down just as earnings about to take off

- Dijaya's shares have been sold down due to several concerns.** Firstly is its high net debt which is probably about RM1bn now. Secondly, stripping out a RM100m fair value adjustment of investment properties from its net profit in 1HFY12, we estimate net profit to remain flat at RM48.3m for FY12 compared to RM48.8m (adjusted for exceptional items) in FY11 despite a 25% jump in revenue. Thirdly is the negative perception concerning the amalgamation exercise, where a mixed bag of property assets were injected at apparently high prices from the major shareholder. Fourthly, Malaysian property stocks have been laggards due to consolidation this year amidst fears that a property bubble has developed.
- Earnings are about to take off over the next two years.** The first two concerns were necessary to prepare for a quantum leap in earnings, which is Dijaya's new aggressive growth strategy since 2010. To acquire the land bank to provide the base for aggressive earnings growth within a short period of time requires gearing

12-month upside potential

Target price	1.57
Current price (as at 24 Oct)	1.04
Capital upside (%)	51.0
Net dividends (%)	
Total return (%)	51.0

Key stock statistics

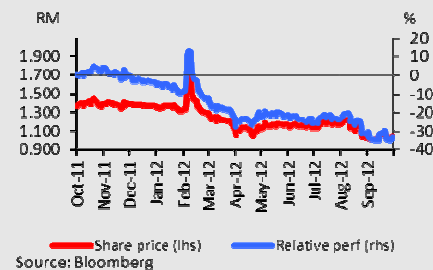
Market cap (RM m)	824.8
Issued shares (m)	793.1
Free float (%)	29

52-week range (RM)	1.01 – 1.67
3-mth avg volume ('000)	408
3-mth avg turnover (RM m)	0.4

Share price performance

	1M	3M	6M
Absolute (%)	1.0	-8.0	-5.5
Relative (%)	-2.0	-9.9	-11.1

Share price chart



Key financial data

FYE 31 Dec	FY11	FY12F	FY13F	FY14F
Adj EPS (sen)	10.7	6.1	10.6	15.7
Adj P/E (x)	9.8	17.1	9.8	6.6
Net DPS (sen)	2.3	n/a	n/a	n/a
Div yield (%)	2.2	n/a	n/a	n/a
NTA (RM)	2.06	n/a	n/a	n/a
P/NTA (x)	0.5	n/a	n/a	n/a

Note: FY11 unadjusted for rights/bonus issue; FY12F excludes RM100m after-tax fair value adjustment of investment properties

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up. Besides the land bank, Dijaya would also need to increase its manpower to handle the quantum leap in scale of development activities, which necessitates higher overheads upfront which explains the lower profit margin in FY12. With all this in place now, we project EPS growth to surge 74% in FY13 and 48% in FY14 (refer Table 1). This is in line with Dijaya's scale up in targeted launches from just RM860m in FY11 to RM1,600m in FY12, RM2,289m in FY13 and RM2,516m in FY14.

- **Amalgamation exercise could turn out to be a boon.** The assets injected consisted of 68 acres of land bank valued at RM720m or RM243 psf, and 806,793 sft lettable area of investment properties valued at RM384m or RM475 psf. While the average pricing may appear high, the properties are in various prime locations and could actually now fetch better prices e.g. with the land bank consisting of 49 parcels of mainly small pieces of land in multiple locations, management is intending to sell some at prices higher than what they were injected at.

Dijaya is a leveraged play on a vibrant property sector in 2013

- **Our view is that after consolidating in 2012, the Malaysian property sector will continue its run in 2013.** On the fourth concern, our view is that with Malaysia's economic growth strengthening in 2013 (we forecast 5.2% GDP growth) and domestic interest rates remaining relatively low, demand for property should regain momentum after consolidating in 2012. This is especially after the General Election (latest by June 2013). The solution to weaker global economic growth appears to be pumping of more liquidity by major central banks, which could eventually flow into property assets.
- **Yesterday saw a jump in share prices of several property stocks.** The listed property sector has been lagging the FBMKLCI this year, even as demand for real properties has generally been resilient, allowing the companies to continue enjoying earnings growth. As a result, prospective PERs of smaller listed property companies have contracted to 5-8x. Yesterday could thus be the start of a re-rating ahead of 2013, notwithstanding temporary market weakness if Parliament is dissolved for the General Elections.
- **Dijaya is a leveraged play on a re-rating of the property sector.** With net debt estimated at RM1bn and shareholders' funds of RM1.4bn, net gearing is 70% and this could go up to 100% if Dijaya's RM500m CP/MTN facility is fully drawn down for working capital to fund its property developments (the MTN covenant sets a maximum net gearing of 125% for Dijaya). Dijaya is thus taking a leveraged bet on the Malaysian property market, which if it wins as we believe, will pay off. Conversely, if the property market is not there over the next two years, Dijaya could come under financial pressure.
- **Dijaya is a Buy as it could be re-rated to RM1.57 in 12 months which represents 51% capital upside.** In 12 months' time, the General Election would have been done with, the property market should have come back, property stocks should have been re-rated upwards, Dijaya could be delivering on our earnings forecasts and investors would be looking forward to FY14. Based on our forecast FY14 basic EPS of 15.7 sen and assuming the small property stocks get re-rated from the current average PER of 7x to 10x, we derive a target price of RM1.57 for Dijaya which is also reasonable when compared against our fully-diluted NTA per share of RM1.66 (refer Table 2). The RCULS issued to Danny Tan have conversion prices ranging from RM1.30 to RM2.50 over the 10-year period. **Dijaya also has listed warrants (Bursa code: 5401WA)** with an exercise price of RM1.00 maturing in December 2019, which offer a leveraged play on the mother share.



Table 1 : Dijaya's earnings forecasts

FYE 31 Dec (RM'm)	2010	2011	2012F	2013F	2014F
launch target		860	1600	2289	2516
launch achieved		700	1482	2060	2264
sales target		438	765		
sales achieved		470	870	1236	1585
Property dev revenue	256.1	334.5	428.8	713.6	1020.1
Property investment revenue	32.8	38.8	41.0	84.0	84.0
Revenue	292.3	375.2	469.8	797.6	1104.1
Operating profit	47.8	86.5	90.9	160.8	212.9
RCULS int exp				(20.5)	(20.5)
Other finance costs	(1.0)	(6.1)	(15.8)	(17.0)	(17.0)
Associate profit	6.6	6.3	5.5	9.1	13.3
PBT	53.4	86.7	80.6	132.4	188.6
Tax	(5.7)	(14.0)	(18.8)	(30.8)	(43.8)
Minority interest	(4.4)	(7.6)	(13.6)	(17.6)	(20.1)
Net profit	43.3	65.1	48.3	84.0	124.7
Iss shares	455.0	458.1	793.1	793.1	793.1
EPS	9.5	14.2	6.1	10.6	15.7
Adj EPS	5.5	10.7	6.1	10.6	15.7
Net DPS	3.75	2.25			
NTA/share	1.97	2.06			

Source: Company, ECM Libra

Note: FY12F excludes RM132.8m (RM100m after tax) gain on fair value adjustment of investment properties recognised in 1HFY12

Table 2 : Fully diluted NTA/share

RM'm	assumption
NTA @ 30 June'12	1068.2
negative goodwill	39.9
rights issue	319.1
conversion of ICULS	684.7
conversion of warrants	160.7
FD NTA	2272.6
Issued shares	460.7
rights shares	265.9
bonus shares	66.5
ICULS conversion	412.5 at avg RM1.66
warrants conversion	160.7 at ex price of RM1.00
FD shares	1366.3
FD NTA/share (RM)	1.66

Source: ECM Libra



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Stock rating definitions

- Strong buy - High conviction buy with expected 12-month total return (including dividends) of 30% or more
- Buy - Expected 12-month total return of 10% or more
- Hold - Expected 12-month total return between -10% and 10%
- Sell - Expected 12-month total return of -10% or less
- Trading buy - Expected 6-month total return of 10% or more arising from positive news flow. However, upside may not be sustainable.

Sector rating definitions

- Overweight - Industry expected to outperform the market over the next 12 months
- Neutral - Industry expected to perform in-line with the market over the next 12 months
- Underweight - Industry expected to underperform the market over the next 12 months

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