

26 December 2013

MKH Berhad

Deeply Undervalued

INVESTMENT MERIT

- **Kajang-based property developer with strong earnings track record.** MKH Berhad (MKH) is a fundamentally strong property developer with a solid 19 years track record of profitability since its listing in 1995.
- **High exposure to the affordable housing segment.** We gather that most of MKH's housing projects are located in Kajang mainly offering affordable units priced below RM600k/unit. This should place MKH in a good position as we believe developers with significant exposure in affordable housing should fare better under the current economic scenario.
- **FY13 core net profit surged 60% YoY to RM123m.** This is mainly due to strong performance from its Property Development & Construction (PDC) division in which PBT jumped 69% YoY to RM143m. Plantation division core PBT also increased to RM24m (from last year's RM5m). We have excluded the impact of unrealized forex loss and a gain on asset disposal (RM31m) in the plantation division.
- **Plantation segment likely to be profitable in FY14.** MKH has planted in total 14,400ha of oil palm estates in East Kalimantan out of which 13,900 or 97% are already matured and producing FFB. We reckon that MKH is poised to deliver minimum 15% FFB growth in FY14 due to better yield produced by maturing trees. Overall, this should translate into better earnings in the plantation division.
- **Trading Buy with a TP of RM3.05.** Our fair value of RM3.05 is based on a 35% discount to our SoP RNAV of RM4.69, implying 1.02x PBV on FY14E BV/share of RM3.00 or 7.1x FY14E PER. On PER basis, the valuation is close to the small-mid cap property companies' average Fwd PER of 8.0x.

TECHNICALS

- **Resistance:** RM2.85 (R1), RM3.05 (R2)
- **Support:** RM2.50 (S1), RM2.39 (S2)
- **Comments:** The share price has been trading at range bound over the last six month between RM2.39-RM2.85. Formation of bullish white candles in the next few days could confirm the "Hammer" pattern for a potential positive rebound towards previous high @RM2.85. Beyond that, RM3.05 is the next target, based on measurement objective.



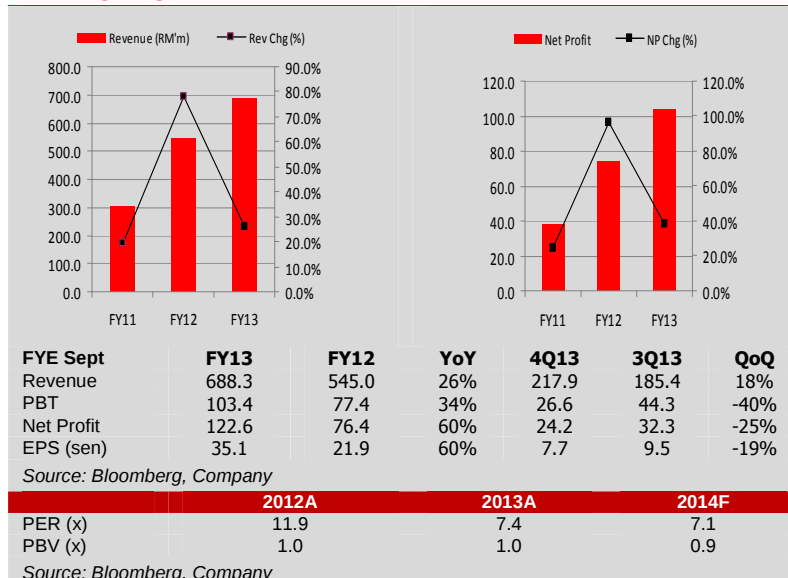
Source: Bloomberg

Rating

Fair Value

Last Price		RM2.60
Kenanga	Trading Buy	RM3.05
Consensus	N.A.	N.A.

FINANCIALS



BUSINESS OVERVIEW

MKH Berhad (formerly known as Metro Kajang Holdings Berhad) is a respected and established property developer with a reputation for cost-effective and well managed projects. Its current portfolio comprises a range of developments across all property sectors which are mainly located in Kajang, Damansara, Semenyih, Serdang and Melawati. To date, it has developed and undertaken more than 30,000 units of mixed development projects with a value exceeding RM6.0 billion. In addition, MKH is also involved in oil palm plantation, project management, property investment, construction and furniture manufacturing.

BUSINESS SEGMENT

- **Property development and construction:** This segment includes property development, building and civil works contracting.
- **Trading:** Trading in building materials and household related products and general trading.
- **Hotel and property investment:** Hotel business and property investment and management.
- **Manufacturing:** Furniture manufacturing.
- **Plantation:** Oil palm cultivation. The group has planted in total 14,400ha of oil palm estates in East Kalimantan.

SWOT ANALYSIS

- **Strengths:** High exposure to affordable housing segment should translate into sustainable demand for its product.
- **Weaknesses:** High concentration of projects in Kajang. However, it has already started to venture out of Kajang with projects such as Hill Park Shah Alam and Pelangi Semenyih.
- **Opportunities:** Maturing plantation estate to provide new source of sustainable income.
- **Threats:** Negative policy affecting property buyers/investors.

Group Structure



Source: Company, Kenanga Research

MKH BHD

Industry: Real Estate

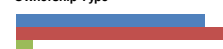
Stock ID	Price @	% Chg 1 yr	% Chg 3 mth	% Chg 1 mth	% Chg 5 day	\$ Chg 1 day	\$ Chg YTD
6114	24-Dec-13						
MKH MK	2.600	45.25	0.00	-5.45	-4.41	0.00	45.25
KLCI	1835.49	9.95	2.40	2.28	-0.83	0.14	8.68

MKH Berhad is a property development company. The Company's current portfolio comprises a range of developments across all property sectors which are mainly located in Kajang, Damansara, Semenyih, Serdang and Melawati. MKH is also involved in oil palm plantation, project management, property investment, construction and furniture manufacturing.

Ownership Statistics

Institutional Ownership	45.4%
Retail Ownership	50.6%
Insider Ownership	4.0%

Ownership Type



Financial Stats	FY12	FY13	FY14F
FYE Sept	MYR	(mil)	(mil)
Revenue	545.0	688.3	829.4
EBITDA	105.5	141.7	133.1
OP	98.6	135.8	127.2
Pretax	77.4	103.4	127.7
Net Profit	76.4	122.6	127.7
EPS (SEN)	21.9	35.1	36.6
Balance Sheet			
Non-CA	1,015.0	1,167.0	1,280.5
CA	479.6	683.8	718.0
Total Assets	1,494.6	1,850.8	1,998.5
CL	358.8	329.4	345.8
Non-CL	340.0	567.1	595.6
Shareholders fund	797.6	951.5	1,053.0
Minority interest	(1.8)	2.9	4.0
Total Equity & Liabilities	1,494.6	1,850.8	1,998.5
Cash Flow			
Operating CF	19.5	109.2	115.0
Investing CF	(85.7)	(164.0)	(74.0)
Financing CF	102.0	88.2	(26.2)
Change in Cash	35.9	33.5	14.8

Valuation Stats	FY12	FY13	FY14F
FYE Sept			
PER (x)	11.9	7.4	7.1
P/BV (x)	1.0	1.0	0.9
DPS (SEN)	2.8	7.5	7.5
Dividend Yield (%)	1.3	1.5	2.9
ROE (%)	9.9	12.0	12.1
ROA (%)	5.2	5.6	6.4
EPS Growth (%)	195.2	60.4	4.2
Revenue Growth (%)	78.1	26.3	20.5
OP Margin (%)	19.4	20.6	16.1
NP Margin (%)	14.2	15.0	15.4

Domestic Peers Comparison (CY12)	PER	P/BV	P/NTA	P/CF	Div Yield	Mkt Cap
YNH PROPERTY BHD	12.50	0.83	0.88	N.A.	2.29	737.0
CRESCENDO CORPORATION BHD	12.63	1.00	1.00	11.06	2.97	689.6
TAMBUN INDAH LAND BHD	8.71	1.74	1.74	7.89	5.49	558.3
HUA YANG BHD	6.50	1.35	1.53	9.30	5.54	509.5
SIMPLE AVG	10.08	1.23	1.29	9.42	4.07	
MKH BHD	7.11	0.90	0.90	5.92	2.80	908.1
FTSE Bursa Malaysia KLCI	17.03	2.34			5.71	

Industry Sub-Sector: Real Estate Oper/Develop

Currency: MYR

Market Cap (mil)	908.1	Return on Capital (%)**	8.8
Total Debt (mil)**	521.8	Return on Assets (%)**	6.2
Total Assets (mil)**	1,850.8	Return on Common Eq (%)**	12.0
Total Capital (mil)**	1,476.2	Sales Growth **	21.1
Tot Debt/Tot Asst (%)**	28.2	Diluted EPS Cont Ops**	0.08
Tot Debt/Tot Cap (%)**	35.3	Current Qtr EPS Est	N/A
Tot Debt/Com Eqy (%)**	54.7	Current Yr EPS Est	N/A
Tot Debt/EBITDA (x)**	2.38	Beta (x)	1.38
Book Value (x)**	2.72	Relative Index	FTSE Bursa Malaysia KLCI
Number of Shares Outstanding (mil)	349.3	Index Weighting	N/A
Avg 6M Daily Vol Traded (mil)	0.4	Alt. Relative Index	FTSE BURSA MALAYSIA EMAS
Avg 6M Daily Value Traded (mil)	1.0	Alt. Index Weighting	0.05
Net Gearing (x)	0.5	2nd Alt. Relative Index	FTSE Bursa Mal Small Cap
Free Float (%)	51.3	2nd Alt. Index Weighting	0.8766424
Share Price 52 Week High	2.85	Consensus Target Price	N/A
Share Price 52 Week Low	1.74	Target Price (H)	N/A
Altman's Z-Score	2.1	Target Price (L)	N/A
Interest Coverage Ratio	8.9	Consensus Recommendation	BUY
Top 3 Major Shareholders:		Expected Earnings Report Date	2/26/2014
CHEN CHOY & SONS REA	43.1	Last Gross DPS (sen)	10.0
PUBLIC BANK GRP OFF	9.8	Last Net DPS (sen)	7.5
LOI CHEN LOK	1.8	Last Dividend EX Date	12/19/2013

**Trailing numbers as of the most recent quarter End: 2013 Y

Quarterly Financial Data	4Q12	1Q13	2Q13	3Q13	4Q13
Revenue	179.8	147.8	137.2	185.4	217.9
OP	38.4	40.5	26.3	53.9	90.6
Pretax	38.2	45.3	19.7	44.3	26.6
Net Profit	26.9	34.2	12.7	32.3	24.2
EPS (sen)	9.09	10.69	3.71	9.47	7.71
EPS Growth (QoQ)	83.7%	17.5%	-65.3%	155.3%	-18.6%
Revenue Growth (QoQ)	29.4%	-17.8%	-7.2%	35.1%	17.5%
OP Margin	21.4%	27.4%	19.2%	29.1%	41.6%

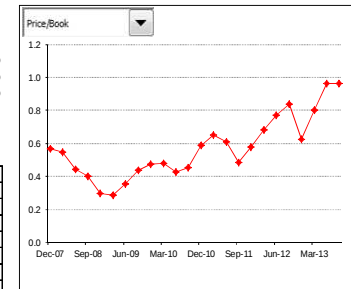
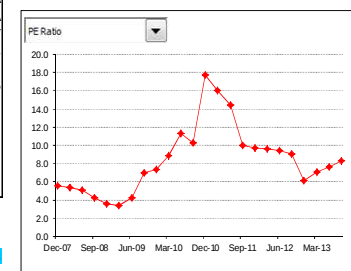
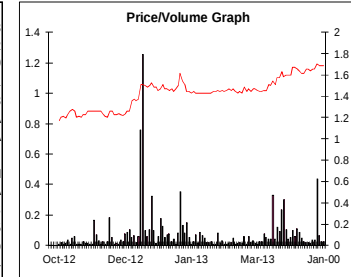
Revenue Breakdown

	2010	179.7	62%	2011	203.4	54%	2012	390.6	72%
Property Development									
Trading		26.2	9%		58.8	16%		63.0	12%
Plantation			0%			0%		44.9	8%
Hotel, Club & Invest		37.0	13%		31.8	8%		32.2	6%
Others		46.3	16%		84.0	22%		14.5	3%
Total		289.2	100%		378.0	100%		545.3	100%

Geographic Breakdown - Revenue

	2010	289.2	100%	2011	378.0	100%	2012	545.3	100%
Malaysia									
Total		289.2			378.0			545.3	

Exchange: Bursa Malays



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