

## Property – Malaysia

Sizzling excitement in Dijaya Corp

### What's New

- Waves of value-enhancing corporate activities hitting the shore.** We re-iterate our prediction of active M&As in the coming quarters, and this has materialised. Thus far, the property sector has been fuelled by plenty of corporate activities - M&As, privatisations and asset injections. Over the past one year, we witnessed the birth of an enlarged Sunway Berhad (current market capitalisation of RM3.4b) from the merger between Sunway City and Sunway Holdings, acquisition of Sunrise by UEM Land at 1.2x P/B, Sime Darby paying RM2.30/share for a 31% stake in Eastern and Oriental, PNB's General Offer to acquire SP Setia at RM3.95/share or 2.25x P/B, and the emergence of Tebrau Teguh as the proxy to Danga Bay after Iskandar Waterfront Holdings offered to acquire a 33.15% stake from Johor State (refer to table below).
- Sharing is caring.** Yesterday, Dijaya (NOT RATED) announced a corporate exercise whereby Tan Sri Dato' Danny Tan would inject RM1.1b worth of his privately-held assets into Dijaya Corp with the intention of streamlining his assets. He will be mitigating potential conflicts of business interests while transforming Dijaya into a stronger developer. Consequently, its total landbank will be boosted to 870 acres (from 802 acres). Collectively, investment properties which offer 807,000sf of net leasable area (NLA) (yielding about 8%) will be injected as well, lifting total NLA to 1.4m sf. Ultimately, the acquisition would be funded with RM250m cash and about RM700m worth of redeemable convertible unsecured loan stocks (RCULS). An issuance of 4-for-5 rights (1 bonus share for 4 rights) is also in the pipeline for Tan Sri to re-inject cash into Dijaya.
- Dijaya rockets into the big league.** On the back of an 870-acre landbank with a potential gross development value (GDV) of RM36.6m, Dijaya is definitely larger (vs SP Setia's GDV of close to RM55b). Dijaya targets to launch properties worth RM1.6b, RM2.6b and RM2.8b in 2012-14 respectively. We believe a 10-15% earnings growth over the next two years is achievable given the healthy unbilled sales of close to RM600m, and its recurring income alone would deliver about RM40m in 2013 (46% of 2011F's pre-tax profit).
- Overall a positive development.** We do not officially cover Dijaya, but our calculation indicates the RNAV/share after the asset injection could range up to RM5.48. The fully-diluted RNAV/share is about RM2.66, after including full conversion for the rights and irredeemable convertible unsecured loan stock (ICULS) plus bonus shares, implying a 38% discount to the current trading price. Lastly, we expect shareholders' fund to cross the RM1b mark after the exercise, and the upside potential appears decent given that current market capitalisation is only RM767m.

### Action

- Maintain MARKET WEIGHT.** Our top BUYs are UEM Land (Target: RM2.68) and Sunway (Target: RM3.00). Meanwhile, we are excited about Dijaya's asset injection exercise and believe there is still upside given the improved fundamentals after the transformation. It is trading at RM1.67/share which is at 0.84x P/NTA. We expect the shareholders' fund to cross the RM1b mark after the exercise, and the upside potential appears decent given that current market capitalisation is only RM767m.

### Peer Comparison

Company	Ticker	Rec	Price	Target	Market	PE			P/B	ROE
			6 Mar 12 (RM)	Price (RM)	Cap (US\$m)	2011 (x)	2012F (x)	2013F (x)	2012F (x)	2012F (%)
KLCC	KLCC MK	HOLD	3.40	3.30	1,050.2	26.5	13.0	12.5	0.6	5.5
MRCB	MRC MK	HOLD	1.98	2.03	907.8	35.4	33.1	14.7	1.9	6.0
Mah Sing	MSGB MK	HOLD	2.27	2.01	624.6	11.2	11.5	10.3	1.6	17.0
SP Setia	SPSB MK	SELL	3.94	2.99	2,481.2	n.a	23.2	22.0	2.0	9.8
Sunway	SWB MK	BUY	2.68	3.00	1,145.5	11.4	11.1	10.3	1.3	12.0
UEM Land	ULHB MK	BUY	2.34	2.68	3,346.3	41.3	27.1	25.2	1.9	7.8

Source: UOB Kay Hian

## MARKET WEIGHT

(Maintained)

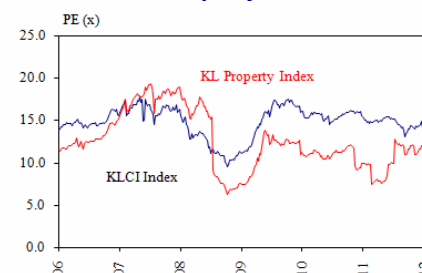
## Sector Update

### Top Sector Picks

Compan	Ticker	Rec	Share Price (RM)	Target Price (RM)	Upside (%)
Sunway	SWB MK	BUY	2.68	3.00	14.8
UEM Land	ULHB MK	BUY	2.34	2.68	14.5

Source: UOB Kay Hian

### KLCI Index vs Property Index



Source: Bloomberg, UOB Kay Hian

### Details Of The Asset Injection

Details on the Asset Injection (RM)	
Asset Market Value	1.1b
Purchase price	945m
<b>Payment mode</b>	
-Cash	250m
-RCULS	700m
Total	950m
Also raising money from:	
4-for-5 rights issue*	290m
Indicatively MTN/CP	500m

\* Tan Sri re-injects cash received into Dijaya, underwrites RM250m

Source: Dijaya, UOB Kay Hian

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**Sector Catalysts**

- Stronger household income growth in the medium term.
- More foreign direct investments (FDI) into the Iskandar region.

**Assumption Changes**

- None.

**Essentials – Dijaya, like a “rocketeer”!**

- **Big price tag of RM949m, but with long-term potential.** RM250m will be paid via cash while the remaining RM700m would be funded through the issuance of RCULS (convertible to Dijaya shares subjected to the preceding financial year’s net profits). In order to prevent the market from perceiving this exercise as a “cash-out” deal, the RM250m cash which Tan Sri Danny receives would be used to subscribe for the 4-for-5 rights issue, which comes with 1 bonus share for every 4 rights. We estimate Tan Sri to re-inject about RM290m into Dijaya by subscribing for 243m rights (459m existing shares x 66% stake / 5 shares x 4 rights) at an indicative issue price of RM1.20.
- **Levelled playing field for the big boys.** After a year of corporate exercises in the sector, most of the property developers are bigger and stronger now, in terms of balance sheet, financing warchest and landbank. Despite the general caution over the global uncertainty, we believe developers are of the notion that the sector is still buoyant, since they are sizing up landbank in the key growth areas, especially in Klang Valley, Penang and the Iskandar Region. In Klang Valley, SP Setia has acquired close to 600 acres of land in the growing area of Semenyir while Mah Sing has acquired over 350 acres in Rawang, mainly targeting the mass market. On the other hand, medium-sized players like the JV between Ivory Properties and Dijaya Corp will develop about 100 acres of land in Penang Island. Lastly, Tebrau Teguh has an ambitious target of developing close to RM13b of worth of waterfront development in Danga Bay.

**Risks**

- Delays and lack of transparency in the land privatisation process.
- Delays in completion of catalytic developments in Iskandar.

**Notable M&A, Privatisation Transactions And Proposals In The Property Sector**

Date	Deal Type	Target	Acquirer	Seller	Details / Pricing / Valuations and comments
Nov 10	Merger	Sunway Holdings – Sunway City	Merged entity, Sunway Bhd	NA	Sunway Bhd’s share at RM2.80 valuing the property arm at about 12x PE.
Sep 10	Takeover	Sunrise	UEM Land		RM1.39b (RM2.80/share), values Sunrise at 1.2x P/B.
Jan 11	Privatisation	Asia Pacific Land	Low Chuan Holdings Sdn Bhd		RM0.45/share, valuing AP Land at 0.45x P/B.
Aug 11	Acquisition	Eastern & Oriental Berhad (31% stake)	Sime Darby		RM766m for 31% stake; values E&O at a consensus 2012F PE of 26x.
Sep 11	Takeover	SP Setia	PNB	Minority shareholders	GO price of RM3.95/share values SP Setia at about 23x 2012F PE and 2.25x P/B.
Nov 11	Acquisition	PJ City Development Sdn Bhd	GuocoLand Malaysia Bhd	GuoLine Asset Sdn Bhd	RM29.79m for 5m shares, translating into RM5.96/share (6.3x trailing PE, 0.8X P/B)
Dec 11	Acquisition	Tropicana Holdings Sdn Bhd	Scientex Bhd		RM46.4m for 70% stake. Tropicana Holdings owns 243.7 acres of freehold land in Kulaijaya, Johor.
Jan 12	Acquisition	LK Prisma Sdn Bhd	Nilai Resources Group Bhd	Lapangan Kota Sdn Bhd	RM91.1m. LK Prisma owns 418.2 acres of land, forming part of the Seremban Utara township. The deal values the land at RM5.00psf.
Feb 12	Acquisition	Tebrau Teguh Bhd	Iskandar Waterfront Holdings Sdn Bhd	Kumpulan Prasarana Rakyat Johor Sdn Bhd	RM168.7m for 33.15% stake, translating into RM0.76/share, a mere premium of 1sen higher than its last trading price. Values Tebrau Teguh at trailing 1.0x P/B.
Feb 12	Privatisation	Mahajaya Bhd	Waiban Corp Sdn Bhd & Rancangan Impian Sdn Bhd	Minority shareholders	RM46.5m for 27.6% stake, RM0.85/share. Translates into 0.7x P/B; 3.4x 2011F PE.
Mar 12	Acquisition	Privately held assets	Dijaya Corp	Tan Sri Danny Tan	RM948.7m for RM1.1b worth of assets.

Source: Media, Bursa, UOB Kay Hian

**RNAV (Before And After Asset Injection)**

	(RMm)
<b>Scenario 1 (Before asset injection)</b>	
Total DCF of project’s net profit	1,860.6
NPV of unbilled sales	78.9
Property investment (DCF of rental profits)	325.4
Less: Net debt	(387.0)
<b>RNAV</b>	<b>1,877.9</b>
<b>Share base</b>	<b>459.0</b>
<b>Warrants conversion</b>	<b>130.0</b>
<b>ESOS</b>	<b>25.0</b>
<b>Enlarged sharebase</b>	<b>614.0</b>
<b>RNAV/share</b>	<b>3.06</b>
<b>Scenario 2 (After asset injection)</b>	
Total DCF of project’s net profit	2,325.7
Property investment (DCF of rental profits)	464.9
Shareholders’ Fund as of 1Q11	959.0
Less: Net debt	(387.0)
<b>RNAV</b>	<b>3,362.65</b>
Existing sharebase	614.00
<b>RNAV/share</b>	<b>5.48</b>
Proceeds from rights issue @ RM1.20	440.6
4-for-5 rights issue	367.2
Bonus share 1-for-4 rights	91.8
RCULS	510.4
<b>Enlarged sharebase</b>	<b>1,428.44</b>
<b>FD RNAV/share</b>	<b>2.66</b>
<b>30% discount</b>	<b>1.86</b>

Source: UOB Kay Hian

**GDV Comparison**

Company	Projected GDV (RMb)
SP Setia	55.0
Mah Sing	12.5
Sunway	25-30
UEM Land	>50
Dijaya	36.6

Source: UOB Kay Hian

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