

Malaysia Company Focus

MKH Bhd

Bloomberg: MKH MK | Reuters: METR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Jan 2015

BUY RM2.72 KLCI : 1,803.08

Price Target : 12-Month RM 4.10 (Prev RM 5.40)

Reason for Report : Company update, TP revision

Potential Catalyst: Higher property sales and CPO prices

AllianceDBS vs Consensus: First to cover

Analyst

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Price Relative



Forecasts and Valuation

FY Sep (RM m)	2014A	2015F	2016F	2017F
Revenue	807	850	1,178	1,155
EBITDA	220	249	346	351
Pre-tax Profit	161	191	283	286
Net Profit	102	134	187	200
Net Pft (Pre Ex.)	103	134	187	200
EPS (sen)	24.4	31.9	44.6	47.7
EPS Pre Ex. (sen)	24.5	31.9	44.6	47.7
EPS Gth (%)	(1)	31	40	7
EPS Gth Pre Ex (%)	(14)	30	40	7
Diluted EPS (sen)	24.4	31.9	44.6	47.7
Net DPS (sen)	8.0	10.0	10.0	12.5
BV Per Share (sen)	246.3	270.2	304.8	342.5
PE (X)	11.1	8.5	6.1	5.7
PE Pre Ex. (X)	11.1	8.5	6.1	5.7
P/Cash Flow (X)	5.9	3.4	6.4	4.5
EV/EBITDA (X)	7.1	5.5	4.0	3.6
Net Div Yield (%)	2.9	3.7	3.7	4.6
P/Book Value (X)	1.1	1.0	0.9	0.8
Net Debt/Equity (X)	0.4	0.2	0.1	0.0
ROAE (%)	10.3	12.4	15.5	14.7
Earnings Rev (%):		0	0	0
Consensus EPS (sen):		32.0	45.0	48.0
Other Broker Recs:		B: 2	S: 0	H: 0

ICB Industry : Real Estate

ICB Sector: Real Estate Investment & Services

Principal Business: MKH is an established township developer in Kajang/Semenyih and Greater Klang Valley. Its 16k ha oil palm estates in Indonesia has started to contribute significantly.

Source of all data: Company, AllianceDBS, Bloomberg Finance L.P.

Attractive entry opportunity

- Record high unbilled property sales to offer clear earnings visibility
- Strong FFB production growth more than offset CPO price weakness
- Maintain BUY with lower TP of RM4.10

Proxy to affordable housing. Despite the weak sentiment in the property sector, MKH continues to achieve strong property sales, thanks to its core focus on affordable housing. FY14 unbilled sales were at a record high of RM823m (+64% y-o-y) due to its impressive RM820m sales (+41% y-o-y) which exceeded its own RM800m sales target. This will underpin strong earnings visibility over the next two years. MKH aims to secure RM850m sales in FY15 on the back of RM1.3bn launches. We understand some of its projects (Hillpark Homes 3, Saville@D'Lake Puchong) have received strong response, judging by the initial registration.

Growing plantation earnings. Strong plantation earnings growth remains intact as the favourable age profile of palms offsets the subdued CPO price. We estimate a 3-year FFB volume CAGR of 12% over FY14-17F (achieved 33% growth in FY14). Its plantation business is already self-sustaining at this juncture, and the Group will start paring down its US\$85m borrowings (US\$15m/year) in Sep15 as per the repayment schedule. At a weighted average age of only 5.8 years, the young oil palms are set to underpin its strong recurring earnings base going forward.

Opportunity to accumulate. We revised down our SOP-derived TP to RM4.10, after rolling over plantation valuation base to FY15 and widening property discount to 50% (from 35%). We believe the recent sell-down has already priced in weak sentiment in the property market. Reiterate our BUY rating as we continue to like its strong earnings prospects with a projected 3-year CAGR of 25%.

At A Glance

Issued Capital (m shrs)	419
Mkt. Cap (RMm/US\$m)	1,141 / 317
Major Shareholders	
Chen Choy & Sons Realty (%)	43.1
Public Bank Grp Off Fund (%)	9.8
Free Float (%)	47.1
Avg. Daily Vol.('000)	326

INVESTMENT THESIS

Profile	Rationale
MKH is an established township developer in Kajang/Semenyih and Greater Klang Valley. Its 16k ha of oil palm estates in Indonesia have started to contribute significantly.	Fastest-growing yet cheapest plantation proxy - Plantation profit is expected expand at 27% CAGR over FY14-17F given the young tree profile, as the trees enter the strongest growth cycle. Largest beneficiary of MRT project - MKH's strong foothold in Kajang/Semenyih makes it the largest beneficiary of the improved public transport connectivity via two MRT stations within Kajang. This has boosted its property sales. MKH has the distinct advantage of low land cost within the growing Kajang-Semenyih corridor, which will give them greater pricing flexibility.
Valuation	Risks
We reiterate our BUY rating for MKH with a revised SOP-derived TP of RM4.10. We continue to like MKH for its undemanding valuation as well as clear earnings visibility anchored by its twin drivers in property and plantations.	Margin compression - Rising construction cost could erode profit margins for property projects. Exposure to fluctuations in CPO prices can add to margin volatility. Weaker property sales - Rising household debt and softer consumer sentiment may lead to lower property sales.

Source: AllianceDBS

Not all doom and gloom in property

We believe that MKH will continue to do well for its property division, given its entrenched brand name in the Kajang-Semenyih growth corridor and its stronghold in the affordable housing segment. This has placed it in an enviable position with its property sales and unbilled sales continuing to chalk new highs. Strong unbilled sales of RM823m (1.55x FY14 property revenue) will underpin clear earnings visibility going forward.

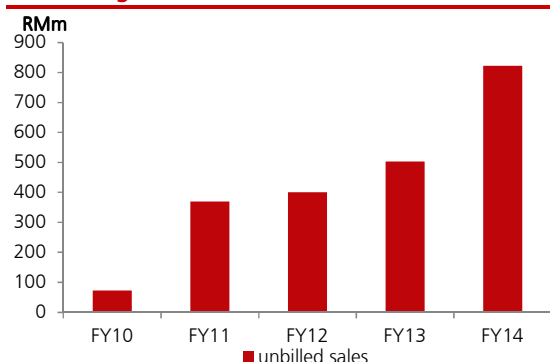
In addition, the Group is targeting RM850m new sales in FY15, after accounting for the relatively weak sentiment in the property market. This will be anchored by its RM1.3bn launch pipeline which is focused on the affordable housing segment. We believe that its projects will be well received by genuine home buyers who have always been their target customers.

Planned launches

FY15 launches	GDV (RMm)	Timeline
Pelangi Semenyih 2	122	2QFY15
Saville @ D'Lake Puchong	159	2QFY15
Hillpark @ Shah Alam North	366	3QFY15
Hillpark Homes 3	90	3QFY15
Kajang East	95	2QFY15
Pelangi Height	61	2QFY15
Saville @ Cheras	286	3QFY15
MKH Avenue 2	172	3QFY15
	1,351	

Source: AllianceDBS, Company

Record high unbilled sales



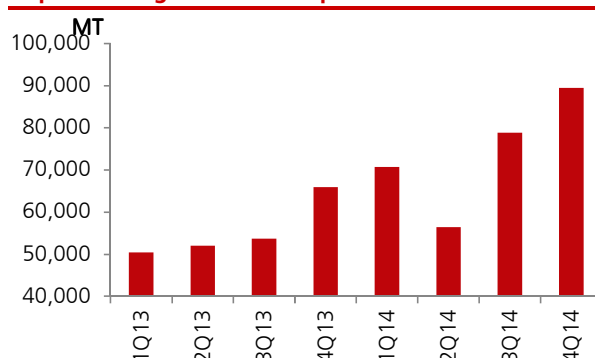
Source: AllianceDBS, Company

The completion of MRT Line 1 by 2017, linking up the Kajang/Semenyih growth corridor, will be a strong catalyst for MKH, given its large tract of prime property land bank in Kajang/Semenyih. Scarcity of land within Kajang also provides a distinct advantage for MKH's future launches, which are expected to see premium pricing supported by strong demand.

Plantation's venture paying off handsomely

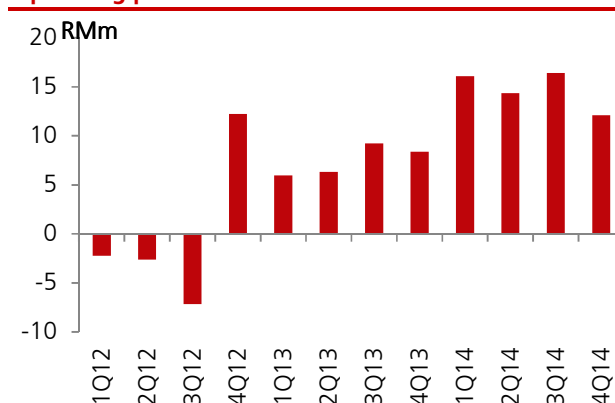
MKH's plantation business remains one of the best gems in the Group. Its FFB production has been growing exponentially due its young age profile. Volume growth will remain on its uptrend for the next 2-3 years before maturing, which will then provide steady recurring earnings to MKH.

Exponential growth of FFB production



Source: AllianceDBS, Company

Operating profit of Plantation business



Source: AllianceDBS, Company

Its 15k-ha planted oil palm plantations yielded 21MT/ha and the management is targeting 25MT/ha yield in FY15. The plantation segment accounted for 31% of its FY14 EBIT and we expect the proportion to increase to 34% in FY15. While CPO price outlook may not be exciting at this juncture, the strong FFB production will more than offset the impact, in our view. Should CPO price recover stronger than expected, it will be a huge bonus to the Group.

Key Assumptions

FY Sep	2013A	2014A	2015F	2016F	2017F
CPO ASP (RM/MT)		2,236.5	2,180.8	2,324.2	2,343.0
FFB production (MT)		271,681.3	340,780.5	382,445.0	413,388.0
property sales (RMm)	580.8	820.0	796.6	832.0	691.8

Sensitivity Analysis

	2015
CPO price +/- 1%	Net Profit +/- 1%

Segmental Breakdown

FY Sep	2013A	2014A	2015F	2016F	2017F
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Revenues (RM m)

Property development & Hotel & property	476	530	523	815	787
Trading	32	41	43	44	45
Manufacturing	67	57	59	61	62
Plantation	9	12	12	12	12
Plantation	101	165	214	246	248
Total	688	807	850	1,178	1,155

Conservative assumption

EBIT (RM m)

Property development & Hotel & property	115	111	129	191	179
Trading	15	18	18	18	23
Manufacturing	4	4	4	4	4
Plantation	0	1	0	0	0
Plantation	29	59	77	109	120
Total	163	193	228	322	325

Driven by unbilled sales

EBIT Margins (%)

Property development & Hotel & property	24.2	21.0	24.7	23.5	22.7
Trading	46.9	42.5	42.0	42.0	50.0
Manufacturing	6.7	6.7	6.0	6.0	6.0
Plantation	(2.3)	7.2	1.0	1.0	1.5
Plantation	28.3	35.8	36.1	44.3	48.3
Total	23.7	23.9	26.8	27.4	28.2

Income Statement (RM m)

FY Sep	2013A	2014A	2015F	2016F	2017F
Revenue	688	807	850	1,178	1,155
Cost of Goods Sold	(441)	(526)	(499)	(724)	(688)
Gross Profit	247	280	350	454	466
Other Opng (Exp)/Inc	(90)	(82)	(123)	(132)	(141)
Operating Profit	158	199	228	322	325
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	11	3	0	0	0
Net Interest (Exp)/Inc	(17)	(39)	(36)	(40)	(40)
Exceptional Gain/(Loss)	(16)	0	0	0	0
Pre-tax Profit	136	161	191	283	286
Tax	(29)	(44)	(48)	(71)	(71)
Minority Interest	(3)	(15)	(10)	(25)	(14)
Preference Dividend	0	0	0	0	0
Net Profit	103	102	134	187	200
Net Profit before Except.	119	103	134	187	200
EBITDA	183	220	249	346	351

Growth

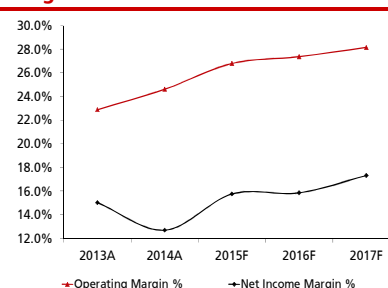
Revenue Gth (%)	26.2	17.2	5.4	38.7	(2.0)
EBITDA Gth (%)	59.8	20.7	12.8	39.0	1.4
Opg Profit Gth (%)	69.7	26.0	14.7	41.6	0.8
Net Profit Gth (%)	38.5	(1.0)	30.8	39.5	7.0

Margins & Ratio

Gross Margins (%)	36.0	34.8	41.2	38.5	40.4
Opg Profit Margin (%)	22.9	24.6	26.8	27.4	28.2
Net Profit Margin (%)	15.0	12.7	15.7	15.8	17.3
ROAE (%)	12.0	10.3	12.4	15.5	14.7
ROA (%)	6.2	5.1	5.9	7.5	7.4
ROCE (%)	8.4	8.3	9.0	11.8	11.0
Div Payout Ratio (%)	25.3	32.8	31.3	22.4	26.2
Net Interest Cover (x)	9.2	5.0	6.2	8.2	8.2

Source: Company, AllianceDBS

Margins Trend

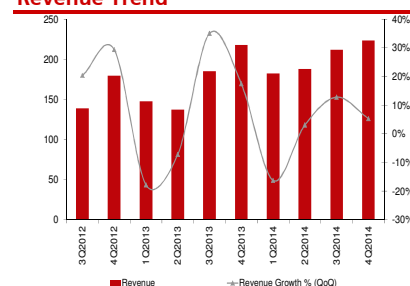


Lifted by plantation business

Quarterly / Interim Income Statement (RM m)

FY Sep	4Q2013	1Q2014	2Q2014	3Q2014	4Q2014
Revenue	218	182	188	212	224
Cost of Goods Sold	(142)	(118)	(113)	(139)	(156)
Gross Profit	76	64	76	73	68
Other Oper. (Exp)/Inc	(16)	(16)	(24)	(23)	(14)
Operating Profit	60	49	52	50	54
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	1	1	1	0	0
Net Interest (Exp)/Inc	(2)	(5)	(7)	(7)	(20)
Exceptional Gain/(Loss)	(33)	(20)	29	(22)	6
Pre-tax Profit	27	25	75	21	40
Tax	(2)	(6)	(19)	(6)	(13)
Minority Interest	0	(2)	(5)	(3)	(4)
Net Profit	24	17	51	12	23
Net profit bef Except.	57	37	21	34	17
EBITDA	61	50	53	50	55

Revenue Trend



Dragged by higher operating expenses and slower profit recognition from newly launched projects

Growth

Revenue Gth (%)	17.5	(16.2)	3.1	12.8	5.3
EBITDA Gth (%)	27.3	(18.6)	6.4	(4.9)	8.6
Opg Profit Gth (%)	25.4	(19.4)	6.3	(3.3)	8.2
Net Profit Gth (%)	(25.2)	(30.8)	203.1	(77.1)	100.3

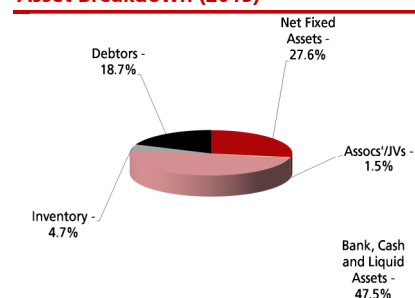
Margins

Gross Margins (%)	35.0	35.3	40.2	34.3	30.2
Opg Profit Margins (%)	27.7	26.7	27.5	23.5	24.2
Net Profit Margins (%)	11.1	9.2	26.9	5.5	10.4

Balance Sheet (RM m)

FY Sep	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	163	174	233	290	344
Invt in Associates & JVs	28	12	12	12	12
Invt & Devt Properties	264	299	299	299	299
Other LT Assets	713	797	817	838	859
Cash & ST Invt	123	196	401	437	549
Dev Props held for sale	280	372	244	354	337
Inventory	41	38	40	55	54
Debtors	113	150	158	219	214
Other Current Assets	561	688	571	757	734
Total Assets	1,851	2,167	2,333	2,633	2,798
ST Debt	107	131	131	131	131
Creditor	182	262	276	382	374
Other Current Liab	40	56	98	121	122
LT Debt	415	477	477	477	477
Other LT Liabilities	152	186	186	186	186
Shareholder's Equity	951	1,032	1,132	1,277	1,435
Minority Interests	3	23	33	58	72
Total Cap. & Liab.	1,851	2,167	2,333	2,633	2,798
Non-Cash Wkg. Capital	339	371	197	254	238
Net Cash/(Debt)	(399)	(412)	(207)	(171)	(59)
Debtors Turn (avg days)	54.9	59.3	66.0	58.3	68.4
Creditors Turn (avg days)	137.6	159.6	204.8	171.1	208.2
Inventory Turn (avg days)	35.8	28.3	29.7	24.8	30.2
Asset Turnover (x)	0.4	0.4	0.4	0.5	0.4
Current Ratio (x)	2.1	2.0	1.9	1.9	2.0
Quick Ratio (x)	0.7	0.8	1.1	1.0	1.2
Net Debt/Equity (X)	0.4	0.4	0.2	0.1	0.0
Net Debt/Equity ex MI (X)	0.4	0.4	0.2	0.1	0.0
Capex to Debt (%)	33.4	28.6	13.2	13.2	13.2
Z-Score (X)	0.0	0.0	0.0	0.0	0.0

Asset Breakdown (2015)



40% net gearing

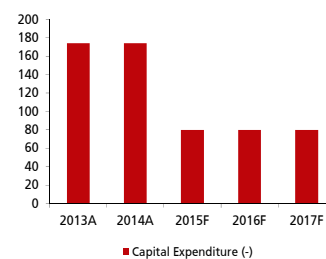
Source: Company, AllianceDBS

Cash Flow Statement (RM m)

FY Sep	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	136	161	191	283	286
Dep. & Amort.	14	19	21	23	25
Tax Paid	(36)	(43)	(5)	(48)	(71)
Assoc. & JV Inc/(loss)	(11)	(3)	0	0	0
Chg in Wkg.Cap.	(6)	53	132	(80)	15
Other Operating CF	13	5	0	0	0
Net Operating CF	109	192	338	178	256
Capital Exp.(net)	(174)	(174)	(80)	(80)	(80)
Other Invts.(net)	(24)	(16)	(20)	(21)	(21)
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	34	18	0	0	0
Other Investing CF	0	(12)	0	0	0
Net Investing CF	(164)	(184)	(100)	(101)	(101)
Div Paid	(13)	(26)	(34)	(42)	(42)
Chg in Gross Debt	49	84	0	0	0
Capital Issues	52	0	0	0	0
Other Financing CF	0	4	0	0	0
Net Financing CF	88	61	(34)	(42)	(42)
Currency Adjustments	(20)	3	0	0	0
Chg in Cash	13	73	205	36	113
Opg CFPS (sen)	27.6	33.2	49.3	61.6	57.3
Free CFPS (sen)	(15.5)	4.3	61.6	23.5	41.9

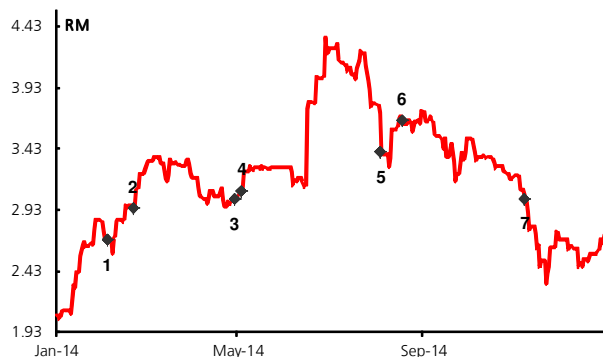
Source: Company, AllianceDBS

Capital Expenditure



Plantation capex

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	28 Feb 14	2.68	4.50	Buy
2:	17 Mar 14	2.94	4.50	Buy
3:	23 May 14	3.02	4.88	Buy
4:	28 May 14	3.08	4.88	Buy
5:	28 Aug 14	3.40	5.70	Buy
6:	11 Sep 14	3.66	5.70	Buy
7:	01 Dec 14	3.02	5.40	Buy

Source: AllianceDBS

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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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