

Company Guide

MKH Bhd

Version 7 | Bloomberg: MKH MK | Reuters: METR.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

28 Feb 2017

BUY

Last Traded Price (27 Feb 2017): RM3.09 (KLCI : 1,693.84)

Price Target 12-mth: RM3.70 (20% upside) (Prev RM3.40)

Shariah Compliant: Yes

Potential Catalyst: Stronger-than-expected sales and CPO price

Where we differ: We are the only broker covering the stock

Analyst

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What's New

- 1QFY17 results met expectation
- Expect stronger FY17 with twin growth drivers in Plantation and Property in full swing
- Raise FY17F/18F/19F earnings by 1%2%/6% for higher CPO price assumption
- Maintain BUY with higher TP of RM3.70

Price Relative



Forecasts and Valuation

FY Sep (RM m)	2016A	2017F	2018F	2019F
Revenue	1,275	1,384	1,370	1,375
EBITDA	337	364	369	368
Pre-tax Profit	308	273	271	266
Net Profit	205	183	190	191
Net Pft (Pre Ex.)	149	183	190	191
Net Pft Gth (Pre-ex) (%)	31.0	22.6	3.7	0.7
EPS (sen)	48.9	43.7	41.2	41.5
EPS Pre Ex. (sen)	35.6	43.7	41.2	41.5
EPS Gth Pre Ex (%)	31	23	(6)	1
Diluted EPS (sen)	48.9	43.7	41.2	41.5
Net DPS (sen)	7.00	8.00	7.27	7.27
BV Per Share (sen)	305	342	344	379
PE (X)	6.3	7.1	7.5	7.4
PE Pre Ex. (X)	8.7	7.1	7.5	7.4
P/Cash Flow (X)	6.1	4.9	5.9	5.9
EV/EBITDA (X)	5.5	4.8	4.9	4.7
Net Div Yield (%)	2.3	2.6	2.4	2.4
P/Book Value (X)	1.0	0.9	0.9	0.8
Net Debt/Equity (X)	0.4	0.3	0.2	0.1
ROAE (%)	17.2	13.5	12.6	11.5
Earnings Rev (%):		1	2	6
Consensus EPS (sen):		43.0	44.0	43.0
Other Broker Recs:		B: 1	S: 0	H: 0

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

Compelling valuation

Sustained earnings growth in FY17. After achieving a record profit in FY16, MKH is poised to deliver an even stronger performance in FY17, premised on the stellar performance from both its Plantation and Property divisions. These two key divisions are expected to drive the group forward, allowing it to have clear earnings visibility in FY17 against the backdrop of a challenging economic environment. MKH is currently trading at a bargain valuation of 7x FY17 EPS which is unjustified. We reiterate our BUY call with a higher SOP-derived TP of RM3.70.

Resilient property sales. MKH achieved FY16 property sales of RM776m (-7% y-o-y), broadly on par with its record sales of RM835m in FY15. Management has set an all-time high sales target of RM900m in FY17, which attests to the strong confidence in its product offerings (majority <RM700k/unit). MKH's strong foothold in Kajang/Semenyih makes it the largest beneficiary of the improved public transport connectivity via two MRT stations within Kajang which will be operational by mid-CY17. Meanwhile, its unbilled sales of RM705m will sustain its near-term earnings momentum.

Plantation to recover in FY17. MKH's fresh fruit bunches (FFB) volume dropped 3% in FY16 due to the El-Nino impact on 2HFY16 production, but this is set to reverse in FY17 with the recovery in FFB production. Also, a strong rebound in crude palm oil (CPO) price supports our 117% growth projection in FY17 plantation EBIT (33% of group's FY17 EBIT). The plantation business is already self-sustaining with strong cash flows to pare down its US\$ borrowings.

Valuation:

MKH is a rare gem that offers both deep value and strong earnings growth. Its current bargain valuation of 7x PE is unjustified, in our view. Solid earnings delivery will be a strong re-rating catalyst as investors appreciate the value in the stock.

Key Risks to Our View:

Margin compression. Rising construction cost could erode profit margins for property projects. Exposure to fluctuations in CPO prices can increase earnings volatility.

At A Glance

Issued Capital (m shrs)	420
Mkt. Cap (RMm/US\$m)	1,298 / 292
Major Shareholders (%)	
Chen Choy & Sons Realty	43.1
Public Bank Grp Off Fund	9.8
Free Float (%)	47.1
3m Avg. Daily Val (US\$m)	0.29
ICB Industry : Real Estate / Real Estate Investment & Services	

WHAT'S NEW

Growth momentum intact

Strong 1QFY17 within expectation: MKH registered a strong 1QFY17 core profit of RM43.9 (+5% q-o-q, +67% y-o-y) after stripping out RM4.2m unrealised forex loss, accounting for 25% of our FY17 core profit projection.

Property remains the largest contributor: The Property division's core EBIT came in at RM38.6m (-47% q-o-q, -33% y-o-y), accounting for 54% of MKH's 1QFY17 core EBIT. This is attributable to progress billings from ongoing projects in Puncak Alam, Kajang, Semenyih and Cheras.

Slow start for property sales. 1QFY17 property sales were relatively weaker at RM60m, compared to RM83m in 1QFY16. We expect its new sales to improve substantially in 2HFY17 as it has always been MKH's practice in recent years to have more aggressive launches in the 2H of its financial year. Meanwhile, unbilled sales came down to RM705m (-15% q-o-q, -15% y-o-y) as a result of weaker sales in 1QFY17.

Riding on strong CPO price. MKH's Plantation division's 1QFY17 core EBIT surged to RM25.6m (+124% q-o-q, 25-fold increase y-o-y) due to higher realised ASP of RM2,536/MT (+10% q-o-q, +49% y-o-y). Notably, its 1QFY17

FFB production has rebounded strongly with a 42% q-o-q growth to 100.7k MT, as the impact of El-Nino on palms eased.

Revise FY17F/18F/19F earnings by 1%/2%/6% as we incorporate DBS' latest CPO price assumption: RM3,040/MT in CY17, RM3,030/MT in CY18 and RM2,970/MT in CY19. We are projecting 16% FFB production growth in FY17. Also, a strong rebound in CPO price is set to be reflected in its FY17 results, resulting in our 117% growth in FY17 Plantation EBIT (33% of group's FY17 EBIT).

Maintain BUY with higher TP of RM3.70. Following our earnings upgrade, we raise our SOP-derived TP to RM3.70. We have imputed an unchanged 50% discount to our property RNAV and employed a DCF methodology for our plantation valuation (7.1% WACC, 1.5% TG). We believe its bargain valuation of 7x FY17 PE provides an attractive entry level given its visible and strong earnings potential.

Quarterly / Interim Income Statement (RMm)

FY Sep	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq
Revenue	349	282	404	16.0	43.4
Cost of Goods Sold	(248)	(177)	(278)	12.3	57.3
Gross Profit	101	105	126	24.9	19.9
Other Oper. (Exp)/Inc	(31.3)	(36.5)	(30.3)	(3.0)	(16.9)
Operating Profit	69.7	68.6	95.8	37.4	39.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	(0.1)	(1.1)	(0.4)	(269.6)	60.3
Net Interest (Exp)/Inc	(22.0)	(9.8)	(22.8)	(3.6)	(131.4)
Exceptional Gain/(Loss)	(8.7)	4.92	7.43	nm	50.8
Pre-tax Profit	38.9	62.6	80.0	105.7	27.7
Tax	(15.3)	(22.6)	(30.1)	97.2	33.6
Minority Interest	0.81	(2.4)	0.57	(29.8)	(123.9)
Net Profit	24.4	37.7	50.4	106.6	33.7
Net profit bef Except.	33.1	32.8	43.0	29.8	31.1
EBITDA	75.5	75.5	104	38.0	38.1
Margins (%)					
Gross Margins	29.0	37.3	31.2		
Opg Profit Margins	20.0	24.3	23.7		
Net Profit Margins	7.0	13.4	12.5		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

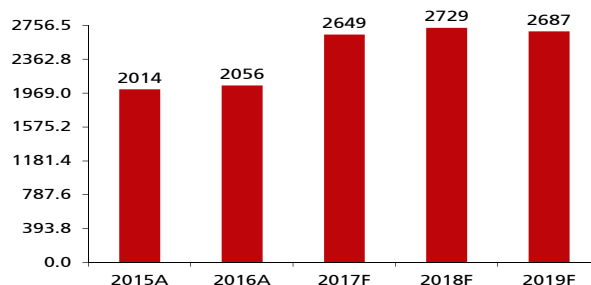
First-mover advantage. We expect MKH to do well in property development, given its entrenched brand name in the Kajang-Semenyih growth corridor and stronghold in the affordable housing segment. This has placed the company in an enviable position with property sales and unbilled sales continuing to chalk new highs. Strong unbilled sales of RM705m imply clear earnings visibility in the near term.

Healthy sales of affordable housing. MKH's projects continue to be well-received in this challenging market because of its focus on affordable housing. MKH's FY16 property sales came in at RM776m (-7% y-o-y) which is a commendable performance. The completion of MRT Line 1 by 2017 that will link the Kajang/Semenyih growth corridor will be a strong catalyst for MKH, given its 490-acre property land bank in that area. Scarcity of land in Kajang also offers an advantage for MKH for its future launches – they are expected to fetch premium pricing, supported by strong demand.

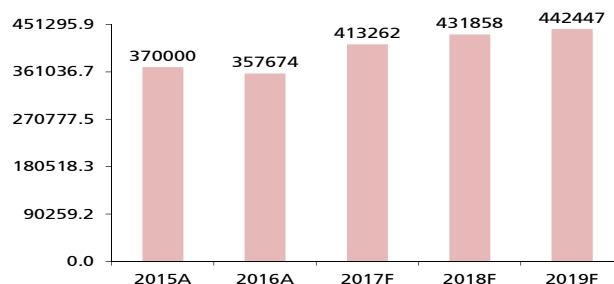
Cheapest plantation proxy. MKH's 16k-ha fully planted oil palm estate in East Kalimantan has continued to register strong FFB production because of the young age profile, though it was slightly affected by the dry weather in early CY16. FY16 FFB volume dropped 3% after surging by 36% in FY15. We project FFB production will recover in FY17 (+16%) with an expected yield of 29MT/ha which is impressive given that the average age of the oil palms at its estate is seven years.

Growing plantation contribution. Plantation EBIT contribution made up ~16% of MKH's FY16 EBIT, and this is likely to continue to increase in tandem with rising FFB production. Also, as the plantation estates mature, MKH will benefit significantly from a CPO price recovery. The plantation business will underpin the strong recurring earnings base for MKH going forward, thus complementing its property business which is project-based.

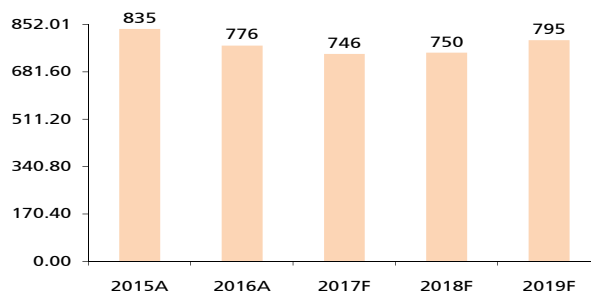
CPO ASP (RM/MT)



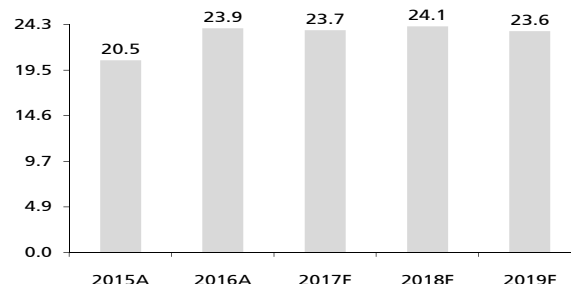
FFB production (MT)



property sales (RMm)



EBIT margin (%)



Source: Company, AllianceDBS

Balance Sheet:

Gearing for expansion. MKH's net gearing stood at 47% as at end-Dec 16. It may appear relatively high as ~34% of its borrowings are used for its Indonesian plantation business which started back in 2008. The estate is fully planted, and self-sustaining and contributing earnings, enabling the group to service borrowings. Meanwhile, its property business is still in expansion mode with aggressive launches in recent years, as MKH tries to ride on the booming property market in the Kajang-Semenyih growth corridor.

Share Price Drivers:

Strong property sales. The weak sentiment towards the property market has dampened interest in MKH. Therefore, it is critical for MKH to deliver strong property sales to entrench its pole position in Kajang/Semenyih. Its focus on affordable homes will help the group to attract more buyers.

CPO price recovery. Given rising contribution from the Plantation business, a sustained recovery in CPO price remains a key catalyst for MKH. With the tighter supply due to El Nino phenomenon, CPO price strength may hold. It may be a blessing in disguise as the group's maturing oil palms could reap the benefits of improving CPO price when production peaks.

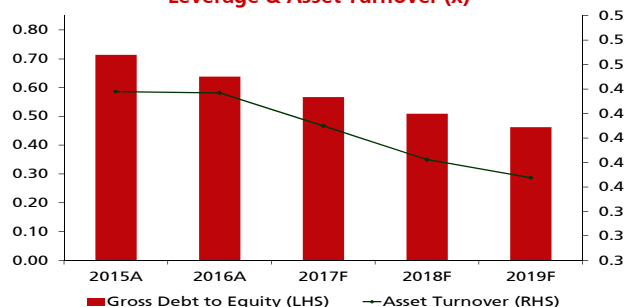
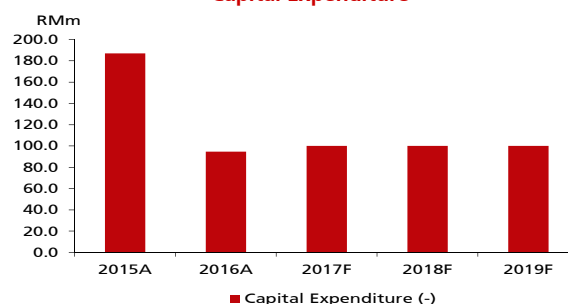
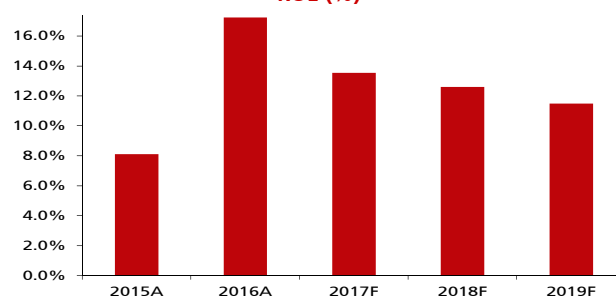
Key Risks:

Margin compression. Rising construction cost could erode profit margins for property projects. Exposure to fluctuations in CPO prices can increase earnings volatility.

Weaker property sales. Rising household debt and softer consumer sentiment may lead to lower property sales. The hurdles that potential buyers are facing in getting bank financing have also resulted in generally lower sales.

Company Background

MKH is an established township developer in Kajang/Semenyih and Greater Klang Valley with an uninterrupted 25-year profit track record. It also has a plantation business with 16k ha of oil palm estates in Indonesia, which has started to contribute significantly.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, AllianceDBS

Key Assumptions

FY Sep	2015A	2016A	2017F	2018F	2019F
CPO ASP (RM/MT)	2,014	2,056	2,649	2,729	2,687
FFB production (MT)	370,000	357,674	413,262	431,858	442,447
property sales (RMm)	835	776	746	750	795
EBIT margin (%)	20.5	23.9	23.7	24.1	23.6

Segmental Breakdown

FY Sep	2015A	2016A	2017F	2018F	2019F
Revenues (RMm)					
Property development & Hotel & property	721	941	971	932	931
Trading	34.8	39.1	40.2	41.4	42.7
Plantation	65.0	71.8	74.0	76.2	78.5
Others	210	206	282	304	306
	10.4	16.1	16.1	16.1	16.1
Total	1,042	1,275	1,384	1,370	1,375
EBIT (RMm)					
Property development & Hotel & property	153	228	203	191	191
Trading	16.1	20.4	19.3	19.9	20.5
Plantation	5.60	5.35	5.18	5.34	5.50
Others	32.4	49.4	107	121	115
	5.98	(3.4)	(7.2)	(7.2)	(7.2)
Total	214	299	328	330	324
EBIT Margins (%)					
Property development & Hotel & property	21.3	24.2	20.9	20.5	20.5
Trading	46.2	52.2	48.0	48.0	48.0
Plantation	8.6	7.4	7.0	7.0	7.0
Others	15.5	23.9	38.0	39.7	37.5
	57.3	(20.8)	(44.8)	(44.8)	(44.8)
Total	20.5	23.5	23.7	24.1	23.6

Lower than management's target of RM900m

Driven by unbilled sales

Income Statement (RMm)

FY Sep	2015A	2016A	2017F	2018F	2019F
Revenue	1,042	1,275	1,384	1,370	1,375
Cost of Goods Sold	(720)	(848)	(922)	(895)	(892)
Gross Profit	322	428	461	475	482
Other Opng (Exp)/Inc	(108)	(122)	(133)	(145)	(158)
Operating Profit	214	305	328	330	324
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.07	(1.0)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(49.1)	(51.9)	(54.4)	(58.6)	(58.6)
Exceptional Gain/(Loss)	(27.7)	55.7	0.0	0.0	0.0
Pre-tax Profit	137	308	273	271	266
Tax	(41.2)	(94.0)	(79.3)	(70.6)	(63.8)
Minority Interest	(9.3)	(9.0)	(10.9)	(10.9)	(10.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	86.3	205	183	190	191
Net Profit before Except.	114	149	183	190	191
EBITDA	238	337	364	369	368
Growth					
Revenue Gth (%)	29.2	22.4	8.5	(1.0)	0.4
EBITDA Gth (%)	10.4	41.4	8.0	1.6	(0.5)
Opg Profit Gth (%)	10.2	42.9	7.4	0.7	(1.7)
Net Profit Gth (Pre-ex) (%)	16.4	31.0	22.6	3.7	0.7
Margins & Ratio					
Gross Margins (%)	30.9	33.5	33.3	34.7	35.1
Opg Profit Margin (%)	20.5	23.9	23.7	24.1	23.6
Net Profit Margin (%)	8.3	16.1	13.2	13.9	13.9
ROAE (%)	8.1	17.2	13.5	12.6	11.5
ROA (%)	3.6	7.0	5.4	5.3	5.1
ROCE (%)	7.5	8.9	8.6	8.5	8.1
Div Payout Ratio (%)	34.0	14.3	18.3	17.6	17.5
Net Interest Cover (x)	4.3	5.9	6.0	5.6	5.5

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Sep	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Revenue	349	266	322	282	404
Cost of Goods Sold	(248)	(179)	(214)	(177)	(278)
Gross Profit	101	87.8	109	105	126
Other Oper. (Exp)/Inc	(31.3)	(22.8)	(32.7)	(36.5)	(30.3)
Operating Profit	69.7	65.1	75.8	68.6	95.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.1)	0.17	0.32	(1.1)	(0.4)
Net Interest (Exp)/Inc	(22.0)	(9.7)	(9.6)	(9.8)	(22.8)
Exceptional Gain/(Loss)	(8.7)	34.7	8.67	4.92	7.43
Pre-tax Profit	38.9	90.3	75.2	62.6	80.0
Tax	(15.3)	(23.2)	(18.1)	(22.6)	(30.1)
Minority Interest	0.81	(5.5)	(1.8)	(2.4)	0.57
Net Profit	24.4	61.6	55.3	37.7	50.4
Net Profit bef Except.	33.1	26.9	46.6	32.8	43.0
EBITDA	75.5	73.4	83.8	75.5	104

Within expectations

Growth

Revenue Gth (%)	36.3	(23.6)	21.0	(12.5)	43.4
EBITDA Gth (%)	43.8	(2.8)	14.1	(9.9)	38.1
Opg Profit Gth (%)	51.7	(6.7)	16.5	(9.5)	39.5
Net Profit Gth (Pre-ex) (%)	25.8	(18.9)	73.6	(29.7)	31.1

Margins

Gross Margins (%)	29.0	33.0	33.7	37.3	31.2
Opg Profit Margins (%)	20.0	24.4	23.5	24.3	23.7
Net Profit Margins (%)	7.0	23.1	17.2	13.4	12.5

Steady margins

Balance Sheet (RMm)

FY Sep	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	211	218	282	343	399
Invt in Associates & JVs	12.5	14.0	14.0	14.0	14.0
Other LT Assets	1,201	1,739	1,762	1,785	1,809
Cash & ST Invt	269	301	414	500	583
Inventory	68.9	93.5	101	100	101
Debtors	211	223	242	239	240
Other Current Assets	621	656	693	679	678
Total Assets	2,594	3,245	3,508	3,661	3,825
ST Debt	287	264	264	264	264
Creditor	365	554	601	595	597
Other Current Liab	100	53.8	105	96.7	90.0
LT Debt	514	573	573	573	573
Other LT Liabilities	205	488	488	488	488
Shareholder's Equity	1,102	1,278	1,432	1,588	1,746
Minority Interests	21.4	34.2	45.1	56.0	66.6
Total Cap. & Liab.	2,594	3,245	3,508	3,661	3,825
Non-Cash Wkg. Capital	435	365	330	327	332
Net Cash/(Debt)	(532)	(536)	(423)	(337)	(254)
Debtors Turn (avg days)	63.1	62.0	61.3	64.1	63.7
Creditors Turn (avg days)	164.5	205.9	237.8	255.2	256.3
Inventory Turn (avg days)	28.0	36.4	40.1	43.1	43.3
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Current Ratio (x)	1.6	1.5	1.5	1.6	1.7
Quick Ratio (x)	0.6	0.6	0.7	0.8	0.9
Net Debt/Equity (X)	0.5	0.4	0.3	0.2	0.1
Net Debt/Equity ex MI (X)	0.5	0.4	0.3	0.2	0.1
Capex to Debt (%)	23.3	11.3	11.9	11.9	11.9
Z-Score (X)	1.8	1.7	1.7	1.7	1.7

Healthy balance sheet

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Sep	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	137	308	273	271	266
Dep. & Amort.	24.5	32.6	35.8	39.4	43.4
Tax Paid	(49.1)	(78.6)	(27.6)	(79.3)	(70.6)
Assoc. & JV Inc/(loss)	(0.1)	1.00	0.0	0.0	0.0
Chg in Wkg.Cap.	(49.0)	(15.7)	(16.5)	11.0	2.05
Other Operating CF	141	(34.0)	0.0	0.0	0.0
Net Operating CF	205	213	265	243	241
Capital Exp.(net)	(187)	(94.5)	(100.0)	(100.0)	(100.0)
Other Invt.(net)	(4.0)	(4.6)	(22.9)	(22.9)	(24.0)
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(5.2)	(7.8)	0.0	0.0	0.0
Net Investing CF	(196)	(107)	(123)	(123)	(124)
Div Paid	(33.6)	(29.4)	(29.3)	(33.5)	(33.5)
Chg in Gross Debt	88.5	(25.9)	0.0	0.0	0.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(12.8)	(4.7)	0.0	0.0	0.0
Net Financing CF	42.2	(60.0)	(29.3)	(33.5)	(33.5)
Currency Adjustments	21.7	(13.8)	0.0	0.0	0.0
Chg in Cash	72.6	32.7	113	86.1	83.0
Opg CFPS (sen)	60.5	54.7	67.2	50.2	51.7
Free CFPS (sen)	4.26	28.4	39.4	30.9	30.5

Source: Company, AllianceDBS

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Feb 16	2.28	2.80	BUY
2:	08 Mar 16	2.26	2.80	BUY
3:	29 Mar 16	2.53	3.20	BUY
4:	12 Apr 16	2.75	3.20	BUY
5:	30 May 16	2.46	3.20	BUY
6:	10 Jun 16	2.51	3.20	BUY
7:	13 Jun 16	2.56	3.20	BUY
8:	14 Jul 16	2.50	3.20	BUY
9:	22 Aug 16	2.95	3.20	BUY
10:	26 Aug 16	2.82	3.20	BUY
11:	27 Sep 16	2.91	3.20	BUY
12:	22 Nov 16	2.85	3.20	BUY
13:	28 Nov 16	2.92	3.40	BUY
14:	07 Dec 16	2.88	3.40	BUY
15:	03 Jan 17	2.87	3.40	BUY

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

DISCLOSURE

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
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 > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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