

29 February 2024

# MKH Berhad

## Growing Property, Plantation Businesses

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MKH's 1QFY24 results met expectations. Its 1QFY24 core net profit more than doubled driven by strong performance across the board. We like MKH for its affordable and transit-oriented development (TOD) property offerings and expanding plantation business in Kalimantan. We maintain our forecasts and OUTPERFORM call.

**Within expectations.** MKH's 1QFY24 core net profit of RM23.6m met expectations at 22% and 25% of our full-year forecast and the full-year consensus estimate, respectively.

**YoY**, its 1QFY24 revenue increased 37% driven by higher property and construction billings (+58%). Its trading segment (+71%) performed well driven by higher product mix of high profit margin building materials. Meanwhile, its plantation segment reported stable revenue as higher production outweighed slightly lower CPO prices. Its core net profit more than doubled thanks to lower input cost, particularly fertilizers and lower unrealised forex losses of RM1.5m vs. RM9.5m a year ago.

**QoQ**, its 1QFY24 core net profit rose 26% on a 3% drop in its top line, we believe, due to lower input cost, particularly fertilizers.

**Outlook.** The group's property development and construction segment has scheduled launches for FY24, including high-rise service apartments and retail commercial shops, with a total estimated GDV of RM581.9m. These launches will be phased according to prevailing market sentiments. With unbilled sales totaling RM722.0m, this division is set for sustainability over the next two years. Although the market is anticipated to remain soft but stable, the segment's growth is expected to proceed at a moderate pace, influenced by the unchanged Overnight Policy Rate at 3.0% since May 2023. However, the group's TOD projects are expected to continue attracting potential buyers.

In the plantation segment, given its performance this year, we foresee a stronger financial outlook for the coming year. This optimism is driven by expected rises in both CPO prices and production volume. The hotel and property segments are expected to maintain stability, supported by increased business activities stemming from domestic business travelers and agencies. On its trading division, 72% of building materials sales originate from the group's development projects, and it will continue supplying building materials for both ongoing and future development projects.

**Forecasts.** Maintained.

**Valuations.** We maintain our SoP-derived TP of RM2.11. Our valuation bases are: (i) a 50% discount to RNAV on the group's property segment, which is lower than our sector average of 60%, supported by its higher exposure to affordable products, (ii) a 13x FY24F PER to its plantation sector earnings, at a 20% discount from its large cap peers owing to its smaller scale operations, and (iii) a 12x FY24F PER on its hotel & property investment segment, also at a 20% discount from larger property investors. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 6).

**Investment case.** We continue to like MKH for: (i) its property business focusing on affordable and TOD projects, (ii) its expanding plantation business in Kalimantan and its proximity to the new capital city of Indonesia that opens itself up to various opportunities, and (iii) a potentially value-accretive spin-off of its plantation unit. Maintain **OUTPERFORM**.

## OUTPERFORM ↔

**Price:** RM1.31  
**Target Price:** RM2.11 ↔

**Expected Capital Gain:** RM0.80 +61.1%  
**Expected Divd. Yield:** RM0.06 +4.5%  
**Expected Total Gain:** RM0.86 +65.6%

**KLCI Index** 1,446.07

### Stock Information

Bloomberg Ticker	MKH MK Equity
Bursa Code	6114
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	577.4
Market Cap (RM m)	756.4
Par value per share (RM)	N.A
52-week range (H)	1.38
52-week range (L)	1.07
Free Float	51%
Beta	0.9
3-mth avg. daily vol.	312,222

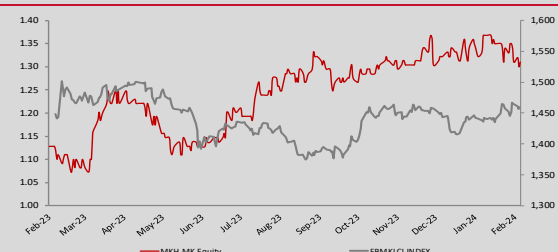
### Major Shareholders

Chen Choy & Sons Realty	40.9%
Public Bank Group Officers' Fund	9.2%
Cau Vong Hds Sdn Bhd	2.0%

### Summary Earnings Table

FY Sep (RM m)	2023A	2024F	2025F
Turnover	1,063.8	1,081.0	1,181.0
Operating Profit	126.5	173.0	187.9
Profit Before Tax	117.2	166.2	184.9
<b>Net Profit</b>	<b>74.6</b>	<b>105.8</b>	<b>117.7</b>
<b>Core Net Profit</b>	<b>74.6</b>	<b>105.8</b>	<b>117.7</b>
Consensus (NP)	80.6	94.4	107.2
Earnings Revision	-	-	-
Core EPS (sen)	12.9	18.3	20.4
Core EPS Growth	-33.6%	41.8%	11.2%
NDPS (sen)	4.0	6.0	7.0
BVPS (RM)	3.2	3.3	3.5
PER (x)	11.0	7.8	7.0
PBV (x)	0.4	0.4	0.4
Net Gearing (x)	(0.0)	(0.1)	(0.1)
Div. Yield (%)	2.8	4.5	4.9

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-0.9%	1.2%	18.0%
Relative (%)	-2.2%	0.5%	16.7%

**Risk to our call include:** (i) overhang in the high-rise, affordable home segment, (ii) unfavourable CPO price fluctuations, (iii) higher-than-expected input and production costs, and (iv) regulatory changes, namely concerning the palm oil industry in Indonesia.

### Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Sep (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
<b>Revenue</b>	303.5	313.0	-3.0%	221.5	37.0%	303.5	221.5	37.0%
Cost of Sales	-229.8	-241.9	-5.0%	-173.1	32.8%	-229.8	-173.1	32.8%
<b>Gross Profit</b>	<b>73.6</b>	<b>71.1</b>	<b>3.6%</b>	<b>48.5</b>	<b>52.0%</b>	<b>73.6</b>	<b>48.5</b>	<b>52.0%</b>
Selling and marketing expenses	-4.8	-5.1	-5.5%	-4.5	8.2%	-4.8	-4.5	8.2%
Administrative Expenses	-21.3	-32.9	-35.4%	-17.8	19.7%	-21.3	-17.8	19.7%
Other income/(expenses)	-2.7	5.9	-145.7%	-9.3	-70.9%	-2.7	-9.3	-70.9%
<b>Operating Profit</b>	<b>44.8</b>	<b>39.0</b>	<b>14.9%</b>	<b>16.9</b>	<b>1.7</b>	<b>44.8</b>	<b>16.9</b>	<b>165.2%</b>
Associate Contributions	0.9	0.4	135.1%	0.5	93.6%	0.9	0.5	93.6%
Net Interest Income/(Expense)	-5.5	-8.7	-36.7%	-4.0	38.4%	-5.5	-4.0	38.4%
<b>Profit Before Tax</b>	<b>40.2</b>	<b>30.7</b>	<b>31.1%</b>	<b>13.4</b>	<b>200.6%</b>	<b>40.2</b>	<b>13.4</b>	<b>200.6%</b>
Taxation	-12.6	-10.1	25.2%	-4.8	161.2%	-12.6	-4.8	161.2%
Minority Interest	-4.0	-1.9	112.4%	0.6	-750.0%	-4.0	0.6	-750.0%
<b>Net Profit</b>	<b>23.6</b>	<b>18.7</b>	<b>26.2%</b>	<b>9.2</b>	<b>157.4%</b>	<b>23.6</b>	<b>9.2</b>	<b>157.4%</b>
Adjustments	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
<b>Core Net Profit</b>	<b>23.6</b>	<b>18.7</b>	<b>26.2%</b>	<b>9.2</b>	<b>157.4%</b>	<b>23.6</b>	<b>9.2</b>	<b>157.4%</b>
Gross Profit Margin	24.3%	22.7%		21.9%		24.3%	21.9%	
Operating Margin	14.8%	12.5%		7.6%		14.8%	7.6%	
Pretax Margin	13.3%	9.8%		6.0%		13.3%	6.0%	
Net Margin	7.8%	6.0%		4.1%		7.8%	4.1%	
Effective Tax Rate	-31.3%	-32.8%		-36.0%		-31.3%	-36.0%	
Net Gearing	(0.02)	(0.00)		0.00		(0.02)	0.00	

Source: Company, Kenanga Research

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## Segmental Breakdown

FYE Sep (RM m)	1Q FY24	4Q FY23	QoQ Chg	1Q FY23	YoY Chg	3M FY24	3M FY23	YoY Chg
<b>Revenue</b>								
Property Development & Construction	178.6	181.4	-1.6%	112.8	58.3%	178.6	112.8	58.3%
Plantation	82.3	93.2	-11.7%	80.4	2.3%	82.3	80.4	2.3%
Hotel & Property Investment	9.0	7.9	13.1%	8.1	10.8%	9.0	8.1	10.8%
Trading	32.5	29.1	11.6%	19.0	70.7%	32.5	19.0	70.7%
Manufacturing	0.3	0.4	-36.8%	0.5	-38.5%	0.3	0.5	-38.5%
Investment Holding	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Others	0.8	0.9	-3.7%	0.7	26.6%	0.8	0.7	26.6%
<b>Total Revenue</b>	<b>303.5</b>	<b>313.0</b>	<b>-3.0%</b>	<b>221.5</b>	<b>37.0%</b>	<b>303.5</b>	<b>221.5</b>	<b>37.0%</b>
<b>Operating Profit</b>								
Property Development & Construction	25.4	21.4	19.1%	8.8	187.7%	25.4	8.8	187.7%
Plantation	14.2	8.9	60.2%	3.4	313.0%	14.2	3.4	313.0%
Hotel & Property Investment	3.7	2.6	40.5%	3.6	3.6%	3.7	3.6	3.6%
Trading	1.3	0.7	83.8%	0.7	92.0%	1.3	0.7	92.0%
Manufacturing	0.1	0.5	-78.0%	0.3	-65.0%	0.1	0.3	-65.0%
Investment Holding	4.1	5.9	-30.5%	4.8	-15.5%	4.1	4.8	-15.5%
Others	-5.7	-7.6	-24.3%	-4.7	21.1%	-5.7	-4.7	21.1%
<b>Total Operating Profit</b>	<b>43.1</b>	<b>32.3</b>	<b>33.2%</b>	<b>16.9</b>	<b>154.8%</b>	<b>43.1</b>	<b>16.9</b>	<b>154.8%</b>
<b>Operating Margin</b>								
Property Development & Construction	14.2%	11.8%		7.8%		14.2%	7.8%	
Plantation	17.3%	9.5%		4.3%		17.3%	4.3%	
Hotel & Property Investment	41.1%	33.0%		43.9%		41.1%	43.9%	
Trading	3.9%	2.4%		3.5%		3.9%	3.5%	
Manufacturing	38.6%	111.1%		67.9%		38.6%	67.9%	
Investment Holding	N.M.	N.M.		N.M.		N.M.	N.M.	
Others	-677.8%	-862.3%		-708.7%		-677.8%	-708.7%	
<b>Total Operating Margin</b>	<b>14.2%</b>	<b>10.3%</b>		<b>7.6%</b>		<b>14.2%</b>	<b>7.6%</b>	

Source: Company, Kenanga Research

## MKH's Property RNAV

Project	Remaining Area (acres)	Remaining GDV (RM b)	NPV of profit (effective) (RM m)
<b>Kajang - Semenyih</b>			
Kajang 2 Precinct 1	270.0	3,240.0	165.9
Kajang 2 Precinct 2 (JV)	180.0	2,450.0	125.4
Kajang 2 Precinct 3 (incl. JV)	80.0	346.0	21.0
Kajang East	3.8	66.0	4.4
Kajang East Precinct 5 (incl. JV)	24.2	459.0	26.7
MKH Youth City	10.2	641.0	38.9
MKH City	6.7	792.0	46.0
Hillpark Residence 2	9.2	446.0	28.3
<b>Greater KL</b>			
Hillpark @ Shah Alam (JV)	22.5	38.0	2.4
Mahkota Cheras (JV)	6.9	435.0	27.6
MKH World	12.0	746.0	45.2
SS5 @ Kelana Jaya	2.0	50.0	2.9
Unbilled Sales		900.0	54.6
Sector Shareholders' Funds (FY23)			1,162.4
<b>Total</b>			<b>1,751.6</b>
Discount to RNAV			50%
<b>RNAV</b>			<b>875.8</b>
Shares (m)			586.5
<b>RNAV/Share (RM)</b>			<b>1.49</b>

Source: Company, Kenanga Research

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<b>MKH's Sum-of-Parts</b>		
<b>Segment</b>	<b>Value (RM m)</b>	<b>Valuation basis</b>
Property Development & Construction	875.8	50% discount to RNAV, below industry peer average (60%) supported by strong focus on affordable products
Plantation	654.1	13x PER on FY24F Net Profit, being a 20% discount from large cap planters
Hotel & Property Investment	8.2	12x PER on FY24F Net Profit, being a 20% discount from property investment & REITs
<b>Aggregate Valuation</b>	<b>1,544.0</b>	
- Less holding company discount	20%	
No. of shares (m)	586.5	
<b>FV per share (RM)</b>	<b>2.11</b>	

Source: Company, Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)		ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	
<b>PROPERTY DEVELOPERS</b>																		
ECO WORLD DEVELOPMENT GROUP	UP	1.31	1.00	-23.7%	3,857.1	Y	10/2024	9.7	10.0	5.1%	3.4%	13.5	13.1	0.8	5.7%	6.0	4.6%	
IOI PROPERTIES GROUP BHD	UP	2.27	1.75	-22.9%	12,498.9	N	06/2024	14.1	14.4	23.5%	2.0%	16.1	15.7	0.5	3.4%	4.5	2.0%	
MAH SING GROUP BHD	OP	0.970	1.11	14.4%	2,354.9	Y	12/2024	9.4	10.1	5.7%	8.0%	10.3	9.6	0.6	6.0%	4.0	4.1%	
MKH BHD	OP	1.31	2.11	61.1%	756.4	Y	09/2024	18.0	20.1	41.8%	11.2%	7.3	6.5	0.4	5.3%	6.0	4.6%	
S P SETIA BHD	UP	0.845	0.680	-19.5%	3,760.7	Y	12/2023	3.3	5.7	29.8%	73.9%	25.7	14.8	0.2	1.8%	2.0	2.4%	
SIME DARBY PROPERTY BHD	MP	0.760	0.840	10.5%	5,168.6	Y	12/2024	6.0	6.4	1.7%	7.5%	12.8	11.9	0.5	3.9%	3.0	3.9%	
SUNWAY BHD	UP	2.79	2.51	-10.0%	15,329.4	Y	12/2024	14.6	14.7	26.0%	1.2%	19.2	18.9	1.1	6.0%	6.0	2.2%	
UOA DEVELOPMENT BHD	MP	1.90	1.79	-5.8%	4,731.8	Y	12/2024	10.6	10.4	19.3%	-2.1%	17.9	18.3	0.8	4.5%	6.5	3.4%	
<b>SECTOR AGGREGATE</b>					<b>48,457.9</b>													<b>3.4%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
<b>SPECIFIC</b>	Product Quality & Safety	★	★	★		
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★		
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
★ -10% discount to TP  
★★ -5% discount to TP  
★★★ TP unchanged  
★★★★ +5% premium to TP  
★★★★★ +10% premium to TP

**Stock Ratings are defined as follows:****Stock Recommendations\*\***

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\* The Expected Total Return might contain rounding discrepancy**

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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