

PP14767/09/2012(030761)

Mah Sing Group Bhd

“Convincing Ahead”

Market Access

Although property sector is facing a soft environment at the back of lack new fresh catalyst, we are still banking on Mah Sing Berhad (Mah Sing), convinced by its 1) continued focus on affordable segment in hotspot area, 2) solid unbilled sales of RM5.1 billion as at 31 March 2015, 3) strong and consistent earnings growth record, and 4) potential future land-banking exercise. We are optimistic that Mah Sing is able to replicate its 2014 sales target in 2015 of minimum RM3.4 billion in addition to expanding its land-bank to improve market positioning. This will be the right potent for earnings sustainability. Post funds raising exercise, we call Mah Sing a BUY at a new TP of RM1.84 a piece.

Note that the company recently completed its 1:4 Bonus Issues which resultant its share price to ease from a range of RM2.10 - RM2.20 per share, and hence, present cheaper entry point for those who interested in this stocks. It's new warrants of about 160 million shares with an exercise price of RM2.10 per share is viewed as an avenue for its long term funding (expiring date in 2020). This exercise came after fund raising via rights issues (RM630 million) and perpetual SUKUK (RM540 million) of RM1.2 billion of which we see as an avenue for future land banking or development activities in the next 1 or 2 years.

Target sales remain intact. Despite unfavorable property market sentiment, Mah Sing managed to rake-in RM560.5 million in property sales in 1Q15, accounting 16% of Mah Sing's internal target of RM3.4 billion for FY15, on the back of RM638.4 million in property launches. As of 22nd April 2015, property sales made up 22% of Mah Sing's internal target of RM3.4 billion for FY15 or RM761.0 million; 36% increase in 22 days from the closing quarter March 2015. To recap, revenue from property development expanded by 24% to RM706.7 million compared to RM569.4 million in 1Q14, due to higher work progress and sales from the Group's on-going development projects. The bulk of sales came from Southville City (28%), D'sara Sentral (19%),

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BUY (TP: RM1.84)

Current Price (RM)	RM1.63
New Target Price (RM)	RM1.84
Previous Target Price (RM)	RM 2.17
Previous Recommendation	HOLD
Upside to the Fair Value	13.0%
Dividend Yield (FY15F)	2.9%

Stock Code

Bloomberg	MSGB MK
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Stock & Market Data

Listing	MAIN MARKET
Sector	Property
Shariah Compliance	Yes
Issued Shares	2,409mn
Market Cap	3,927mn
YTD Chg In Share Price	-1.46%
Beta (x)	0.74
52-week Hi/Lo (RM)	1.90 1.48
3M Average Volume (shares)	1,361mn
Estimated Free Float	46.0%

Major Shareholders

Mayang Teratai	34.57%
Employees Provident Fund	8.85%
Landbanki Securities	6.41%

other Klang Valley (13%), Lakeville Residence (10%), M City (10%) and Icon City (8%) that cumulatively accounted approximately RM669.7 million or 88% of its sales. Meanwhile RM83.7 million or 11% sales came from Johor and another RM7.6 million or 1% from Sabah. We are of the view that Mah Sing will continue to strive in this current softer environment, maintaining its performance with property sales anticipated to continue to be encouraging.

Land-bank strategically located at key growth areas. To date, Mah Sing has total land-bank of 3,766 acres (excluding MOU land in Puchong: 3,595 acres) with the balanced GDV amounting to RM59.6 billion (excluding MOU land: RM43.6 billion). We are of the view that the figure could grow further as Mah Sing has been on the lookout for strategic landbank for quite some time. The remaining undeveloped landbank of 3,766 acres or equivalent to GDV of RM59.6 billion can sustain and keep them busy until the next decade. On the other hand, the RM5.12 billion unbilled sales can lock-in at least 2 year of Mah Sing full year revenue. Currently, Mah Sing has 48 on-going projects of which 11 are completed. Its land-banks are focused in 4 hotspots areas, namely in Klang Valley (76%), Johor (15%), Penang (6%) and Sabah (3%) in terms of GDV contribution. The group is targeting to finalise the purchase of its acquired land-bank in Shah Alam, Puchong and Seremban, that is by 2016 for Shah Alam and 2015 for both Seremban and Puchong. Moving forward and based on its recent fund raising corporate exercise, we believe Mah Sing will not rest on its successes but will continue to expand its land-bank to improve positioning as well as ensure earnings sustainability.

Affordable is the key. We are confident on Mah Sing given the group has broad products offerings at strategic location with good concentration on affordable houses. The timely shift to mid-range mass market products has resulted in very successful launches of key projects such as Savanna Executives Suites in Southville City, Bangi, Lakeville Residence in Taman Wahyu, Kuala Lumpur and Damansara Sentral in Sungai Buluh. We remain confident on Mah Sing given the management capability to deliver their KPI, judging by the strategy they pursue in offering diversified range of attractive price properties at various growth locations. In addition, they also have good concentration of affordable housing segments, targeting buyers mainly in the Klang Valley. It focuses in mass market with 84% of planned residential new launches will be priced below RM1 million. Of note, 76% of the remaining landbank are in Klang Valley/ Greater Kuala Lumpur. Greater KL and Klang Valley are expected to contribute 67% of 2015 sales with Johor expected to contribute 20% followed by Penang at 11% and Sabah at 2% sales. Malaysia Vision Valley new growth corridor mentioned in the 11th MP should benefit Mah Sing's new Seremban land measuring 930 acres bought last year. Of note, Mah Sing is currently in a net cash position with cash and bank balances as at 31 March 2015 of RM1.59 billion, giving them strong foothold to continue growing and expanding its plan.

Outlook. We are of the view that property market would continue to be soft with slower growth until end of this year except for residential sub-sector where demand especially for township development below RM1 million in price is seen to be resilient. It could offer sustainability over the lifespan of the development compared to one-off property development. The current hiccups for property buyers are 1) cooling measure - i.e. shorter maximum loan tenure, ban of DIBS, loan application based on net income and lower loan-to-value ratio; 2) GST implementation - higher cost of doing business; and 3) higher real property gains tax (RPGT) - dent to upgrader and property investors.

Despite unfavorable property market environment, Mah Sing's management is confident that they may be able to rake in a minimum of RM3.43 billion in property sales in 2015. In-line with that, we remain confident on Mah Sing judging by the strategies the company pursue in offering diversified range of attractive price properties at various growth locations that focus in mass market. We foresee that developer owning land in good connectivity will play a pivotal role in stirring response especially to a young generation and first time buyers which prefer hustle-free traffic. Next growth story will come from launches in 2H2015, i.e. new projects such as Festival City integrated development at Puchong's central business district, Icon Residence in Georgetown and Bandar Meridin East in Johor, apart from new phases launches in existing projects such as in Southville City, Dsara Sentral, Lakeville Residence, MResidence 1&2 and Ferringhi Residence 2.

Earnings forecast. In spite of a cooling market sentiments and lack of new catalyst in the property market, we are positive on Mah Sing given its potential in offering the right product at the right location such as mass-market with affordable prices (residential products priced RM1 million and below). In other words, we believe developers with more diverse product range and with good projects and/or land-bank that focus in affordable to mid-segments products may benefit and better at weathering any hiccups in the sector. In fact, the absent of significant buying activities in the 1Q15 as a result of "look and see" attitude towards the implementation of GST in April 2015 is seen to be temporary. The cautious buying attitude may not be long and expected to ease in the next couple of months. We have done our house-keeping on the company and came-up with new earnings forecast for FY15 and FY16 of RM374 million and RM425 million respectively that will be supported by i) overwhelming reception on its project; and ii) enormous GDV and unbilled sales that could spice up and sustain its financial performance in the next few years.

Valuation. Following to the enlarged share base and earnings revision, our target price is reduced to RM1.84 (RM2.17) premised on 25% discount on its RNAV of RM2.46, offering share price upside of 13%. Catalysts for the share price include i) proven execution record i.e. 5-years property's revenue and earnings CAGR of 28% and 25% respectively with minimum 40% dividend pay-out; ii) aggressive land-banking acquisition; iii) more focus to affordable mass market products; and iv) announcement of MRT3 line and vicinity to Group's development. Mah Sing is a **BUY**.

Table 1: Sales Achievement

(RM million)	1Q FY2015	
	Sales	Launches
Greater KL	489.2	571.2
Penang	-	-
Johor	69.7	67.2
Sabah	1.5	-
Group Total	560.4	638.4

Source: Company, M&A Securities

Table 2: Peers Comparison

Company	FYE	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	Div Yield (%)	FV	Call
			FY1	FY2	FY1	FY2	FY1	FY2				
SP Setia	Oct	3.09	0.25	0.30	12.51	10.33	1.3	NA	7.04	3.6	NR	NR
Mah Sing	Dec	1.63	0.16	0.18	10.50	9.20	1.1	0.9	16.07	2.90	1.84	hold
UEM Sunrise	Dec	1.01	0.09	0.10	11.10	10.52	0.7	NA	7.58	2.97	NR	NR
Eco World	Oct	1.50	0.03	0.07	51.72	21.43	1.4	1.1	2.49	NA	NR	NR
Glomac	Apr	0.81	0.13	0.15	6.19	5.51	0.6	0.6	8.79	5.78	NR	NR
Crescendo	Jan	2.30	0.20	0.17	11.50	13.53	0.7	0.7	15.80	5.17	NR	NR
IOI Properties	Jun	1.85	0.14	0.18	13.70	10.11	0.6	0.5	8.26	4.21	NR	NR
MKH	Dec	2.11	0.28	0.37	7.54	5.70	0.9	0.8	11.70	3.79	NR	NR
Tropican Corp.	Dec	1.00	0.13	0.12	7.87	8.47	0.5	0.5	12.04	NA	NR	NR
LBS Bina	Dec	1.59	0.16	0.15	9.94	10.60	0.9	NA	7.60	2.04	NR	NR
E&O	Mar	1.69	0.12	0.14	14.32	12.16	1.3	1.2	9.91	1.61	NR	NR
Average			0.16	0.18	14.04	10.54	0.9	0.8	9.65	3.33		

Notes: FY1 is the current FY estimate

Source: Bloomberg, M&A Securities

Table 3: Financial Summary

YE: Dec (RM million)	2012	2013	2014	2015F	2016F
Revenue	1,766	1,994	2,905	3,055	3,494
EBIT	354	448	453	535	610
PBT	316	372	455	499	559
Net profit	231	281	339	374	425
EPS (sen)	9.6	11.6	14.1	15.5	17.7
Pre-tax margin	18%	19%	16%	16%	16%
Net profit margin	13%	14%	12%	12%	12%
PER (x)	17.0	14.0	11.6	10.5	9.2
P/BV (x)	1.6	1.3	1.2	1.1	1.0
ROE	20%	18%	16%	13%	11%
ROA	7%	7%	7%	6%	6%
Dividend (RM)	0.05	0.07	0.06	0.05	0.05
Dividend Yield	3.2	4.5	3.7	2.9	3.3

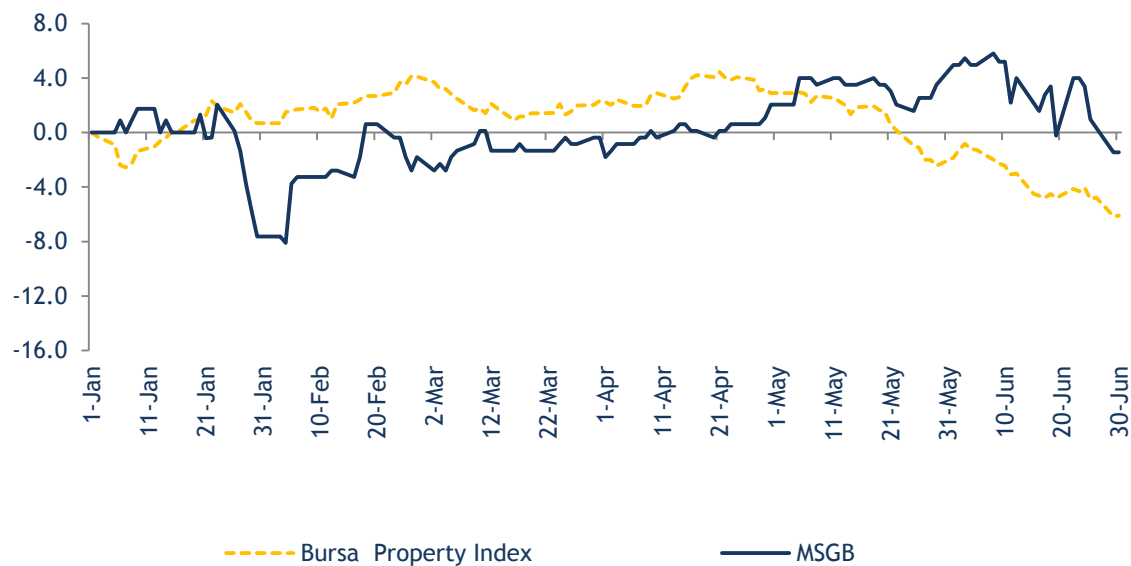
Source: Bursa Malaysia, M&A Securities

Table 4: Mah Sing's RNAV

Name	Stake	Land Size (acre)	Land Size (sq.ft.)	Price (RM)	Market Value (RM mil)
Integrated Development & Residential					
<u>Greater KL & Fringes:</u>					
Hijauan Residence, Cheras	100%	25	1,089,000	50.00	54.5
Aman Perdana, Bukit Raja	100%	54	2,352,240	25.00	58.8
Garden Residence, Cyberjaya	100%	13	566,280	60.00	34.0
Perdana Residence 2, Selayang	100%	4	174,240	50.00	8.7
Bayu Sekamat, Kajang	100%	3	130,680	80.00	10.5
M-Residence 1 @ Rawang	100%	134	5,837,040	25.00	145.9
M-Residence 2 @ Rawang	100%	53	2,308,680	25.00	57.7
Southville City @ KL South, Bangi	100%	380	16,552,800	60.00	993.2
Star Residence, Subang	100%	3	130,680	200.00	26.1
Icon City, Petaling Jaya	100%	10	435,600	1,000.00	435.6
D'sara Sentral, Sg Buluh	100%	4	174,240	500.00	87.1
Lakeville Residence	100%	5	217,800	350.00	76.2
M-Residence 3 @ Rawang	100%	97	4,225,320	25.00	105.6
SSASS Golf Course	100%	85	3,702,600	88.00	325.8
Seremban Land	100%	960	41,817,600	16.00	669.1
Puchong Land	100%	89	3,876,840	310.00	1,201.8
<u>Johor:</u>					
Sri Pulai Perdana	100%	53	2,308,680	22.00	50.8
Austin Perdana	100%	28	1,219,680	22.00	26.8
Sierra Perdana	100%	82	3,571,920	22.00	78.6
Sri Pulai Perdana 2	100%	11	479,160	22.00	10.5
Bandar Meridin East, Plentong	100%	1,352	58,893,120	20.00	1,177.9
Mah Sing i-Parc [Industrial]	100%	59	2,570,040	22.00	56.5
<u>Penang:</u>					
Legenda @ Southbay	100%	7	304,920	300.00	91.5
Icon Residence, Georgetown	100%	3	130,680	300.00	39.2
Ferringhi Residence	100%	47	2,047,320	150.00	307.1
Southbay City	100%	26	1,132,560	400.00	453.0
<u>KK Sabah:</u>					
Sutera Avenue	100%	2	87,120	300.00	26.1
KK Convention Centre	51%	8	348,480	300.00	53.3
Plastic segment	100%	RM11.3 (PBT)	11x PE		124.3
Revised Asset Value					6,786.4
Net Debt (FY14)					-869.0
Enlarged number of shares (mil)					2,409.4
RNAV / Share					2.46
Discount to RNAV					25%
Fair Value					1.84

Source: M&A Securities, Bursa Malaysia

Mah Sing Share Price vs. KLCI
(YTD Performance)



Source: Bloomberg, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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