PP14767/09/2012(030761)

Thursday, August 27, 2015

Mah Sing Group Bhd

"Challenging Outlook"

Market Access

Results Review

- **Actual vs. expectations.** Mah Sing Group Berhad (Mah Sing) 1H15 earnings were in-line with our estimates, making up 51% of our full year net profit forecast. Net profit advanced by 11% y-o-y to RM189.4 million on the back of 16% jump in revenue to RM1,564.6 million, mainly driven by higher work progress and sales from the Group's on-going development projects such as Icon City in PJ, M City in Ampang and Southville City in Bangi. On q-o-q basis, earnings eased by 9% (NP) and 10% (PBT) respectively to RM90.5 million and RM117.2 million in tandem with 1% decrease in revenue. As a prudent measure, the group has scaled back launches from RM3.4 billion planned for 2015 to RM2.0 billion. At the same time, its sales target has been revised downward from RM3.4bn to RM2.3bn, of which we view as more prudent and realistic given the current market conditions.

- **Dividend.** No dividend was declared during the quarter.

- **SPA for Puchong land rescinded.** On separate announcement, Mah Sing has decided to call-off the acquisition of 88.7 acres of land in Puchong which they acquired through MS Lakecity last year. This will entitled the vendor to keep the 1% or approximately RM6.6 million of the deposit paid as commitment fee and agreed liquidation damages and thus, to return the balance 9% or RM59 million to Mah Sing within 60 days after the rescission of the SPA. To recap, the land was supposed to be developed over a period of 10 years with expected GDV of RM9.3 billion with first revenue contribution estimated to commence in 2016. As the contract has ended, approximately RM256.2 million the cash earmarked for the part payment of the acquisition of the Puchong land (from rights issues with warrant

HOLD (TP: RM1.34)

Current Price (RM)	RM1.46
New Target Price (RM)	**RM1.34**
Previous Target Price (RM)	RM 1.63
Previous Recommendation	BUY
Upside to the Fair Value	**-8.0%**
Dividend Yield (FY15F)	**3.2%**

Stock Code

Bloomberg	MSGB MK

Stock & Market Data

Listing		MAIN MARKET
Sector		Property
Shariah Compliance		Yes
Issued Shares		2,409mn
Market Cap		3,518mn
YTD Chg In Share Price		-12%
Beta (x)		0.62
52-week Hi/Lo (RM)	1.90	1.44
3M Average Volume (shares)		1,642mn
Estimated Free Float		33.7%

Major Shareholders

Mayang Teratai	34.6%
Employees Provident Fund	8.8%
Landbanki Securities	6.6%

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gross proceed of RM629.3 million) will be relocated to other potential land acquisition and/or property development activities, should opportunity arises. We believe this would not stop Mah Sing from expanding its land-bank to improve its market positioning and earnings sustainability.

- **Property sales.** Revenue from property development expanded by 19% to RM1.4 billion compared to RM1.2 billion in 1H14, due to higher work progress and sales from the Group's on-going development projects such as the Icon City in PJ, M City in Jalan Ampang, M Residence1&2 in Rawang and Southville City in Bangi. As such, operating profit increased 8.4% to RM232.3 million in 1H15 from RM214.2 million in 1H14. Mah Sing managed to rake-in RM961.4 million in property sales in 1H15 (YTD 31 July 2015 sales: RM1,063.3 million); accounting for 42% of Mah Sing's internal target of RM2.3 billion for FY15, on the back of RM853.5 million in property launches. The bulk of sales came from Southville City (26%), D'sara Sentral (15%), other Klang Valley (33%), and Lakeville Residence (17%) that cumulatively accounted approximately RM879.2 million or 91% of its sales with RM76.1 million or 8% from Johor and the remaining from Penang and Sabah. The increase in sales have lifted Mah Sing's total unbilled sales to RM4.8 billion, 2x of FY14 property revenue of RM2.6 billion, with the remaining GDV from their projects stood at RM59.59 billion.

- **Unbilled sales.** Without the Puchong land, Mah Sing total land-bank stands at 2,546 acres with the balanced GDV and unbilled sales amounting to RM26.4 billion and RM4.8 billion respectively, 1.08x of FY14 property revenue of RM2.6 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 2,546 acres or equivalent to GDV of RM26.4 billion can sustain and keep them busy until the next 6 to 8 years which will be the right potent mix for earnings sustainability. Furthermore, ample cash in hand totalling approximately RM1.54 billion can give them strong foothold to continue growing and expanding its plan, should opportunity arises.

- **Outlook.** We remain confident on Mah Sing although business environment is expected to be more challenging moving forward as no strong catalyst is seen able to excite the sector in the near term; given the current hiccups for property buyers in local market, impacted by 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. We are of the view that its strong portfolios of projects with remaining GDV of RM26.4 billion and remaining undeveloped landbank of 2,546 acres would provide earnings and growth visibility for at least the next 6 to 8 years. Strong unbilled sales position of RM4.8 billion and 7 months YTD sales of RM1.06 billion would drive the Group's recurring and stable earnings. The strong cash position will also give them strong foothold to continue growing and expanding.

- **Maintain earnings forecast for now**. We are of the view that the slowdown and uncertainties in the global economic could or may hit property market sentiment sooner or later as the cost of doing business would increase and thus, may incur cost over-run. This may be added with a risk of weaker-than expected property sales. 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, 3) strong and consistent earnings growth record, and 4) potential future land-banking exercise. As such, we maintained our earnings forecast for FY15 and FY16 of RM374 million and RM425 million respectively 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 the exclusion of the Puchong land, our target price is reduced to RM1.34 (from RM1.63) premised on 20% discount on its RNAV of RM1.68 and hence, Mah Sing has been downgraded to a **HOLD**.

Table 1: Results Analysis

FYE 30 Dec (RM'm)	2Q14	1Q15	2Q15	q-o-q	y-o-y	1H14	1H15	y-o-y
Revenue	705.0	784.1	780.5	-0.5%	10.7%	1,347.2	1,564.6	16.1%
EBIT	114.9	130.0	116.4	-10.5%	1.3%	226.1	246.4	9.0%
Pretax profit	114.9	130.4	117.2	-10.2%	2.0%	226.3	247.6	9.4%
Taxation	-27.9	-32.6	-27.2	-16.4%	-2.6%	-55.7	-59.8	7.4%
Net Profit	87.1	98.9	90.5	-8.5%	3.9%	170.8	189.4	10.8%
EPS (sen)	4.53	4.10	3.76	-8.5%	-17.1%	8.92	8.34	-6.5%
Net gearing (x)	0.22	N. Cash	N. Cash			0.36	N. Cash	
EBIT margin (%)	16.3	16.6	14.9			16.8	15.7	
PBT margin (%)	16.3	16.6	15.0			16.8	15.8	
Net margin (%)	12.3	12.6	11.6			12.7	12.1	

Source: Bloomberg, M&A Securities

Table 2: Sales Achievement

	1Q FY2015	
(RM million)	**Sales**	**Launches**
Greater KL	879.2	786.3
Penang	3.3	-
Johor	76.1	67.2
Sabah	2.7	-
Group Total	**961.3**	**853.5**

Source: Company, M&A Securities
Source: Bloomberg, M&A Securities

Market Access

Table 3: Mah Sing's RNAV

Name	Stake	Land Size (acre)	Land Size (sq ft)	Price (RM)	Market Value (RM mil)
Integrated Development & Residential					
Greater KL & Fringes:					
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
Johor:					
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
Penang:					
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
KK Sabah:					
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					4,915.5
Net Debt (FY14)					-869.0
Enlarged number of shares (mil)					2,409.4
RNAV / Share					**1.68**
Discount to RNAV					20%
Fair Value					**1.34**

Source: M&A Securities, Bursa Malaysia

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Table 4: 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)	15.3	12.5	10.4	9.4	8.3
P/BV (x)	1.4	1.2	1.0	1.0	0.9
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	3.6	5.0	4.1	3.2	3.6

Source: Bursa Malaysia, M&A Securities

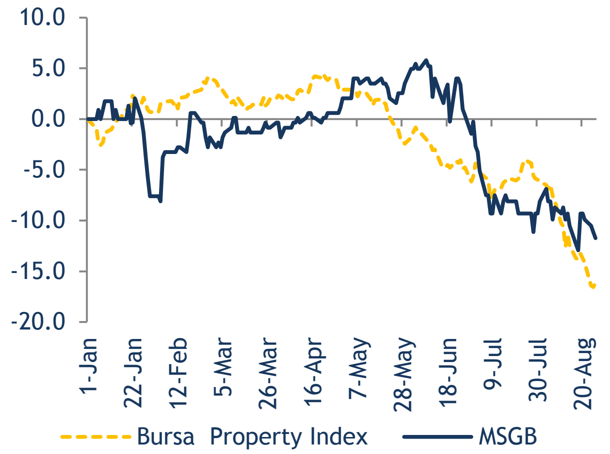
Table 5: Peers Comparison

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	2.99	0.24	0.30	14.1	11.3	1.4	NA	7.0	3.4	NR	NR
Mah Sing	Dec	1.46	19.80	21.20	7.4	6.9	1.6	1.5	13.0	3.9	1.34	hold
UEM Sunrise	Dec	0.78	0.09	0.10	11.5	10.8	0.8	NA	7.6	2.8	NR	NR
Eco World	Oct	1.21	0.03	0.06	53.3	26.2	1.5	1.4	2.5	NA	NR	NR
Glomac	Apr	0.76	0.10	0.13	9.7	7.2	0.8	0.7	8.8	5.2	NR	NR
Crescendo	Jan	1.88	0.22	0.27	10.3	8.4	0.6	0.7	15.3	5.3	NR	NR
IOI Properties	Jun	1.88	0.14	0.18	14.8	10.9	0.6	0.6	8.3	3.9	NR	NR
MKH	Dec	2.00	0.32	0.45	7.7	5.4	1.0	0.9	11.7	3.3	NR	NR
Tropican Corp.	Dec	0.85	0.09	0.11	11.4	9.5	0.5	0.5	11.8	3.8	NR	NR
LBS Bina	Dec	1.31	0.16	0.15	10.3	11.0	0.7	NA	7.5	2.0	NR	NR
E&O	Mar	1.49	0.12	0.14	14.9	12.6	1.5	1.3	7.0	1.5	NR	NR
Average			**1.79**	**1.94**	**14.5**	**10.7**	**1.0**	**0.9**	9.9	3.4		

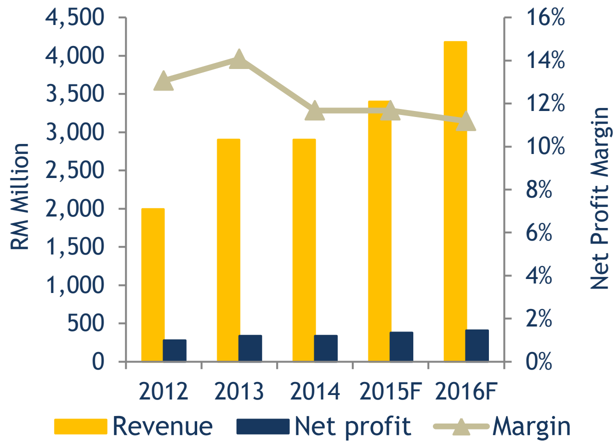
Notes: FY1 is the current FY estimate

Source: Bloomberg, M&A Securities

Mah Sing Share Price vs. KLCI
(YTD Performance)



Revenue and Net Profit
(FY12-FY16F)



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STOCK RECOMMENDATIONS

BUY Share price is expected to be ≥+10% over the next 12 months.
TRADING BUY Share price is expected to be ≥+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 ≥-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.

DISCLOSURES AND DISCLAIMER

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