

## Magna Prima

Recommendation: **HOLD**

Stock Code: 7617

Bloomberg: MAGNA MK

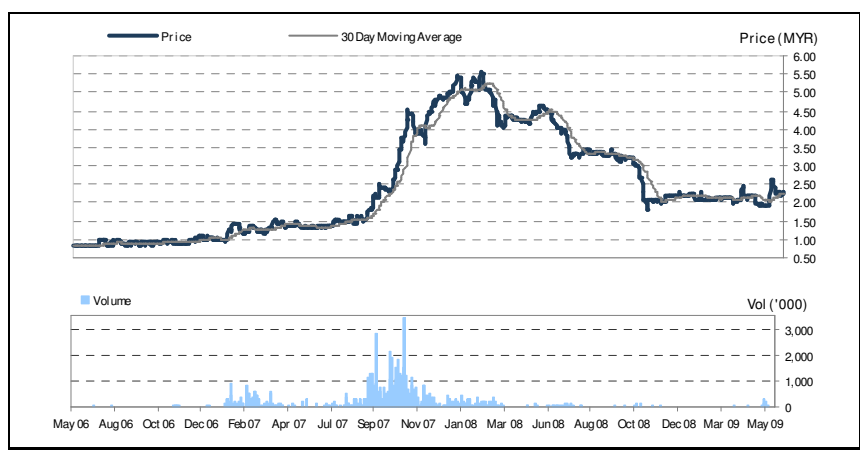
Price: MYR2.22

12-Month Target Price: MYR2.30

Date: May 28, 2009

**Board:** Second**Sector:** Construction**GICS:** Industrials/Construction & Engineering**Market Value - Total:** MYR118.7 mln

**Summary:** Kuala Lumpur-based Magna Prima (MPB)'s core business activities are in property development, civil engineering, building and infrastructure constructions, as well as provision of management services.

**Analyst:** Alexander Chia, ACA

## Results Review &amp; Earnings Outlook

- MPB reported a 1Q09 net profit of MYR2.3 mln which accounts for only 10% of our 2009 earnings projection. Nevertheless, we consider this to be broadly in line with our expectations, due to the nature of property earnings, which can fluctuate widely between quarters. By way of comparison, 1Q net profit contributed between 4%-18% of full-year earnings in the past two years.
- 1Q09 revenue was 27% higher YoY at MYR61.1 mln mainly from the contributions of existing ongoing projects, namely Magnaville Selayang, U1 Shah Alam and Dataran Otomobil.
- Despite the improved revenue in 1Q09, higher building materials costs, increased opex and effective tax rate have depressed net profit to MYR2.3 mln, 55% lower YoY. Consequently, net profit margin shrunk to 3.7% in 1Q09 against 10.4% in 1Q08. MPB continues to be backed by a NTA/share of MYR2.18 with manageable net gearing of 0.3x as at end-March 2009, compared to 0.4x in 2008 and 0.6x in 2007.
- We leave our existing 2009 net profit projection of MYR23.9 mln unchanged at this juncture, on the expectation that earnings will pick up in 2H09, along with the expected gradual recovery in domestic economy and consumer spending.

## Recommendation &amp; Investment Risks

- We maintain our Hold recommendation on MPB, but with a higher 12-month target price of MYR2.30 (from MYR2.20) on higher peer average after the recent recovery in the local equity market.
- We value MPB using a blended approach of 0.6x 2009 P/B (unchanged) and 7x 2009 PER multiples (from 6x) to reflect the uncertainties surrounding MPB's future projects. The metrics are within the valuation range of 0.5x-0.8x P/B and 5x-8x PER for property companies under our coverage. Our target price is inclusive of a projected 5 sen dividend.
- MPB's 2009 earnings will be supported by contributions from its Magnaville, U1 Shah Alam and Dataran Otomobil projects. We understand its MYR600-mln Magna City project is now deferred to 2010. The group recently also proposed to acquire five parcels of land in Jalan Ampang for MYR148 mln. MPB has plans for an integrated commercial and residential project and expects a GDV of MYR1.3 bln. Construction, however, will likely only commence in 2012. The transaction is currently in the process of procuring relevant regulatory and shareholders' approvals. While MPB's longer-term project pipeline is attractive, its earnings prospects in the next 18 months are largely muted, and confined to its existing projects until earnings contribution from the Magna City and Jalan Ampang projects trickle in.
- Risks to our recommendation and target price include further delays in new project launches, slower-than-expected take-up rates and a prolonged downturn in the economy.

## Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	50.7	44.7
PER (x)	4.4	5.0
Dividend/Share (sen)	5.0	5.0
NTA/Share (MYR)	2.14	2.47
Book Value/Share (MYR)	2.14	2.47
No. of Outstanding Shares (mln)	53.5	
52-week Share Price Range (MYR)	1.80 - 4.52	
Major Shareholders:	%	
Fantastic Realty Sdn Bhd	10.4	
Tan Teong Han	6.9	

\*Stock deemed Shariah compliant by the Securities Commission.

## Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.20	1.72	2.14	2.47
Cash Flow (sen)	2.5	53.3	52.5	47.5
Reported Earnings (sen)	0.3	51.6	50.7	44.7
Dividend (sen)	0.0	7.0	5.0	5.0
Payout Ratio (%)	0.0	13.1	9.9	11.2
PER (x)	888.0	4.3	4.4	5.0
P/Cash Flow (x)	89.5	4.2	4.2	4.7
P/Book Value (x)	1.8	1.3	1.0	0.9
Dividend Yield (%)	0.0	3.2	2.3	2.3
ROE (%)	0.2	35.3	26.5	19.0
Net Gearing (%)	54.9	55.5	43.9	30.6

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Page 1 of 4

**Quarterly Performance**

FY Dec. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	61.1	48.3	26.5
Reported Operating Profit	3.4	6.0	-44.3
Depreciation & Amortization	-0.2	-0.2	-1.6
Net Interest Income / (Expense)	-0.1	0.0	>100
Reported Pre-tax Profit	3.3	6.0	-45.7
Reported Net Profit	2.3	5.0	-55.1
Reported Operating Margin (%)	5.5	12.5	-
Reported Pre-tax Margin (%)	5.3	12.5	-
Reported Net Margin (%)	3.7	10.4	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	344.4	280.6	315.0	337.1
Reported Operating Profit	37.8	37.9	34.5	41.8
Depreciation & Amortization	-1.0	-1.2	-1.5	-2.0
Net Interest Income / (Expense)	-0.2	-0.4	-0.7	-0.7
Reported Pre-tax Profit	37.6	37.5	33.9	41.0
Effective Tax Rate (%)	28.6	27.2	28.0	28.0
Reported Net Profit	26.6	26.9	23.9	29.1
Reported Operating Margin (%)	11.0	13.5	11.0	12.4
Reported Pre-tax Margin (%)	10.9	13.4	10.8	12.2
Reported Net Margin (%)	7.7	9.6	7.6	8.6

Source: Company data, S&amp;P Equity Research

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**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Hold	2.30
21-Nov-08	Hold	2.20
25-Aug-08	Buy	4.70
26-May-08	Buy	5.20
7-May-08	Buy	4.92

