

## Magna Prima

Recommendation: **BUY**

Stock Code: 7617

Bloomberg: MAGNA MK

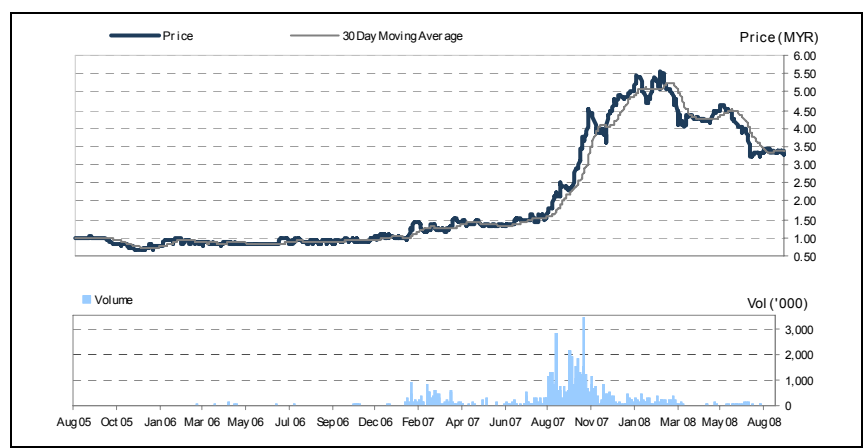
Price: MYR3.36

12-Month Target Price: MYR4.70

Date: August 25, 2008

**Board:** Second**Sector:** Construction**GICS:** Industrials/Construction & Engineering**Market Value - Total:** MYR179.6 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's 2Q08 results were broadly within our expectations. Net profit of MYR13.6 mln in 1H08, traditionally a slower period, accounts for 45% of our original 2008 forecast of MYR30.4 mln.
- 2Q08 revenue and net profit surged 32% YoY and 64% YoY to MYR85.6 mln and MYR8.5 mln respectively, driven by higher sales from its Magnaville Selayang and Dataran Otomobil Shah Alam projects. Magnaville is a property development project while Dataran Otomobil is under the construction & engineering (C&E) division. 2Q08 gross margin and net margin also improved to 30% and 10% vs. 18% and 8% respectively in 2Q07.
- Net margin would have been higher if not for the higher effective tax rate of 36% in the quarter under review due to certain non-deductible expenses and deferred tax assets not recognized. Net gearing remains relatively comfortable at 0.4x.
- To mitigate impact from rising building materials costs, we understand management is opting for bulk purchasing where possible. In addition, pricing for current unsold units and future projects are also being revised upward.
- While 1H08 results were within expectations, we are trimming our 2008 net profit projection by 5% to MYR28.8 mln from MYR30.4 to factor in the potential impact from rising costs in 2H08.
- No dividend was declared during the quarter under review.

## Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	51.6	53.9
PER (x)	6.5	6.2
Dividend/Share (sen)	7.0	7.0
NTA/Share (MYR)	1.72	2.19
Book Value/Share (MYR)	1.72	2.19
No. of Outstanding Shares (mln)	53.5	
52-week Share Price Range (MYR)	1.71 - 5.55	
Major Shareholders:	%	
Fantastic Realty Sdn Bhd	10.8	
Tan Teong Han	7.2	

\*Stock deemed Shariah compliant by the Securities Commission.

## Recommendation &amp; Investment Risks

- We maintain a Buy recommendation on MPB but with a lower 12-month target price of MYR4.70 (from MYR5.20).
- We continue to value MPB using a sum-of-parts valuation approach – present value of profits from property projects (WACC of 9.4%) for MPB's property business and a target PER multiple of 7x (from 9x) for its C&E business – plus a higher discount of 15% (from 10%) as we expect MPB to adopt a more gradual approach in launching its Jalan Kuching Integrated Development (now named the Magna City) in the current subdued property environment. According to management, it plans to proceed with pre-sale activities by year-end for the shop-offices while official launches are only expected in 2009 instead of 4Q08.
- MPB has obtained approval from the Securities Commission to defer its proposed private placement exercise to January 2009 (from July 2008). Given the weak market, MPB in our opinion may continue to defer the exercise. As such, we have also removed the effect of the proposed private placement exercise from our valuation.
- MPB's earnings in 2H08 will be driven by contributions from its Magnaville, U1 Shah Alam and Dataran Otomobil projects, supported by current unbilled sales of approximately MYR200 mln. MPB's share price has corrected by 25% since May 2008 in tandem with the broader market, but we believe the group's fundamentals and long-term outlook remain intact.
- Risks to our recommendation and target price include slower-than-expected take-up and potential delays of its property launches.

## Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	1.07	1.20	1.72	2.19
Cash Flow (sen)	-19.6	2.5	53.3	56.3
Reported Earnings (sen)	-22.6	0.3	51.6	53.9
Dividend (sen)	0.0	0.0	7.0	7.0
Payout Ratio (%)	0.0	0.0	13.1	9.3
PER (x)	NM	1,344.0	6.5	6.2
P/Cash Flow (x)	NM	135.5	6.3	6.0
P/Book Value (x)	3.1	2.8	2.0	1.5
Dividend Yield (%)	0.0	0.0	2.1	2.1
ROE (%)	-19.8	0.2	35.3	28.0
Net Gearing (%)	68.3	54.9	55.5	33.4

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2008 The McGraw-Hill Companies, Inc.

Page 1 of 4

## Magna Prima

Recommendation: **BUY**Stock Code: **7617** Bloomberg: **MAGNA MK** Price: **MYR3.36** 12-Month Target Price: **MYR4.70** Date: **August 25, 2008****Quarterly Performance**

FY Dec. / MYR mln	2Q08	2Q07	% Change
Reported Revenue	85.6	64.6	32.4
Reported Operating Profit	13.2	8.9	48.9
Depreciation & Amortization	-0.2	-0.2	-20.0
Net Interest Income / (Expense)	0.0	-0.1	-80.3
Reported Pre-tax Profit	13.2	8.7	50.7
Reported Net Profit	8.5	5.2	64.1
Reported Operating Margin (%)	15.4	13.7	-
Reported Pre-tax Margin (%)	15.4	13.5	-
Reported Net Margin (%)	10.0	8.0	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	80.8	344.4	359.9	369.4
Reported Operating Profit	4.5	37.8	41.8	42.8
Depreciation & Amortization	-1.2	-1.0	-1.2	-1.6
Net Interest Income / (Expense)	-0.9	-0.2	-1.2	-1.8
Reported Pre-tax Profit	3.6	37.6	40.6	41.0
Effective Tax Rate (%)	97.4	28.6	28.0	25.0
Reported Net Profit	0.1	26.6	28.8	30.5
Reported Operating Margin (%)	5.6	11.0	11.6	11.6
Reported Pre-tax Margin (%)	4.4	10.9	11.3	11.1
Reported Net Margin (%)	0.1	7.7	8.0	8.3

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

**Standard & Poor's Equity Research Services**

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London; Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong and Singapore, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

**Glossary**

**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.

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

**S&P 12 Month Target Price** – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

**Required Disclosures**

**All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.**

**Additional information is available upon request.**

**Other Disclosures**

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"); in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC, which is regulated by the Hong Kong Securities Futures Commission; in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM"), which is regulated by the Securities Commission; in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS"), which is regulated by the Australian Securities & Investments Commission; and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&PM, and SPIS are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those

organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

**CMDF-Bursa Research Scheme ("CBRS")**

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

**Disclaimers**

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued to clients in Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P nor its affiliates guarantee the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

**Required Disclosures**

**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Buy	4.70
26-May-08	Buy	5.20
7-May-08	Buy	4.92

