

Recommendation: **HOLD**

Stock Code: 7617 Bloomberg: MAGNA MK Price: MYR1.96 12-Month Target Price: MYR2.20 Date: November 21, 2008

Board: Second

Sector: Construction

GICS: Industrials/Construction &amp; Engineering

Market Value - Total: MYR104.8 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 & Earnings Outlook

- MPB reported disappointing 3Q08 results with net profit declining 84% YoY to MYR1.1 mln. While 9M08 net profit of MYR14.7 mln was 8.5% higher YoY, it made up only 51% of our previous 2008 forecast.
- 3Q08 revenue was 23% lower YoY to MYR66.2 mln after the completion of its two major projects – the Metro Prima Kepong development and the Avare KLCC luxury condominium. Meanwhile, higher building materials prices, which peaked during the June-July 2008 period and caused some delays in MPB's construction progress, had further squeezed margins, resulting in the larger-than-proportionate drop in 3Q08 net profit (-84% YoY).
- Cumulative 9M08 revenue and net profit, however, rose 14% YoY and 8.5% YoY to MYR200.0 mln and MYR14.7 mln respectively, with contributions from ongoing projects such as Magna Ville Selayang, U1 Batu Tiga Shah Alam and Dataran Otomobil Shah Alam, as well as from completed projects (Metro Prima and Avare KLCC).
- We understand from management that 4Q08 performance should improve as crude oil and building materials prices have since fallen substantially and MPB is catching up on the construction schedule.
- Given the group's YTD performance and the subdued property outlook going forward, we have trimmed our 2008 and 2009 net profit projections by 25% and 22% to MYR21.6 mln and MYR23.9 mln respectively.
- No dividend was declared for the quarter under review.

## Recommendation & Investment Risks

- We are downgrading our recommendation to Hold (from Buy) with a revised 12-month target price of MYR2.20 (from MYR4.70).
- We are now valuing MPB using a blended approach of 0.6x 2009 P/B and 6x 2009 PER multiples (instead of a sum-of-parts method which included the present value of its future projects), to reflect the weak economic outlook and 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 7 sen dividend.
- MPB's 2009 earnings will be driven by its existing unbilled sales amounting to over MYR200 mln and contributions from Magna Ville Selayang, U1 Shah Alam and the planned new launch of Magna City at Jalan Kuching, Kuala Lumpur. The Magna City project has since been scaled down to a GDV of MYR600 mln from MYR1.10 bln after axing the plans for a hotel and a three-story mall. MPB has also deferred the launch of the shop-lots in the Magna City project to 1Q09 from 4Q08, while timing for the launch of the residential blocks will depend on the response toward the shop-lots.
- On the proposed private placement exercise, we believe MPB is seeking a further extension to the current January 2009 deadline, given the existing weak investor appetite for equity offerings.
- 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.	2007	2008E
Reported EPS (sen)	51.6	40.4
PER (x)	3.8	4.9
Dividend/Share (sen)	7.0	7.0
NTA/Share (MYR)	1.72	2.05
Book Value/Share (MYR)	1.72	2.05
No. of Outstanding Shares (mln)	53.5	
52-week Share Price Range (MYR)	1.80 - 5.55	
Major Shareholders:	%	
Fantastic Realty Sdn Bhd	10.8	
Tan Teong Han	7.2	

\*Stock deemed Shariah compliant by the Securities Commission.

### Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	1.07	1.20	1.72	2.05
Cash Flow (sen)	-19.6	2.5	53.3	42.7
Reported Earnings (sen)	-22.6	0.3	51.6	40.4
Dividend (sen)	0.0	0.0	7.0	7.0
Payout Ratio (%)	0.0	0.0	13.1	12.3
PER (x)	NM	784.0	3.8	4.9
P/Cash Flow (x)	NM	79.0	3.7	4.6
P/Book Value (x)	1.8	1.6	1.1	1.0
Dividend Yield (%)	0.0	0.0	3.6	3.6
ROE (%)	-19.8	0.2	35.3	21.7
Net Gearing (%)	68.3	54.9	55.5	50.8

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**Quarterly Performance**

FY Dec. / MYR mln	3Q08	3Q07	% Change
Reported Revenue	66.2	85.5	-22.6
Reported Operating Profit	2.3	9.2	-74.7
Depreciation & Amortization	-0.5	-0.2	100.0
Net Interest Income / (Expense)	-0.2	0.1	NM
Reported Pre-tax Profit	2.1	9.2	-77.5
Reported Net Profit	1.1	7.3	-84.4
Reported Operating Margin (%)	3.5	10.7	-
Reported Pre-tax Margin (%)	3.1	10.8	-
Reported Net Margin (%)	1.7	8.6	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	80.8	344.4	284.9	315.0
Reported Operating Profit	4.5	37.8	31.6	34.5
Depreciation & Amortization	-1.2	-1.0	-1.2	-1.6
Net Interest Income / (Expense)	-0.9	-0.2	-0.6	-0.7
Reported Pre-tax Profit	3.6	37.6	31.0	33.8
Effective Tax Rate (%)	97.4	28.6	29.0	28.0
Reported Net Profit	0.1	26.6	21.6	23.9
Reported Operating Margin (%)	5.6	11.0	11.1	11.0
Reported Pre-tax Margin (%)	4.4	10.9	10.9	10.7
Reported Net Margin (%)	0.1	7.7	7.6	7.6

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	2.20
25-Aug-08	Buy	4.70
26-May-08	Buy	5.20
07-May-08	Buy	4.92

