

Recommendation: **HOLD**

Stock Code: 7617 Bloomberg: MAGNA MK Price: MYR2.80 12-Month Target Price: MYR2.90 Date: November 26, 2009

Board: Main**Sector:** Construction**GICS:** Industrials/Construction & Engineering**Market Value - Total:** MYR149.7 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 & Earnings Outlook

- MPB's 3Q09 results were disappointing: the group reported a net loss of MYR2.1 mln vs. net profit of MYR6.3 mln in 2Q09 and MYR1.1 mln in 3Q08. 9M09 net profit of MYR6.4 mln only reached 30% of our previous 2009 estimates.
- 3Q09 revenue of MYR45.3 mln fell 32% YoY and 38% QoQ due to absence of contributions from major projects after the completion of its flagship Avare Condominium in KLCC last year and lower billings with some of its ongoing projects nearing completion.
- In addition, revenue and gross profit margin (9.1% in 3Q09 vs. 15.1% in 3Q08) were further affected by: (i) the change in building plans at one of its projects where offices were converted into apartments, resulting in lower selling price and profit margin, (ii) escalation of raw material costs, and (iii) cost overruns at the construction division.
- On a positive note, the group's balance sheet remains robust, supported by NTA/share of MYR2.21 and net gearing of 0.3x at end-September 2009, compared to MYR1.91 and 0.4x respectively in 3Q08.
- In view of the poor 3Q09 and the expectation for weak earnings in 4Q09, we slash our 2009 net profit projection to MYR7.0 mln from MYR21.1 mln. We leave our 2010 net profit estimate of MYR25.1 mln unchanged at this juncture, on expectation of contributions from its new major launches in 2010.

Recommendation & Investment Risks

- We maintain a Hold recommendation on MPB, but raise our 12-month target price to MYR2.90 (from MYR2.40).
- We value MPB using a relative PER approach, ascribing a target PER multiple of 6x (from a blended approach of 7x PER and 0.6x P/B) on 2010 earnings. The PER multiple is within the valuation range of between 5x-8x PER for property companies under our coverage. Our target price includes a projected 5 sen dividend.
- MPB made several land acquisitions in the Klang Valley recently to increase its landbank for future property development activities. Given its relatively low net gearing, we do not expect any issues in the financing of the acquisitions. For 2010, we anticipate a weak 1H10 performance, compensated by a stronger 2H10 upon the launch of its new projects, the MYR600-mln Magna City and the MYR130-mln residential project in Selayang. With its increased landbank in Klang Valley and projects in the pipeline, longer-term prospects remain bright.
- However, we believe further upside to its share price in the near term will be muted, as much of the positive expectations have already been reflected in the recent share price run-up. Its prospective 2010 6x PER is in line with its peers of similar revenue size.
- Risks to our recommendation and target price include further delays in its new project launches and lower-than-expected property take-up rates.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	50.7	13.2
PER (x)	5.5	21.3
Dividend/Share (sen)	5.0	5.0
NTA/Share (MYR)	2.14	2.17
Book Value/Share (MYR)	2.14	2.22
No. of Outstanding Shares (mln)	53.5	
52-week Share Price Range (MYR)	1.77 - 3.12	
Major Shareholders:	%	
Fantastic Realty Sdn Bhd	15.4	

*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	2.22
Cash Flow (sen)	2.5	53.3	52.5	16.0
Reported Earnings (sen)	0.3	51.6	50.7	13.2
Dividend (sen)	0.0	7.0	5.0	5.0
Payout Ratio (%)	0.0	13.1	9.9	38.0
PER (x)	1,120.0	5.4	5.5	21.3
P/Cash Flow (x)	112.9	5.2	5.3	17.5
P/Book Value (x)	2.3	1.6	1.3	1.3
Dividend Yield (%)	0.0	2.5	1.8	1.8
ROE (%)	0.2	35.3	26.5	6.0
Net Gearing (%)	54.9	55.5	43.9	45.0

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Magna Prima

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FY Dec. / MYR mln	3Q09	3Q08	% Change
Reported Revenue	45.3	66.2	-31.5
Reported Operating Profit	-0.6	2.3	NM
Depreciation & Amortization	-0.2	-0.5	-49.3
Net Interest Income / (Expense)	-1.1	-0.2	>100
Reported Pre-tax Profit	-1.7	2.1	NM
Reported Net Profit	-2.1	1.1	NM
Reported Operating Margin (%)	-1.3	3.5	-
Reported Pre-tax Margin (%)	-3.8	3.1	-
Reported Net Margin (%)	-4.7	1.7	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	344.4	280.6	245.0	307.1
Reported Operating Profit	37.8	37.9	13.3	38.1
Depreciation & Amortization	-1.0	-1.2	-1.5	-2.0
Net Interest Income / (Expense)	-0.2	-0.4	-3.8	-4.5
Reported Pre-tax Profit	37.6	37.5	9.5	33.6
Effective Tax Rate (%)	28.6	27.2	28.0	28.0
Reported Net Profit	26.6	26.9	7.0	25.1
Reported Operating Margin (%)	11.0	13.5	5.4	12.4
Reported Pre-tax Margin (%)	10.9	13.4	3.9	10.9
Reported Net Margin (%)	7.7	9.6	2.9	8.2

Source: Company data, S&P Equity Research

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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	2.90
25-Aug-09	Hold	2.40
28-May-09	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

