

Results Note – 3QFY08

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Magna Prima Bhd	Price	RM1.96
	Market Capitalisation	RM104.7m
	Board	Second Board
	Sector	Construction
	Stock Code	7617
	Recommendation	BUY (maintain)
Below expectations, target price cut		

Key Stock Statistics

FYE Dec	2008F	2009F
Diluted EPS (sen)	28.5	33.1
P/E (x)	6.9	5.9

Dividend/Share (sen)	10.0
NTA/Share (RM)	1.96
Book Value/Share (RM)	1.96
Issued Share Capital (m)	53.4
52-week Share Price Range	5.55 - 1.80
No of Warrants (m)	23.4

Major Shareholders

Fantastic Realty Sdn Bhd	16.6%
Tan Teong Han	7.2%

Per Share Data

FYE Dec	2005	2006	2007	2008F	2009F
Book Value (RM)	0.97	1.20	1.72	1.94	2.30
Cash Flow (sen)	(56.6)	(29.4)	(35.1)	(45.4)	(18.8)
Basic EPS (sen)	(20.3)	0.2	51.6	39.2	46.0
Diluted EPS (sen)	n.m	2.2	37.0	28.5	33.1
Dividend (sen)	0.0	0.0	7.0	10.0	10.0
Payout Ratio (%)	0.0	0.0	13.6	25.5	21.7
Diluted PER (x)	n.m	89.4	5.3	6.9	5.9
P/Cash Flow (x)	(3.5)	(6.7)	(5.6)	(4.3)	(10.4)
P/Book Value (x)	2.0	1.6	1.1	1.0	0.9
Dividend Yield (%)	0.0	0.0	3.6	5.1	5.1
ROE (%)	(41.7)	0.2	35.3	21.4	21.7
Net Gearing (%)	72.5	59.4	55.5	78.1	78.9

P&L Analysis

FYE Dec (RM m)	2005	2006	2007	2008F	2009F
Revenue	91.1	80.8	344.4	284.7	322.8
Operating Profit	(7.9)	5.4	38.3	30.7	35.5
Depreciation	(1.3)	(1.2)	(1.0)	(1.0)	(1.1)
Net Interest Inc/Exp	(1.6)	(0.6)	0.3	(2.0)	(2.5)
Pre-tax Profit	(10.3)	3.6	37.6	27.7	32.0
Net Profit	(10.4)	0.1	26.6	20.2	23.7
Core Net Profit	(10.4)	0.1	26.6	20.2	23.7
Operating Margin	(8.7%)	6.7%	11.1%	10.8%	11.0%
Pre-tax Margin	(11.3%)	4.5%	10.9%	9.7%	9.9%
Net Margin	(11.5%)	0.1%	7.7%	7.1%	7.3%
Effective Tax Rate	(6.5%)	97.4%	28.6%	26.0%	25.0%

Share Price Chart



3QFY08 Results Highlights and Analysis

YoY comparison

FYE Dec (RM m)	3QFY07	3QFY08	Chg (%)
Revenue	85.5	66.2	(22.6)
Operating Profit	9.5	2.6	(72.8)
Depreciation	(0.2)	(0.3)	5.0
Net Interest Inc/Exp	0.2	0.3	86
Pre-tax Profit	9.2	2.1	(77.5)
Net Profit	7.3	1.1	(84.4)
Core Net Profit	7.3	1.1	(84.4)
Operating Margin (%)	11.1%	3.9%	
Pre-tax Margin (%)	10.8%	3.1%	
Net Margin (%)	8.6%	1.7%	
Effective Tax Rate (%)	13.4%	44.0%	

Yoy, 3QFY08 revenue and net profit down 22.6% and 84.4%. Yoy, 2QFY08 revenue was down 22.6% due to lower billings from Magnaville Selayang, Dataran Otomobil Shah Alam and U1 Shah Alam (which recorded take-up of only around 40%) partly as a result of material supply constraints. 3QFY08 net profit declined by a much sharper 84.4% as significantly higher material costs (steel cost for example rose to around RM4,000/MT vs around RM2,800 currently) cut margins from construction (-1.2% vs -0.4% in 3QFY07) and property development (5.3% vs 13.7%) as well as require adjustment of prior quarters' profits. Effective tax rate was also higher due

to certain expenses not deductible and certain deferred tax assets not recognised.

QoQ comparison

FYE Dec (RM m)	2QFY08	3QFY08	Chg (%)
Revenue	85.6	66.2	(22.7)
Operating Profit	13.4	2.6	(80.9)
Depreciation	(0.3)	(0.3)	0.0
Net Interest Inc/Exp	0.1	0.3	201.8
Pre-tax Profit	13.2	2.1	(84.2)
Net Profit	8.4	1.1	(86.3)
Core Net Profit	8.4	1.1	(86.3)
Operating Margin (%)	15.7%	3.9%	
Pre-tax Margin (%)	15.4%	3.1%	
Net Margin (%)	9.8%	1.7%	
Effective Tax Rate (%)	35.8%	44.0%	

Qoq, 3QFY08 net profit down 86.3%. Due to the reasons mentioned above, 3QFY08 revenue and net profit was down 22.7% and 86.3%, respectively.

YoY comparison

FYE Dec (RM m)	9MFY07	9MFY08	Chg (%)
Revenue	175.5	200.0	14.0
Operating Profit	20.6	20.7	0.3
Depreciation	(0.7)	(0.8)	5.0
Net Interest Inc/Exp	0.1	1.3	837.9
Pre-tax Profit	20.0	21.2	6.0
Net Profit	13.5	14.7	8.5
Core Net Profit	13.5	14.7	8.5
Operating Margin (%)	11.7%	10.3%	
Pre-tax Margin (%)	11.4%	10.6%	
Net Margin (%)	7.7%	7.3%	
Effective Tax Rate (%)	26.2%	29.6%	

9MFY08 revenue and net profit still up 14.0% and 8.5%. In spite of the weak 3QFY08, 9MFY08 revenue and net profit were still up 14.0% and 8.5% due to strong bookings and profit contributions from its flagship Avare luxury condominium in the KLCC area and Magnaville Selayang in 1HFY08.

Outlook

Below expectations, cutting forecasts. 9MFY08 net profit of RM14.7m is below expectations, accounting for 51% of our FY08 forecast of RM29.1m and 46% of consensus forecast of RM32.0m. Taking into account (1) the lower billings in 3QFY08, (2) recovery in construction margin in 4QFY08, and (3) likely recovery of profits written down in 3QFY08, we are cutting our FY08 net profit forecast by 30.6% to RM20.2m. FY09 net profit forecast is also cut by 22.3% from RM30.5m to RM23.7m based on lower bookings from U1 Shah Alam and Jalan Kuching project, which is being scaled down and repositioned in view of the more challenging market environment. As at end September, unbilled

sales was approximately RM200m while outstanding order book was around RM900m.

Cutting target price, maintaining BUY. With the more uncertain economic and business outlook, prospects of softer demand for both commercial and residential properties as well as lower market ratings and depressed prices of larger construction and property development stocks, we are also cutting our CY09 PE target by 20% from 9x to 7x fully diluted EPS. Target price is hence cut from RM3.80 to RM2.32. BUY is however maintained given the 18% upside.

Actively looking for new projects. In spite of the more challenging environment, management believes there is still demand for well-located and well-designed landed properties and is hence looking at a number of prospects.

Clean balance sheet. As of 30 September 2008, total borrowings stood at RM74.6m (down slightly from RM79.0m as at 30 June 2008) and cash reserve RM23.6m (excluding cash of RM11.5m held under HDAs and compared to RM26.2m as at 30 June 2008). Net gearing is still comfortable at RM51.0m against shareholders' funds of RM102.1m and total assets of RM314.0m.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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