

Results Note – 4QFY08

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Magna Prima	Price:	RM2.14
Above expectations	Market Capitalisation:	RM114.3
Board: Second Board		
Sector: Construction		
Stock Code: 7617		
Recommendation: BUY (maintain)		
Index Component/Constituent: FBM Second Board		

Key Stock Statistics

FYE Dec	2009F	2010F
Diluted EPS (sen)	35.9	36.4
P/E (x)	6.0	5.9
Dividend/Share (sen)	5.0	
NTA/Share (RM)	2.14	
Book Value/Share (RM)	2.14	
Issued Share Capital (m)	53.4	
52-week Share Price Range	5.50 - 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	2006	2007	2008	2009F	2010F
Book Value (RM)	1.20	1.72	2.22	2.63	3.09
Cash Flow (sen)	(29.4)	71.8	(63.3)	20.9	0.6
Basic EPS (sen)	0.2	51.6	52.2	50.1	50.8
Diluted EPS (sen)	2.2	37.0	37.4	35.9	36.4
Dividend (sen)	0.0	7.0	5.0	5.0	5.0
Payout Ratio (%)	0.0	13.6	9.6	10.0	9.8
Diluted PER (x)	97.6	5.8	5.7	6.0	5.9
P/Cash Flow (x)	(7.3)	3.0	(3.4)	10.2	363.3
P/Book Value (x)	1.8	1.2	1.0	0.8	0.7
Dividend Yield (%)	0.0	3.3	2.3	2.3	2.3
ROE (%)	0.2	35.3	26.5	20.6	17.7
Net Gearing (%)	59.4	69.5	49.5	26.7	18.3

P&L Analysis

FYE Dec (RM m)	2006	2007	2008	2009F	2010F
Revenue	80.8	344.4	280.6	290.0	300.0
Operating Profit	5.4	38.3	37.1	35.7	36.3
Depreciation	(1.2)	(1.0)	(1.0)	(1.1)	(1.1)
Net Interest Inc/Exp	(0.6)	0.3	1.4	1.0	1.0
Pre-tax Profit	3.6	37.6	37.5	35.7	36.2
Net Profit	0.1	26.6	26.9	25.8	26.1
Core Net Profit	0.1	26.6	26.9	25.8	26.1
Operating Margin	6.7%	11.1%	13.2%	12.3%	12.1%
Pre-tax Margin	4.5%	10.9%	13.4%	12.3%	12.1%
Net Margin	0.1%	7.7%	9.6%	8.9%	8.7%
Effective Tax Rate	97.4%	28.6%	27.2%	27.0%	27.0%

Share Price Chart



4QFY08 Results Highlights and Analysis

YoY comparison

FYE Dec (RM m)	4QFY07	4QFY08	Chg (%)
Revenue	168.9	80.6	(52.3)
Operating Profit	17.9	16.6	(7.0)
Depreciation	(0.2)	(0.3)	5.0
Net Interest Inc/Exp	0.2	0.1	(62)
Pre-tax Profit	17.6	16.2	(7.7)
Net Profit	13.0	12.2	(6.5)
Core Net Profit	13.0	12.2	(6.5)
Operating Margin (%)	10.6%	20.6%	
Pre-tax Margin (%)	10.4%	20.1%	
Net Margin (%)	7.7%	15.1%	
Effective Tax Rate (%)	31.3%	24.1%	

Yoy, 4QFY08 revenue and net profit fell by 52.3% and 6.5%. Yoy, 4QFY08 revenue was down 52.3% due to lower revenue from the Avare super condominium project in the KLCC area and slower construction works for the Dataran Otomobil project, which offset strong revenue from Magnaville project. 4QFY08 net profit benefited from higher margins for the Magnaville project but was still 6.5% lower yoy due to higher profit contribution from Avare in 4QFY07, a quarter which also saw higher losses taken up for the Metro Prima project.

QoQ comparison

FYE Dec (RM m)	3QFY08	4QFY08	Chg (%)
Revenue	66.2	80.6	21.8
Operating Profit	2.6	16.6	547.4
Depreciation	(0.3)	(0.3)	0.0
Net Interest Inc/Exp	0.3	0.1	(77.4)
Pre-tax Profit	2.1	16.2	681.2
Net Profit	1.1	12.2	963.6
Core Net Profit	1.1	12.2	963.6
Operating Margin (%)	3.9%	20.6%	
Pre-tax Margin (%)	3.1%	20.1%	
Net Margin (%)	1.7%	15.1%	
Effective Tax Rate (%)	44.0%	24.1%	

Qoq, 4QFY08 net profit substantially higher. Qoq, 4QFY08 revenue increased by 21.8% due to higher contributions from the Avare and Magnaville projects. The improvement in profitability was even more impressive. In addition to higher profits from Magnaville, operating margin also surged pass 20% due to downward revision of construction costs as a result of sharp decline in prices of key building materials. Steel, for example, declined sharply from a peak of RM4,000/mt to around RM2,000/MT.

YoY comparison

FYE Dec (RM m)	12MFY07	12MFY08	Chg (%)
Revenue	344.4	280.6	(18.5)
Operating Profit	38.2	37.1	(3.0)
Depreciation	(1.0)	(1.0)	5.0
Net Interest Inc/Exp	0.3	1.4	305.2
Pre-tax Profit	37.6	37.5	(0.4)
Net Profit	26.6	26.9	1.2
Core Net Profit	26.6	26.9	1.2
Operating Margin (%)	11.1%	13.2%	
Pre-tax Margin (%)	10.9%	13.4%	
Net Margin (%)	7.7%	9.6%	
Effective Tax Rate (%)	28.6%	27.2%	

12MFY08 revenue fell 18.5% but net profit up by 1.2%. With the strong recovery in profitability in 4QFY08 as well as higher margins from the Avare, Magnaville and Dataran Otomobil projects as well as lower losses for the Metro Prima project, 12MFY08 net profit was up by 1.2% in spite of the very weak 3QFY08. 12MFY08 revenue was down 18.5% due mainly to substantial completion of sales and construction works for Avare in 12MFY07. Effective tax rate remains above statutory rate due to certain expenses not tax-deductible and certain deferred tax assets not recognised.

Lower dividend declared. A final single tier exempt dividend of 5 sen has been declared compared to 1 sen less tax of 26% and 6 sen single tier exempt in 12MFY07.

Outlook

12MFY08 results above expectations. Adjusting FY09 profit forecast higher and introducing FY10 forecasts. The impressive 12MFY08 net profit of RM26.9m is a significant 33% above our forecast of RM20.2m. Margins had improved more than we expected in 4QFY08. Tweaking our operating margin assumption from 11.0% to 12.3%, we are raising our FY09 by 9% from RM23.7m to RM25.8m. We are also introducing our FY10 forecasts. Key contributors in FY09 and FY10 are as follows:-

- Magnaville with around RM40m more to be sold;
- Dataran Otomobil, where Phase 3 and 4 have yet to be launched;
- U1 Shah Alam, where sales is expected to pick up;
- Some remaining contributions from the Avare; and
- the Jalan Kuching project, which has been scaled down and repositioned from a 5-in-1 to a shophouse-cum-serviced apartment development with a lower GDV of around RM500m.

As at 31 December 2008, unbilled sales was around RM150m and outstanding construction order book (excluding the Jalan Kuching project) was around RM175m. Dividend forecast has been reduced 10 sen gross to 5 sen single tier exempt.

Raising target price, maintaining BUY. With the higher FY09 EPS forecast of 35.9 sen and an unchanged CY09 PE of 7x, target price is raised from RM2.32 to RM2.51. BUY is hence maintained.

A key risk for Magna is the flow of construction and land in good location for property development. Management has so far shown ability to replenish orders and secure new land for development. A reported RM400m landed property development might be sealed soon.

With regard to the private placement of up to 8.6m shares, the Securities Commission has approved Magna's application for an extension of 6 months until 14 July 2009 to complete the placement. On the winding-up petition on 93%-owned Magna Park, the group is opposing the petition and does not expect "to suffer any loss nor experience any financial and operational impact."

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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