

Flash Note

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Magna Prima	Price:	RM2.10
Acquiring prime land for development	Market Capitalisation:	RM112.1
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)	5.8	5.8
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)	95.8	5.7	5.6	5.8	5.8
P/Cash Flow (x)	(7.1)	2.9	(3.3)	10.1	356.5
P/Book Value (x)	1.7	1.2	0.9	0.8	0.7
Dividend Yield (%)	0.0	3.3	2.4	2.4	2.4
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



Acquiring Lai Meng school/kindergarten land for RM148.2m cash plus swapped land. Magna Prima announced that a wholly-owned subsidiary Twinicon (M) had on 23 March 2009 entered into a conditional sale and purchase agreement with Lai Meng Girls' School Association (LMGSA) for the proposed acquisition of all pieces of land measuring an aggregate area of approximately 10,587.5 sq m for a cash consideration of RM148.2m, with the condition that Twinicon shall cause the transfer of freehold land measuring 22,280 sq m (Swapped Land) to LMGSA for the purpose of relocating the existing Lai Meng Primary School and Lai Meng Kindergarten. According to the company, the proposed acquisition is expected to be completed by year 2015.

Land, located along Jalan Ampang, for commercial and residential development. The Lai Meng school land is located along Jalan Ampang and is a 5-minute walk from KLCC. Magna Prima intends to develop high-end commercial and residential properties worth an estimated RM1.3bn. The market value of the land is RM194.0m and development can only start after the schools are relocated to Bukit Jalil. Note that Magna Prima was the developer of the successful Avare development in the KLCC vicinity.

Magna Prima to build new school in Bukit Jalil. The Magna Prima will design, arrange and organise the construction of the new school and kindergarten within 36 months. LMGSA will bear the undisclosed construction costs of the new schools.

To be funded with internal fund, debts and/or through JVs. The purchase price of RM148.2m will be funded through a combination of internally-generated funds, external bank borrowings, and/or through joint-venture with equity partners – the exact combination still not finalised at this juncture. As at 31 December 2008, Magna Prima had a cash balance of RM18.5m, total borrowings of RM74.0m and net gearing of 0.5x. Internally-generated funds should grow as we expect the company to be profitable in the next three years – of course, barring a collapse of the Malaysian and global economies.

Outlook

Proposed acquisition shows ability to secure land for development. The proposed acquisition again shows the company's ability to secure land in good location to boost its construction order book and property development profits. The RM148.2m cash consideration and RM19.4m cost of the swapped land imply an acquisition price of RM1,470.6 psf, which is reasonable along the stretch of Jalan Ampang within the KLCC vicinity. Magna Prima can also build on its success with the Avare development.

Maintaining forecasts, target price and BUY recommendation. Since the proposed acquisition is expected to be completed only in the year 2015, there is no change in our FY09 and FY10 forecasts. There may be some adjustments for the profits from the construction of the new schools in Bukit Jalil when the contract sum is disclosed. We are hence maintaining our target price of RM2.51 based on CY09 PE of 7x and BUY recommendation.

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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