

1QFYDec2012 Results
28 May 2012

Magna Prima Berhad

- Adoption of IC15 starting this year
- Some timing differences in revenue recognition
- But underlying growth intact supported by projects
- Unbilled sales of RM706 million at end-1Q12

BUY

Price
83 sen

Market capitalization
RM205 million

Board
Main

Sector
Properties

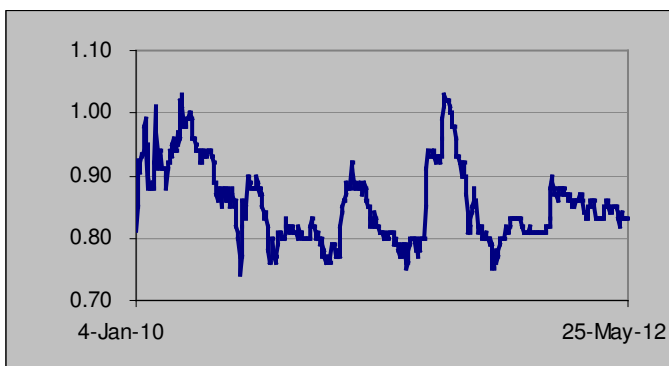
Stock code
7617

By
The Research Team

Key stock statistics	2011	2012E
EPS (sen)	3.1	14.6
P/E (x)	27.1	5.7
Net DPS (RM)	1.5	3.0
NTA/share (RM)	0.48	0.59
Enlarged share capital (mil)	332.9	
52-week price range (RM)	0.735-1.04	

Major shareholders (%)

Fantastic Realty	25.1%
Muafakat Kekal	9.9%

Share Price Chart


1QFYDec12 Earnings Highlights

Year end Dec	1Q12	1Q11	% chg
Turnover	5.3	7.1	-25%
Operating profit	(0.6)	0.9	-164%
Depreciation	0.1	0.2	-57%
Interest inc/(exp)	0.3	0.1	153%
Extraordinary loss/(gain)	(2.6)	-	nm
Pre-tax profit	2.2	0.8	163%
Tax	1.2	(0.1)	-1348%
Net profit	1.0	0.9	10%
EPS (sen)	0.3	0.3	
Operating margin (%)	(11.0)	12.7	
Pre-tax margin (%)	41.7	11.8	
Net margin (%)	19.3	13.1	

Magna Prima's earnings results for 1Q12 reflect the impact of the adoption of IC Interpretation 15 (IC15) for the first time, whereby revenue is only recognised at the time of delivery of vacant possession. Previously revenue was recognised on a percentage of completion basis.

As such, we expect Magna's revenue and earnings going forward will be lumpy, especially on a quarterly basis, depending on the timing of project completion. Note that earnings lumpiness is particularly evident for smaller property developers, like Magna, as compared with larger ones that have a stream of projects to smoothen out the effect.

Nevertheless, ignoring the timing issue, our expectations for Magna's underlying earnings improvement, on the back of new projects, remain intact.

Sales stood at only RM5.3 million in 1Q12, mainly generated by the company's trading arm in the absence of any project completion. Income statement for the previous corresponding quarter was restated, with sales revised to RM7.1 million, down from RM26.8 million under the old accounting policy.

Note that all revenue and earnings previously recognised for on-going projects have been reversed and the lump sum will now recognised upon completion. This contributed to the sharp increase in unbilled sales, which totaled RM706 million at end-March 2012, compared with RM358 million at end-2011.

Pre-tax profit totaled RM2.2 million, compared with the revised RM0.8 million in 1Q11. In addition to lower sales, earnings were also affected by some RM2.56 million in provisions for liquidated and ascertained damages. Net profit came up to just RM1 million in 1Q12.

Note that under the old accounting method, Magna would have reported sales and pre-tax profit totaling RM76.7 million and RM14.3 million, respectively.

Outlook and Recommendation

Magna's projects are progressing on schedule.

The company expects to complete three on-going projects this year – the One Sierra residential development in Selayang, 1st phase for the Alam D'16 residential project in Shah Alam and U1 commercial tower in Shah Alam. The office tower has been sold en bloc for RM28.1 million late last year and vacant possession was handed over in May 2012.

Both the One Sierra and Alam D'16 are fully sold and are 83% and 63% completed at end-1Q12. The projects have gross development value (GDV) of RM273 million, combined.

Under the IC15, revenue and earnings from all three projects will be recognised this year. We estimate sales and net profit totaling RM327 million and RM48.6 million, respectively.

Looking ahead, two projects are slated for completion in 2013 – the mixed commercial-residential development called the Boulevard Business Park at Jalan Kuching as well as the gated and guarded residential development, Seri Jalil in Bukit Jalil. The projects were about 8% and 47% completed at end-1Q12, respectively, and have combined GDV of RM450 million.

In 2014, Magna's sales and earnings will be boosted by the completion of The Istana, Melbourne, formerly known as Dynasty Living. The project involves plans to develop a 25-storey apartment block in the heart of Melbourne, Australia. Some 62% of the units were pre-sold in Australia. Including local sales, the project was 71% sold at end-1Q12. The project has an estimated GDV of A\$210 million or about RM670 million.

Two other projects are targeted for launch later this year and to be completed in 2015. The Phase 2 Alam D'16, a medium cost high-rise condominium project, has an estimated GDV of RM236 million. Meanwhile, the Phase 2 for Boulevard Business Park will consist primarily of service apartment units with total GDV of roughly RM310 million.

We forecast net profit will improve to RM75 million and RM91.3 million in 2013-2014, respectively, and further to RM94 million in 2015 based on the company's current roster, including the two soon-to-be launched projects.

Magna's book value is estimated to rise to about RM1 and RM1.23 per share by end-2014-2015, respectively, upon completion of all the above-mentioned projects. That's a substantial improvement from its current book value of 44 sen per share and well above its prevailing share price of 83 sen per share. This suggests room for future capital gains.

Magna has proposed a single-tier 1.5 sen per share dividend for 2011, pending approval at its AGM. This is equivalent to profit payout ratio of 49%.

We assumed dividends would increase in line with the company's earnings expansion, to 3 and 4 sen per share in 2012-2013 and up to 5 and 5.5 sen per share in 2014-2015. That is based on a payout ratio of less than 20%, on average, and would earn shareholders fairly decent net yields of about 3.6-4.8% for 2012-2013, respectively, at the current share price.

The company is actively looking to replenish its landbank, for projects beyond 2015. It already has two projects on the drawing board.

The first will be located on the 6.95-acre plot of land in Jalan Gasing, Petaling Jaya, which was acquired in 2010 for RM48.5 million.

The other is expected to be Magna's flagship project – a huge mixed development on a 2.62-acre piece of land located in Jalan Ampang where the Lai Meng Girls' School is currently situated.

The plan is to relocate the school to Bukit Jalil, where a piece of land has already been acquired for RM10.7 million. Construction of the new school is expected to start in 1H12 and completed by end-2013.

In view of Magna's ongoing as well as new projects in hand, we are maintaining our **BUY** recommendation on the stock.

Profit & Loss Analysis

Year end Dec (RM mil)	2010	2011	2012E	2013E
Turnover	116.3	201.7	327.0	477.0
Operating profit	(9.1)	18.7	64.7	102.8
Depreciation	0.8	0.4	0.3	0.3
Interest inc/(exp)	(0.8)	0.5	(2.1)	(2.5)
Extraordinary loss/(gain)	-	6.0	(2.6)	-
Pre-tax profit	(10.7)	12.8	64.8	100.0
Tax	2.1	4.4	16.2	25.0
Minorities	(0.4)	(1.8)	-	-
Net profit	(12.4)	10.2	48.6	75.0
Operating margin (%)	(7.8)	9.3	19.8	21.5
Pre-tax margin (%)	(9.2)	6.3	19.8	21.0
Net margin (%)	(10.7)	5.0	14.9	15.7

Per Share Data

	2010	2011	2012E	2013E
EPS (sen)	(5.0)	3.1	14.6	22.5
P/E (x)	nm	27.1	5.7	3.7
Net dividend (sen)	1.0	1.5	3.0	4.0
Net yield (%)	1.2	1.8	3.6	4.8
Net assets per share (RM)	0.49	0.48	0.59	0.78
Price/NA (x)	1.7	1.7	1.4	1.1
Cashflow/share (RM)	(0.1)	0.1	0.1	0.2
Price/cashflow (x)	(10.3)	6.8	5.6	3.7
Gearing (%)	79.3	77.0	42.3	65.5
ROE (%)	(10.4)	7.3	27.2	32.8



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