

Results Note

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| | | |
|---|-------------------------------|----------|
| Magna Prima | Price: | RM2.94 |
| Below, losses in 3QFY09 | Market Capitalisation: | RM157.3m |
| Board: Main Board | | |
| Sector: Construction | | |
| Stock Code: 7617 | | |
| Recommendation: REDUCE (downgrade) | | |
| Index Component/Constituent: - | | |

Key Stock Statistics

| FYE Dec | 2009F | 2010F |
|---------------------------|-------------|-------|
| Diluted EPS (sen) | 14.2 | 36.4 |
| P/E (x) | 20.8 | 8.1 |
| Dividend/Share (sen) | 5.0 | |
| NTA/Share (RM) | 2.30 | |
| Book Value/Share (RM) | 2.30 | |
| Issued Share Capital (m) | 53.5 | |
| 52-week Share Price Range | 3.30 - 1.77 | |
| No of Warrants (m) | 21.6 | |
| Major Shareholders | | |
| Fantastic Realty Sdn Bhd | 15.4% | |

Share Price Chart



Per Share Data

| FYE Dec | 2006 | 2007 | 2008 | 2009F | 2010F |
|--------------------|--------|------|--------|-------|-------|
| Book Value (RM) | 1.20 | 1.72 | 2.22 | 2.32 | 2.77 |
| Cash Flow (sen) | (29.4) | 71.8 | (63.3) | 1.4 | 19.2 |
| Basic EPS (sen) | 0.2 | 51.6 | 52.2 | 18.4 | 50.8 |
| Diluted EPS (sen) | 2.2 | 37.0 | 37.4 | 14.2 | 36.4 |
| Dividend (sen) | 0.0 | 7.0 | 5.0 | 5.0 | 5.0 |
| Payout Ratio (%) | 0.0 | 13.6 | 9.6 | 27.1 | 9.8 |
| Diluted PER (x) | 134.1 | 7.9 | 7.9 | 20.8 | 8.1 |
| P/Cash Flow (x) | (10.0) | 4.1 | (4.6) | 209.6 | 15.3 |
| P/Book Value (x) | 2.4 | 1.7 | 1.3 | 1.3 | 1.1 |
| Dividend Yield (%) | 0.0 | 2.4 | 1.7 | 1.7 | 1.7 |
| ROE (%) | 0.2 | 35.3 | 26.5 | 8.1 | 20.0 |
| Net Gearing (%) | 59.4 | 69.5 | 49.5 | 38.8 | 20.7 |

P&L Analysis

| FYE Dec (RM m) | 2006 | 2007 | 2008 | 2009F | 2010F |
|----------------------|-------|-------|-------|-------|-------|
| Revenue | 80.8 | 344.4 | 280.6 | 230.0 | 300.0 |
| Operating Profit | 5.4 | 38.3 | 37.1 | 13.4 | 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 | 13.4 | 36.2 |
| Net Profit | 0.1 | 26.6 | 26.9 | 9.5 | 26.1 |
| Core Net Profit | 0.1 | 26.6 | 26.9 | 9.5 | 26.1 |
| Operating Margin | 6.7% | 11.1% | 13.2% | 5.8% | 12.1% |
| Pre-tax Margin | 4.5% | 10.9% | 13.4% | 5.8% | 12.1% |
| Net Margin | 0.1% | 7.7% | 9.6% | 4.1% | 8.7% |
| Effective Tax Rate | 97.4% | 28.6% | 27.2% | 27.0% | 27.0% |

3QFY09 Results Highlights and Analysis

YoY comparison

| FYE Dec (RM m) | 3QFY08 | 3QFY09 | Chg (%) |
|------------------------|--------|--------|---------|
| Revenue | 66.2 | 45.3 | (31.5) |
| Operating Profit | 2.6 | (0.3) | (113.0) |
| Depreciation | (0.3) | (0.3) | 10.3 |
| Net Interest Inc/Exp | 0.3 | 0.1 | (76) |
| Pre-tax Profit | 2.1 | (1.7) | (182.4) |
| Net Profit | 1.1 | (2.1) | (286.5) |
| Core Net Profit | 1.1 | (2.1) | (286.5) |
| Operating Margin (%) | 3.9% | -0.7% | |
| Pre-tax Margin (%) | 3.1% | -3.8% | |
| Net Margin (%) | 1.7% | -4.7% | |
| Effective Tax Rate (%) | 44.0% | -53.6% | |

YoY, 3QFY09 revenue and net profit declined 31.5% and 286.5%. Contrary to our expectation, Magna posted a pretax loss of RM1.7m in 3QFY09. Management attributed the loss to lower margin from a project following the conversion of an office building to apartment and revision of selling price. 3QFY09 revenue declined by 31.5% yoy following the completion of a project, which we believe to be The Avare, in early 2009. The Magna Ville project in Selayang and Dataran Otomobil in Shah Alam contributed to bulk of 3QFY09 revenue.

QoQ comparison

| FYE Dec (RM m) | 2QFY09 | 3QFY09 | Chg (%) |
|------------------------|--------|--------|---------|
| Revenue | 72.9 | 45.3 | (37.9) |
| Operating Profit | 10.5 | (0.3) | (103.2) |
| Depreciation | (0.3) | (0.3) | 5.0 |
| Net Interest Inc/Exp | (0.5) | 0.1 | (116.0) |
| Pre-tax Profit | 8.6 | (1.7) | (119.8) |
| Net Profit | 6.3 | (2.1) | (134.1) |
| Core Net Profit | 6.3 | (2.1) | (134.1) |
| Operating Margin (%) | 14.4% | -0.7% | |
| Pre-tax Margin (%) | 11.9% | -3.8% | |
| Net Margin (%) | 8.6% | -4.7% | |
| Effective Tax Rate (%) | 24.4% | -53.6% | |

Qoq, 3QFY09 revenue and net profit declined by 37.9% and 134.1%. Lower construction and property billings as well as losses posted by a project contributed to the 37.9% qoq decline in revenue and 134.1% decline in net profit. 2QFY09 net profit was boosted by higher billings recorded for Magna Ville in Selayang and U1 in Shah Alam.

YoY comparison

| FYE Dec (RM m) | 9MFY08 | 9MFY09 | Chg (%) |
|------------------------|--------|--------|---------|
| Revenue | 200.0 | 179.3 | (10.4) |
| Operating Profit | 20.7 | 11.4 | (45.1) |
| Depreciation | (0.8) | (0.8) | 5.0 |
| Net Interest Inc/Exp | 1.3 | (0.4) | (128.9) |
| Pre-tax Profit | 21.2 | 10.2 | (52.0) |
| Net Profit | 14.7 | 6.4 | (56.6) |
| Core Net Profit | 14.7 | 6.4 | (56.6) |
| Operating Margin (%) | 10.3% | 6.3% | |
| Pre-tax Margin (%) | 10.6% | 5.7% | |
| Net Margin (%) | 7.3% | 3.6% | |
| Effective Tax Rate (%) | 29.6% | 38.0% | |

Yoy, 9MFY09 revenue and net profit declined by 10.4% and 56.6%. With the loss in 3QFY09, the group recorded a net profit of only RM6.4m in 9MFY09 on a 10.4% decline in revenue.

Outlook, forecasts & recommendation

9MFY09 net profit far short of our FY09 forecast, cutting forecast. 9MFY09 net profit of RM6.4m is only 25% of our full year forecast of RM25.8m. We had expected a better 2HFY09 with the evident recovery in economic growth and sentiments to boost sales of its projects - Magna Ville, U1, Dataran Otomobil and later, the Magna City project along Jalan Kuching. Management expect Magna Ville and Dataran Otomobil, which are at tail end, and new projects to be launched soon to contribute in 4QFY09. Pending further clarifications from management, we are trimming FY09 revenue from RM290m to RM230m and gross margins from 18% to 13%. FY09 net profit forecast is hence cut to RM9.5m. FY10 net profit forecast is however maintained on assumptions of strong take-up for Magna City and other new projects to be launched.

New management aggressive acquiring land for development. In addition to the proposed Jalan Ampang land acquisition (which is subject to the litigation on the Swapped Land in Bukit Jalil) for RM148.2m, Magna has the following land acquisition proposals:-

- 1 parcel of freehold land measuring 5.7 acres and all parcels of leasehold land measuring in aggregate 16.8 acres located in Daerah Gombak, Selangor for a total cash consideration of RM40.5m;
- 2 pieces of freehold land, measuring 180,736 sf and 122,260 sf respectively and located at Jalan 5/44, Petaling Garden, Petaling Jaya, together with a row of 15 single-storey lock-up shops erected thereon for a total cash consideration of RM48.5m;
- proposed acquisition for a cash consideration of RM3.5m of the entire issued and paid-up capital of Ibsul Development, which has entered into a SPA with PKNS for the purchase of a piece of land located in Section 16, Bandar Shah Alam, Selangor Darul Ehsan for a total cash purchase price of RM18.5m; and
- a piece of vacant leasehold residential development land located off the west side of Jalan Ipoh in Selangor Darul Ehsan and measuring approximately 2.43 acres for a purchase consideration of RM16.5m to be satisfied by the issuance of 8.25m new Magna Prima Shares at an issue price of RM2.00 each.

Also pending completion are the proposed 1-into-4 share split and proposed share buyback scheme.

Maintain target price, downgrade to REDUCE.

Given the right market conditions, we believe development of the above pieces of land will help to sustain and boost future construction and development profits. But, unless there is a cash call, gearing would shoot past 2x after the acquisitions. We maintain our target price of RM2.55 based on 7x CY10 EPS. At current price of RM2.94, stock is downgraded to REDUCE.

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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