

# Magna Prima

Recommendation: **BUY**

Stock Code: 7617

Bloomberg: MAGNA MK

Price: MYR4.32

12-Month Target Price: MYR4.92

Date: May 7, 2008

Board: Second

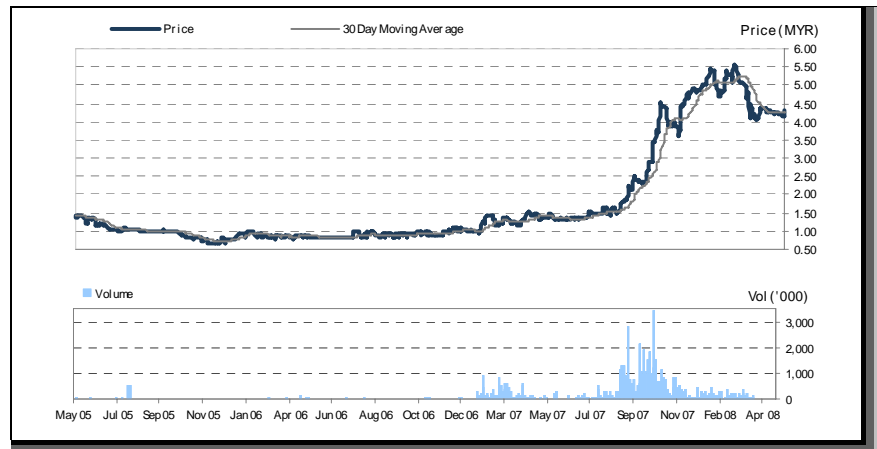
Sector: Construction

GICS: Industrials/Construction & Engineering

Market Value - Total: MYR223.0 mln

**Summary:** Kuala Lumpur-based Magna Prima (MPB)'s core business activities are in property development, civil engineering, building and infrastructure constructions, as well as provision of management services.

**Analyst:** Alexander Chia, ACA



## Highlights

- After a management shake-up between 2005 and 2006, MPB posted a strong performance in 2007. This was a marked contrast to previous years' results.
- MPB's strategy in property is to build commercial properties and mid-to high-end condominiums in high density areas. It focuses on identifying strategically located land within the Klang Valley that has been approved for commercial development and to build between six months to a year from acquisition of land.
- The new management team has drawn up a clear growth plan till 2011. Projects with a total GDV of MYR1.2 bln are set to be launched in the next few months. Post-completion of the Avare project this year, MPB's key focus going forward will be the Jalan Kuching Integrated Development (JKID), Magna Ville, Selayang and U1, Shah Alam.
- We expect revenue to grow 4.5% YoY in 2008 and 2.6% YoY in 2009, while net profit is expected to jump 14% YoY in 2008 and 0.5% YoY in 2009. The higher increase in 2008 net profit is due to better pricing strategy and continued cost containment measures. We believe 2010 and 2011 will be strong years for MPB with JKID contributing the bulk of earnings then.

## Investment Risks

- Risks to our recommendation and target price include slower-than-expected take-up and delays for its property launches.

## Recommendation

- We initiate coverage with a Buy recommendation and a 12-month target price of MYR4.92 for MPB.
- We derive our target price using a sum-of-parts valuation approach – present value of profits from property projects for MPB's property development business and a target PER multiple for its construction business.
- MPB's niche property strategy, which is to acquire strategic landbank within Klang Valley and to build within a year from acquisition, will allow the group to keep its balance sheet light and avoid carrying costs which will burden cash flow. Meanwhile, by having an internal construction arm, MPB has better control over costs, quality and delivery schedules which are critical to the sustainability of margins especially in light of rising building materials prices. We also credit MPB for its experienced hands-on management team.
- Given the prominent location and accessibility of both the U1 and JKID projects, we expect response to be good, and will bode well for earnings going forward.
- From MPB's website and 2006 annual report, we note that there was no mention of any corporate social responsibility (CSR) activities that may have been undertaken by the group during the year.

### Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	51.6	36.8
PER (x)	8.4	11.7
Dividend/Share (sen)	7.0	7.0
NTA/Share (MYR)	1.72	1.57
Book Value/Share (MYR)	1.72	1.57

No. of Outstanding Shares (mln) **51.6**

52-week Share Price Range (MYR) **1.30 - 5.55**

Major Shareholders:

Fantastic Realty Sdn Bhd	10.8
Tan Teong Han	7.2

\*Stock deemed Shariah compliant by the Securities Commission.

### Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	1.07	1.20	1.72	1.57
Cash Flow (sen)	-19.6	2.5	53.3	38.3
Reported Earnings (sen)	-22.6	0.3	51.6	36.8
Dividend (sen)	0.0	0.0	7.0	7.0
Payout Ratio (%)	0.0	0.0	13.1	14.1
PER (x)	NM	1,728.0	8.4	11.7
P/Cash Flow (x)	NM	174.2	8.1	11.3
P/Book Value (x)	4.0	3.6	2.5	2.7
Dividend Yield (%)	0.0	0.0	1.6	1.6
ROE (%)	-19.8	0.2	35.3	27.8
Net Gearing (%)	68.3	54.9	55.5	56.9

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2008 The McGraw-Hill Companies, Inc.

Page 1 of 6

## Background

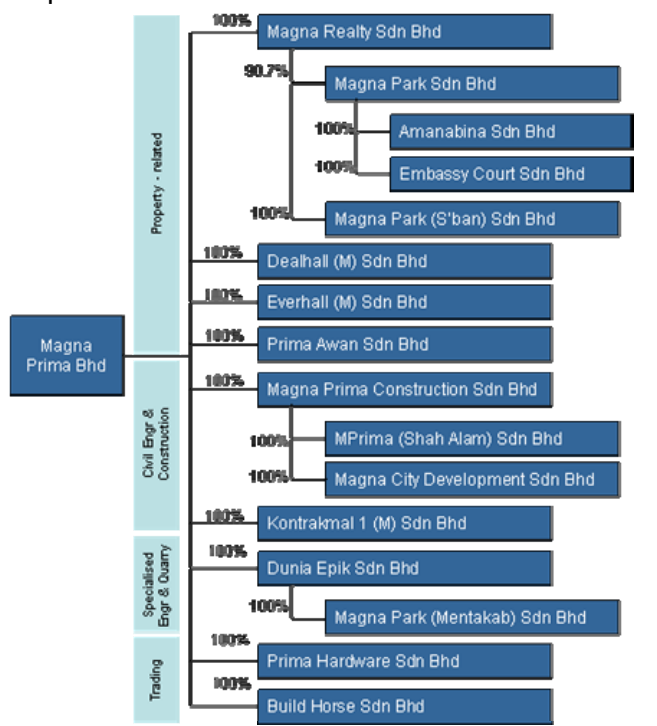
### Corporate Profile

Incorporated in 1995, MPB's principal activities are property development, and provision of civil engineering, infrastructure construction, building construction and management services. It was listed on the Second Board of Bursa Malaysia in Jan. 1997.

Between 2000 and 2006, MPB's performance was lackluster. During this period, the group was either unprofitable or barely broke even. Changes began to take in 2005 with the appointment of Mr Lee Kian Seng as the Group Managing Director. Mr Lee has vast experience in construction, development and trading, having served at Selayang Mall Sdn Bhd, SEAL Incorporated Bhd and Great Eastern Mill as a key member in senior management. Another major addition to MPB's management team took place in Nov. 2006 with the hiring of Mr Lim Ching Choy as the Executive Director cum Chief Executive Officer from Mah Sing Group Bhd where he had served in the same capacity between Jul. 2002 and Oct. 2006.

The board of directors too, went through a series of changes with all but one director are new faces at the group presently. The current board is led by Independent Non-Executive Chairman Tan Sri Datuk Adzmi Abdul Wahab. We note that six out of nine board members are independent, far exceeding the one-third or minimum two independent directors requirement under the Bursa Malaysia listing rules. Previous major shareholders Inmind Holdings Sdn Bhd, Concrete Panel Construction Sdn Bhd, Ahmad Ghazali Md Kassim and Dato' Abd Ghani Yusof (both are former directors of MPB) have since disposed their shareholdings. The major shareholders in MPB currently are Fantastic Realty Sdn Bhd (10.8%) and Tan Teong Han (7.2%). Wong Bin Chen @ Ng Chi Leong and Tan San Li are listed as the shareholders of Fantastic Realty.

### Corporate Structure



Source: Company data

## Business

### Property Development

MPB's first flagship project is Metro Prima in Kepong, Kuala Lumpur which had a Gross Development Value (GDV) of approximately MYR700 mln. The group, jointly with Kuala Lumpur City Hall, successfully transformed the former 87-acre squatter area into a mixed development project comprising shop-offices, mid-range apartments and a Jusco shopping mall. The project which started in the 1990's is now at the tail-end of development with most of the 5,000 units sold out.

On the high-end spectrum, MPB takes pride in its fully sold out six-star luxury condominium project at the Kuala Lumpur City Centre (KLCC) area, the Avare. The 41-storey Avare offers 78 units of condominium with only two units per floor, measuring approximately 3,800 sf each. All units have a 360-degree panoramic view. MPB sold the last unit at MYR2,100 psf, up from the average of MYR1,350 psf in early 2006 when it was first launched, bringing a total GDV of MYR320 mln. Construction work is currently underway with completion scheduled for Aug. 2008.

MPB's other ongoing property development project is Magna Ville, Selayang, comprising three blocks of 25-storey apartments with a total of 1,074 units on a 23-acre leasehold land. The group recently launched the third block in Apr. 2008, with an average pricing of MYR200 psf and unit sizes ranging between 750 sf and 1,250 sf. The MYR198 mln GDV project has a take-up rate of roughly 50% presently. Completion is expected in 2011.

Apart from that, the group has two major projects slated for launch this year – U1, Shah Alam (U1) and Jalan Kuching Integrated Development, Kuala Lumpur (JKID). The U1 is a 444-unit mixed development project involving shop-offices and apartments on a 5-acre leasehold land in Batu Tiga, Shah Alam. The project has a GDV of MYR135 mln. While sales are only expected to commence in mid-2008, U1 has already received registration for over 40% of the units from prospective buyers.

The next key launch will be the JKID project, which is expected sometime in 4Q2008. With an estimate GDV of MYR1.1 bln, the JKID will the largest project yet to be undertaken by the group. Management describes the project as a 5-in-1 development consisting of three-storey shop-lots, eight-storey signature offices, two blocks of serviced apartments, a boutique hotel and a three-level retail mall. The construction will be on a 10.2-acre freehold land, which MPB acquired in late 2007 for MYR130 psf. Of the MYR1.1 bln GDV, the saleable portion is approximately MYR620 mln as management plans to retain the mall for future recurring rental income.

Overall, MPB's property development strategy is to build commercial properties and mid- to high-end condominiums in high density areas with good purchasing power. Its modus operandi is to identify strategically located land within Klang Valley that has been approved for commercial development, and to build between six months to a year from acquisition date. As such, with its niche positioning, it does not have a large tract of landbank unlike other property companies.

### Construction and Engineering (C&E)

Under this division, MPB offers building construction, engineering, earthworks, drainage works, quarrying and crushing services for construction and property maintenance sectors. Some of its previous completed undertakings include:-

- Building the access roads to the Bakun Dam from Tubau, Sarawak;
- Supplying quarry materials for the Sungai Selangor Water Supply Scheme Phase 3;

- Constructing Kuala Kubu Bahru Dam, Selangor and Jus Dam, Malacca;
- Performing civil engineering works at the Putrajaya Wetlands project, Putrajaya.

The current ongoing major project at the C&E division is the construction of the Auto City, Shah Alam. The Auto City comprises 1,405 units of shops, shop-offices and mid-end apartments with a total GDV of MYR320 mln. MPB's turnkey contract amounts to MYR189 mln and completion is expected by the end of 2008 or early 2009.

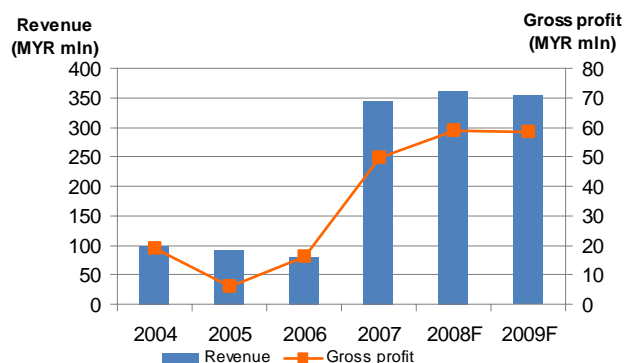
Apart from external projects, the C&E division also supports all internal projects undertaken by the property development arm, such as the six-star Avare, Magna Ville and Metro Prima. Management views the vertical integration as critical success factor in ensuring efficient cost containment measures, quality work and timely delivery.

Going forward, the C&E will play a crucial role in supporting the construction works for the U1 and JKID projects. In addition, the division will also be actively bidding for external contracts, especially opportunities in the government sector.

## Earnings Outlook

Since the new management change between 2005 and 2006, various initiatives and measures including key performance indicators were implemented to turn the group around. The positive changes were reflected in its strong 2007 revenue and net profit of MYR344 mln and MYR26.6 mln, respectively. This is in contrast to revenue of MYR81 mln and net profit of MYR0.1 mln in 2006.

### MPB: Historical and projected financial performance



Source: Company data, S&P Equity Research

The three-fold jump in 2007 revenue was mainly contributed by its Avare KLCC and Auto City projects, while better cost control measures and higher selling prices for its Avare KLCC resulted in the surge in gross profit.

Total unbilled sales from ongoing projects are over MYR200 mln presently, which would be recognized progressively over the next two years. Meanwhile, management expects to continue locking in more sales at its Magna Ville project, which is currently at circa 50% take-up rate. The two impending launches (U1 and JKID) will bring another approximately MYR1.2 bln GDV to the group.

We project 2008 revenue and net profit at MYR360 mln (+5% YoY) and MYR30 mln (+14% YoY), respectively, supported by the remaining

unbilled sales for Avare KLCC, as well as contributions from Magna Ville and Auto City. We anticipate gross margin to inch higher to 16.3% from 14.5% in 2007 from better pricing strategy and continued efficiency improvement measures. We note that MPB's C&E division adopts the industrialized building systems approach in its construction works which reduces construction time, enhances site management and reduce wastage.

We further anticipate 2009 revenue to rise 2.6% YoY while net profit growth will be relatively flat at 0.5% YoY. The drivers for 2009 results will be contributions from Magna Ville, U1 as well as JKID. The major contribution boost from JKID is only expected from 2010 onwards. We understand management is considering the sale of the hotel on enbloc basis post-completion, which means profit realization will only happen sometime after 2011. As for retail mall, the expected net rental in the future is approximately MYR28 mln per annum.

Meanwhile, the C&E division will remain busy with the construction works for the group's property development projects. To ensure sufficient manpower and resources to support JKID project, MPB has proposed to acquire a 90%-stake in a construction company, Pembinaan Contamaju-Infocast Sdn Bhd (PCISB), for MYR5 mln in cash. At the same time, it will also be bidding for some government contracts.

MPB will be funding its capital requirement for its projects through a combination of internally generated funds, borrowings, expected cash inflow from a proposed private placement exercise and potential conversions of its outstanding warrants which are in-the-money.

We note that MPB has a litigation case pending, where it has filed a civil suit against several parties including a former director of its subsidiaries for the recovery of a sum of MYR22 mln, which was withdrawn from its bank accounts in 2000. The sum had been fully written-off in 2000. The case is currently at pre-trial stage, and should MPB successfully recover this sum in the future, it would be a windfall for the group.

## Valuation

Using a sum-of-parts (SoP) approach, we have arrived at a 12-month target price of MYR4.92 for MPB. For the property development division, we calculate the present value (PV) of the respective project's future profits by discounting the expected profits by MPB's WACC of 9.4% in accordance to the expected completion schedules.

For the C&E business, our valuation is based on a target PER multiple method. In calculating our target price per share, we have assumed completion of the private placement exercise and full conversion of warrants resulting in an enlarged share base of 82.5 mln shares from the present 52 mln shares.

**Sum-of-Parts calculation**

Property: PV of Development profits	GDV (MYR mln)	GDV less billed sales (MYR mln)	Est. margin	PV of profits (MYR mln)
Avare KLCC	319	108	20%	21.6
Magnaville, Selayang	198	184	20%	32.6
U1, Bt 3, Shah Alam	135	135	20%	22.4
Jln Kuching Integrated Dev.	1,070	1070	25%	202.9
<b>PV</b>				<b>279.5</b>
<b>Construction: PER multiple</b>		<b>FY09 net profit (MYR mln)</b>	<b>Target PER (x)</b>	<b>Value (MYR mln)</b>
Construction division		14.4	9	129.6
				<b>MYR mln</b>
<b>PV of property + construction</b>				<b>409.1</b>
Add: cash from warrants				30.4
Add: cash from private placement (assume placement price of MYR4.16)				31.2
<b>Total value</b>				<b>470.8</b>
			<b>mln shares</b>	
Fully diluted share out (incl. warrants & private placement)				82.5
			<b>MYR</b>	
Value per share from SoP				5.70
Value per share from SoP after 15% discount				4.85
<b>Value per share from SoP after adding 7sen dividend</b>				<b>4.92</b>

Source: S&P Equity Research

For JKID, we estimate a margin of 25% across entire project instead of breaking it up into saleable properties and PV of recurring income (from the mall) as the former method yields a more conservative valuation figure.

We have also applied a 15% discount to its SoP value of MYR5.70 to reflect its smaller market capitalization and to account for execution risks of the large scale JKID project.

We maintain our dividend projection conservatively at 7 sen for now although we note that management intends to pay out dividend amounting to 20% of net profit. We believe the group should conserve its cash for its new business opportunities.

**Recent Developments**

Apr. 16, 2008: MPB has subscribed for 200,000 ordinary shares of MYR1.00 each in Kontrakmal 1 (M) Sdn Bhd for MYR200,000 in cash. It is currently dormant, with property construction as its intended activity.

Apr. 9, 2008: Acquired 100%-stake in Build Horse (M) Sdn Bhd for MYR2.00. The company is currently dormant, and the intended activity is trading of building materials.

Apr. 2, 2008: Proposed to acquire a 90%-stake in Pembinaan Contamaju-Infocast Sdn Bhd (PCISB) for approximately MYR5 mln in cash. Actual consideration will be based on 90% of PCISB's audited NTA as at Feb. 29, 2008.

**Profit & Loss**

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	80.8	344.4	359.9	369.4
Reported Operating Profit	4.5	37.8	42.8	42.9
Depreciation & Amortization	-1.2	-1.0	-1.2	-1.6
Net Interest Income / (Expense)	-0.9	-0.2	-1.2	-1.8
Reported Pre-tax Profit	3.6	37.6	41.6	41.1
Effective Tax Rate (%)	97.4	28.6	26.0	25.0
Reported Net Profit	0.1	26.6	30.4	30.5
Reported Operating Margin (%)	5.6	11.0	11.9	11.6
Reported Pre-tax Margin (%)	4.4	10.9	11.5	11.1
Reported Net Margin (%)	0.1	7.7	8.4	8.3

Source: Company data, S&P Equity Research

**Balance Sheet**

FY Dec. / MYR mln	2005	2006	2007
Total Assets	169.7	183.1	311.5
Fixed Assets	5.4	5.7	4.1
Current Assets	126.5	150.7	300.7
Other LT Assets	37.7	26.7	6.7
Current Liabilities	99.3	114.4	168.1
LT Liabilities	18.2	4.7	52.4
Share Capital	46.8	51.5	51.6
Shareholders' Funds	50.0	61.9	88.6

Source: Company data

**Standard & Poor's Equity Research Services**

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

**Glossary**

**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

**S&P 12 Month Target Price** – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

**Required Disclosures**

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

**Other Disclosures**

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM") which is regulated by the Securities Commission, in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, SPIS and SPIAS LLC (Korea) are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

Standard & Poor's and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

**CMDF-Bursa Research Scheme ("CBRS")**

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

**Disclaimers**

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material is not intended for any specific investor and does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.



**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Buy	4.83

