

**1QFYDec2011 Results**
**25 May 2011**

## Magna Prima Berhad

- Returns to profitability in 1Q11
- Higher sales on new projects going forward
- Unbilled sales totaling RM293.3 million at end-1Q11
- Modest valuations should see gains on re-rating

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**BUY**


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Price  
**RM0.80**

Market capitalization  
**RM198 million**

Board  
**Main**

Sector  
**Properties**

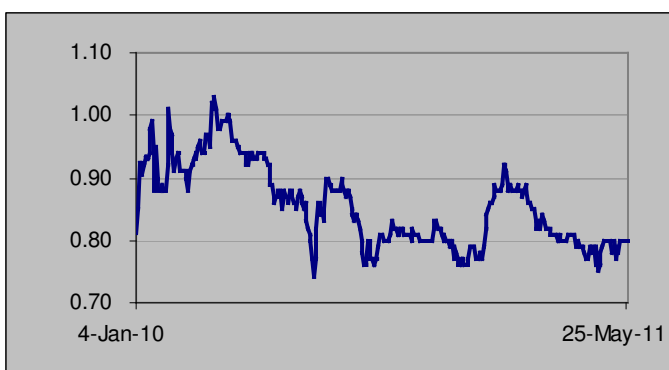
Stock code  
**7617**

By  
**The Research Team**

Key stock statistics	2010	2011E
FD EPS (sen)	(4.7)	9.2
P/E (x)	NM	8.7
Net DPS (RM)	1.0	1.0
NTA/share (RM)	0.49	0.54
Enlarged share capital (mil)	333.1	
52-week price range (RM)	0.73-0.93	

Major shareholders (%)	
Fantastic Realty	13.3%

### Share Price Chart



## 1QFYDec11 Earnings Highlights

Year end Dec	1Q11	1Q10	% chg
Turnover	26.8	18.1	47.8%
Operating profit	2.6	0.8	>100
Depreciation	0.2	0.2	-23.7%
Interest inc/(exp)	0.1	(0.4)	nm
Extraordinary loss/(gain)	-	-	
Pre-tax profit	2.5	0.2	>100
Tax	0.3	0.0	>100
Net profit	2.2	0.1	>100
EPS (sen)	0.7	0.0	
Operating margin (%)	9.5	4.2	
Pre-tax margin (%)	9.3	0.8	
Net margin (%)	8.1	0.8	

Sales for Magna Prima Berhad were up 47.8% y-y to RM26.8 million in 1Q11 while net profit improved to RM2.2 million, compared with RM0.1 million in the previous corresponding quarter.

Nonetheless, the earnings results may appear low at first blush. Sales and net profit accounted for just about 10% and 7% of our full-year forecast for the company. However, we are not overly perturbed.

The results for 1Q11 consisted, primarily, of contributions from just two projects – the One Sierra @ Selayang and U1 Apartment Suites in Shah Alam. The former was launched in 3Q10 and is only beginning to contribute while the latter is on track for completion by 2Q11.

The company has four other additional projects that are slated to commence construction this year, which will boost sales and earnings in the next three quarters.

Furthermore, Magna returned to profitability in this latest quarter, from net loss of RM5.5 million and RM8 million in 3Q10 and 4Q10, respectively, which were attributed to incubation and marketing expenses for the One Sierra project.

## Outlook and Recommendation

Among its new projects are three other gated and guarded residential developments – the D'Sierra Anggun Selayang, Seri Jalil in Bukit Jalil and d'16 in Shah Alam.

Site clearing work for D'Sierra Anggun started in 4Q10. Earthworks are currently underway and should be completed by the current quarter, after which structural works will commence, in 3Q11. The project is slated for completion by 2H12.

The Alam d'16 was launched in January 2011. Site clearing and earthworks are currently in progress and construction should begin very soon.

Elsewhere, construction for the Seri Jalil project is expected to commence in 2H11 and the project is targeted for completion by 4Q12.

Magna is also undertaking a mixed commercial-residential project along Jalan Kuching, called the Boulevard Business Park @ Jalan Kuching. Preliminary construction work has started.

The first phase consisting of 4-storey shop offices and retail podium are to be completed by end-2013. The second phase of serviced apartments is scheduled for a slightly later launch and should be completed by 2014. The entire project has an estimated gross development value (GDV) of RM572 million.

With a combined GDV totaling some RM1.05 billion for its projects in hand, excluding U1 Shah Alam, we expect Magna's sales and earnings to strengthen considerably over the next 2-3 years.

We estimate sales to grow to about RM261.2 million in the current year and further to RM406.5 million in 2012 on the back of progressive sales from the company's current roster of projects. The company has unbilled sales totaling some RM293.3 million at end-1Q11.

Given that its residential projects are niche property developments for the mid to upper-end market segments, we expect fairly robust margins of up to 25%.

Thus, we should also see a strong turnaround for the company in the current year, from net loss of RM12.4 million in 2010. Net profit is estimated at RM30.8 million, which will rise further to RM59.7 million in 2012. That translates into fairly attractive valuations of 8.7 and 4.5 times forward earnings for the two years, respectively.

Magna's net assets stood at RM0.49 per share at end-2010, which is forecast to expand to RM0.86 per share by end-2014, upon the completion of all the ongoing projects.

Taking into account the company's roster of projects in hand and expected earnings turnaround as well as relatively modest valuations, we are maintaining our **BUY** recommendation on the stock.

Magna has proposed a single tier tax-exempt final dividend of 1 sen per share for 2010. That would translate into net yield of 1.3% at the prevailing share price. The entitlement date is not yet fixed.

Looking further ahead, development plans for a 6.95-acre plot of land in Jalan Gasing, Petaling Jaya – acquired last year for RM48.5 million – are on the drawing board. Details are likely to be finalised by 2012.

Last but not least, Magna is in the midst of completing the acquisition of a 2.62 acre piece of land in Jalan Ampang – where the Lai Meng Girls' School is currently situated.

Details for the development are still being worked out but initial reports suggest that the GDV could approximate RM1.3 billion. Approval for the relocation of the school to a new site in Bukit Jalil – next to Magna's Seri Jalil development – was secured in mid-2010 and construction works on the new building is expected to start later this year. The relocation of the school to its new home is targeted by end-2013.

The two future projects – in Jalan Gasing and Jalan Ampang – will underpin growth beyond 2013.

It bears to note that the Jalan Ampang land, currently pending completion, is expected to cost some RM174 million, including the cost of the Bukit Jalil land swap. That works out to roughly RM1,525 per square foot.

By comparison, Sunrise acquired a piece of land in the vicinity for RM2,588 per square foot in 2008, albeit with better frontage view. In 2009, Dijaya Corp paid about RM2,200 per square foot for an adjacent plot. At this price, Magna's land would be valued closer to RM250 million, or a revaluation surplus of roughly RM77 million.

Thus, assuming prevailing market value for the land, Magna could potentially add another 23 sen per share to its valuation upon completion of the acquisition, based on the enlarged share capital of 333.1 million shares.

### Profit & Loss Analysis

Year end Dec (RM mil)	2009	2010	2011E	2012E
Turnover	191.9	116.3	261.2	406.5
Operating profit	15.4	(9.1)	51.6	93.7
Depreciation	1.0	0.8	0.9	0.9
Interest inc/(exp)	(3.0)	(0.8)	(9.7)	(13.3)
Extraordinary loss/(gain)	-	-	-	-
Pre-tax profit	11.4	(10.7)	41.0	79.5
Tax	4.8	2.1	10.3	19.9
Minorities	0.0	(0.4)	-	-
Net profit	6.6	(12.4)	30.8	59.7
Operating margin (%)	8.0	(7.8)	19.8	23.1
Pre-tax margin (%)	6.0	(9.2)	15.7	19.6
Net margin (%)	3.5	(10.7)	11.8	14.7

**Per Share Data**

Year end Dec (RM mil)	2009	2010	2011E	2012E
EPS (sen)	3.1	(5.0)	9.2	17.9
P/E (x)	25.5	nm	8.6	4.4
Net dividend (sen)	1.0	1.0	1.0	1.0
Net yield (%)	1.3	1.3	1.3	1.3
Net assets per share (RM)	0.55	0.49	0.54	0.71
Price/NA (x)	1.4	1.6	1.5	1.1
Cashflow/share (RM)	(0.1)	(0.1)	0.2	0.2
Price/cashflow (x)	(8.5)	(9.8)	4.2	4.3
Gearing (%)	10.0	79.3	101.8	83.2
ROE (%)	5.7	(10.4)	20.5	28.7

\* Adjusted for 1-4 share split exercise implemented in Jan 2010



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Comments & contact: [info@insiderasia.com](mailto:info@insiderasia.com) Tel: 03-77218060 Fax: 03-77218061

Asia Analytica Sdn Bhd Suite 3B, Level 3, Menara KLK, 1 Jalan PJU7/6, Mutiara Damansara, 47810 Petaling Jaya, Selangor, Malaysia