

3QFYDec2011 Results
5 December 2011

Magna Prima Berhad

- Rising sales on new project launches
- On track to strong earnings turnaround
- Unbilled sales totaling RM387 million
- Room for upside gains on modest valuations

BUY

Price
81 sen

Market capitalization
RM200 million

Board
Main

Sector
Properties

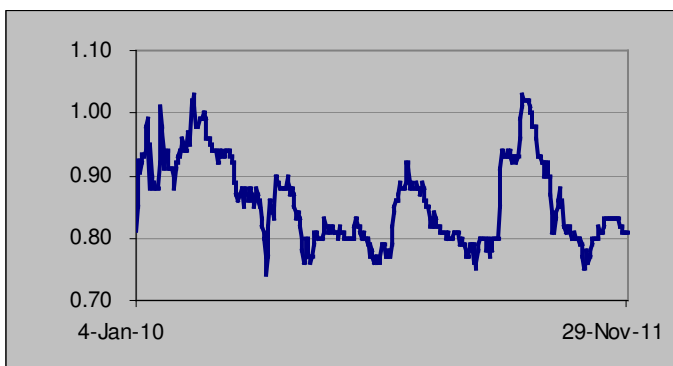
Stock code
7617

By
The Research Team

Key stock statistics	2010	2011E
FD EPS (sen)	(4.7)	6.0
P/E (x)	NM	13.4
Net DPS (RM)	1.0	1.5
NTA/share (RM)	0.49	0.50
Enlarged share capital (mil)	333.1	
52-week price range (RM)	0.73-1.04	

Major shareholders (%)

Fantastic Realty	25.1%
Muafakat Kekal	9.9%

Share Price Chart


3QFYDec11 Earnings Highlights

Year end Dec	3Q11	3Q10	% chg
Turnover	64.3	34.5	86%
Operating profit	7.4	(2.0)	nm
Depreciation	0.1	0.2	-51%
Interest inc/(exp)	0.2	(0.2)	nm
Extraordinary loss/(gain)	6.0	2.7	123%
Pre-tax profit	1.5	(5.0)	nm
Tax	1.3	0.9	41%
Net profit	0.4	(5.5)	nm
EPS (sen)	0.1	(1.6)	
Operating margin (%)	11.6	(5.7)	
Pre-tax margin (%)	2.3	(14.6)	
Net margin (%)	0.7	(15.9)	

Magna Prima's earnings results for 3Q11 appear weak at first blush.

Net profit stood at only RM0.4 million. Although this is a turnaround from the RM5.5 million net loss in 3Q10, earnings were lower than the RM2.2 million and RM4 million reported in 1Q11-2Q11, respectively. This was despite turnover improving to RM64.3 million in 3Q11, compared with the total of RM54.2 million in 1H11.

We attribute the weaker than expected 3Q11 results to several factors. Magna made some RM6 million in provisions during the quarter. About half of the amount was for impairment on development costs for the D'Sierra Anggun project in Selayang.

To recap, Magna received notice in June 2011 that the entire piece of land, on which Magna had started earthworks, has been gazetted for compulsory acquisition by the government. The total compensation offered was RM16.8 million, resulting in a RM3 million write-off. Magna has filed an appeal on the compensation amount. The company also made about RM3 million provisions for legal costs in 3Q11.

Turnover in 3Q11 consists, primarily of contributions from the One Sierra and Alam d'16 projects, which were launched in 2H10 and 1H11, respectively.

Two other projects, the Seri Jalil and Boulevard Business Park, Jalan Kuching, were launched in 4Q11. There were some slight delays on the projects due to the excessive wet weather conditions in recent weeks. However, we expect both projects will start to contribute in the current month.

Net gearing stood at 46% at end-September while net asset was RM0.47 per share.

Outlook and Recommendation

Despite the weaker than expected 3Q11 earnings results, we remain sanguine of Magna's earnings outlook for the next few years, based on the company's current roster of projects in hand.

As mentioned above, 4Q11 should see maiden contributions from two new projects – a 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 Alam d'16 project in Shah Alam had already started contributing in 3Q11, on top of the ongoing One Sierra project in Selayang.

The RM198 million One Sierra project is expected to complete by mid-2012 while the other three projects have a combined gross development value (GDV) of roughly RM1 billion and are expected to complete in stages between now and 2014.

Both the Seri Jalil and phase 1 of the Alam d'16 projects have been fully sold. The Seri Jalil project, which consists of 107 units of 2½-storey superlink terrace and semi-detached houses, is expected to finish by 1H2013.

Construction works for Alam d'16 started in July and the first phase of 177 units of double-storey link homes is slated to complete by 1H2013. The second phase, consisting of medium-cost apartment units, is targeted for launch early next year and is expected to complete by 2014.

The Boulevard Business Park at Jalan Kuching will also be developed in two phases. The first phase, consisting of 4-storey shop offices, is about 80% sold and construction is expected to start soon. The next phase will consist of mainly serviced apartments and is targeted for launch next year.

Magna is also dipping its toes into the overseas property market for the first time. Depending on performance, the company may seek out more of such projects in the future.

The current project involves plans to develop a 25-storey apartment block in the heart of Melbourne, Australia. The project, called Dynasty Living, is already 62% sold in the local market. Magna intends to launch the remaining units to Malaysians, targeted by early 2012.

The project has an estimated GDV of A\$210 million. Profits will be recognized upon completion in accordance with the IFRIC 15 (International Financial Reporting Interpretation Committee). Hence, we expect to see a sharp bump in net profit in 2014, the target project completion date. Construction is expected to commence very soon now that the acquisition has been completed.

These projects will underpin Magna's earnings for the next three years, up till 2014.

The strong turnaround will start this year, from net loss of RM12.4 million in 2010 to our estimated net profit of about RM20.1 million. We have revised down our 2011 earnings as a result of the above-mentioned provisions as well as slight delays in the new projects due to weather conditions.

Earnings in 2012-2013 will be even stronger, with all the projects in full swing. We estimate net profit of roughly RM56 million in each of the next two years. In 2014, net profit will be further boosted by lump sum contributions from Dynasty Living, upon the project's completion.

By end-2014, we estimate Magna's book value will rise to about RM1.08 per share – from the current 47 sen per share – a 34% upside from the current share price of 81 sen. This is assuming a higher dividend payment of 1.5 sen per share in 2011 and 3.4 sen per share in each of the next two years – in line with the company's earnings expansion. This translates into fairly decent net yields of 1.9% in 2011 and 4.1% for 2012-2013.

Should, however, dividends remain at last year's level, of 1 sen per share, Magna's book value would rise to RM1.18 per share or 46% higher than the prevailing share price.

Hence, we are maintaining our **BUY** recommendation on the stock.

Note that the company's share capital is now enlarged to 332.9 million shares with the conversion of all of its outstanding warrants, which expired end-September 2011.

Magna is actively looking to replenish its landbank, for projects beyond 2014. 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 last year for RM48.5 million.

The other is expected to be a huge mixed development in the heart of the business district – Magna is in the midst of acquiring this 2.62-acre piece of land located in Jalan Ampang where the Lai Meng Girls' School is currently situated.

The plan includes the relocation of 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 soon.

Profit & Loss Analysis

Year end Dec (RM mil)	2009	2010	2011E	2012E
Turnover	191.9	116.3	192.5	365.4
Operating profit	15.4	(9.1)	33.7	75.4
Depreciation	1.0	0.8	0.9	0.9
Interest inc/(exp)	(3.0)	(0.8)	-	-
Extraordinary loss/(gain)	-	-	6.0	-
Pre-tax profit	11.4	(10.7)	26.8	74.5
Tax	4.8	2.1	6.7	18.6
Minorities	0.0	(0.4)	-	-
Net profit	6.6	(12.4)	20.1	55.9
Operating margin (%)	8.0	(7.8)	17.5	20.6
Pre-tax margin (%)	6.0	(9.2)	13.9	20.4
Net margin (%)	3.5	(10.7)	10.4	15.3

Per Share Data

Year end Dec (RM mil)	2009	2010	2011E	2012E
EPS (sen)	3.1	(5.0)	6.0	16.8
P/E (x)	26.1	nm	13.4	4.8
Net dividend (sen)	1.0	1.0	1.5	3.4
Net yield (%)	1.2	1.2	1.9	4.1
Net assets per share (RM)	0.55	0.49	0.50	0.64
Price/NA (x)	1.5	1.7	1.6	1.3
Cashflow/share (RM)	(0.1)	(0.1)	0.2	0.2
Price/cashflow (x)	(8.7)	(10.0)	5.1	4.7
Gearing (%)	10.0	79.3	158.4	137.5
ROE (%)	5.7	(10.4)	14.0	29.5

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



*InsiderAsia is brought to you by Asia Analytica Sdn Bhd,
an investment adviser licensed by the Securities Commission of Malaysia.*

NOTE: These reports are intended for Malaysian residents only and are prepared without regard to your specific investment objectives, financial situation or particular needs. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or related financial instruments. The information herein is obtained from various sources and we do not guarantee its accuracy or completeness. All views and advice are given in good faith but without legal responsibility. You should not regard the reports as a substitute for the exercise of your own judgment and you should seek professional advice for your specific investment needs. Any opinions expressed in these reports are subject to change without notice. Our shareholders, directors and employees may have positions in or may be materially interested in any of the stocks in any of the markets mentioned. We may also have or have had dealings with or may provide or have provided content services to the companies mentioned in the reports.

This report has been prepared by Asia Analytica Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Asia Analytica Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/

Comments & contact: 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