

2QFYDec2012 Results
29 August 2012

Magna Prima Berhad

- Sharp profit jump due to project handover in 2Q12
- 2 more projects slated for completion 2H12
- Pipeline projects ensure earnings over next few years
- Shares are reasonably priced with decent yields

BUY

Price
82.5 sen

Market capitalization
RM204 million

Board
Main

Sector
Properties

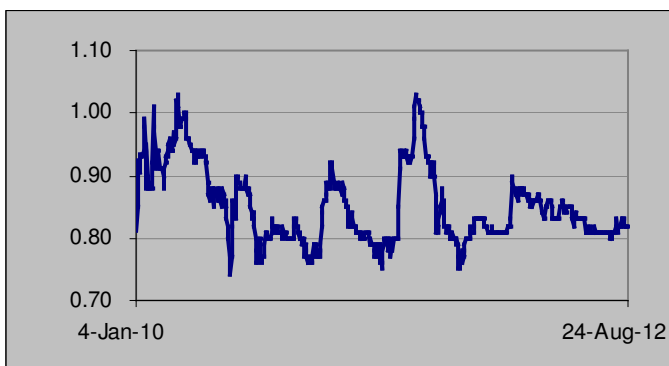
Stock code
7617

By
The Research Team

Key stock statistics	2011	2012E
EPS (sen)	3.1	16.9
P/E (x)	27.0	4.9
Net DPS (RM)	1.5	3.0
NTA/share (RM)	0.48	0.62
Enlarged share capital (mil)	332.9	
52-week price range (RM)	0.735-0.91	

Major shareholders (%)

Fantastic Realty	25.1%
Muafakat Kekal	9.9%

Share Price Chart


2QFYDec12 Earnings Highlights

Year end Dec	2Q12	2Q11	% chg
Turnover	35.7	14.2	>100
Operating profit	19.6	2.1	>100
Depreciation	0.1	0.0	>100
Interest inc/(exp)	0.5	0.2	>100
Extraordinary loss/(gain)	-	-	
Pre-tax profit	20.0	2.2	>100
Tax	4.9	1.2	>100
Net profit	15.1	1.1	>100
EPS (sen)	4.5	0.3	
Operating margin (%)	54.8	14.7	
Pre-tax margin (%)	56.0	15.6	
Net margin (%)	42.3	7.4	

- Note: Results for 2Q11 have been restated under the new IC15

Magna Prima's results for 2Q12 saw sharply higher sales and earnings over the immediate preceding quarter. This is a reflection of the impact of the company's adoption of IC Interpretation 15 (IC15) for the first time this year.

Under the new accounting method, revenue is only recognised at the time of delivery of vacant possession as opposed to the previous percentage of completion basis. As such, 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.

Sales in 2Q12 totaled RM35.7 million, up from RM14.2 million in the previous corresponding quarter and only RM5.3 million in 1Q12. The bulk of the sales improvement came from the completion and vacant possession handover of the U1 Shah Alam commercial tower project during the quarter. Recall that the company secured a buyer for the tower en bloc, back in December 2011 for RM28.1 million.

Accordingly, pre-tax profit was also significantly higher at RM20 million, up from RM2.2 million in both 2Q11 and 1Q12. The bulk of the earnings is related to the U1 commercial tower block, including gains from the property sale as well as in-house construction.

Net profit improved to RM15.1 million, compared with RM1.1 million in 2Q11 and RM1 million in 1Q12, which did not have any project completed during the period.

Outlook and Recommendation

We remain sanguine on the company's outlook over the next few years on the back of its pipeline of projects and relative earnings visibility.

Among the ongoing projects, the One Sierra residential development in Selayang and 1st phase for the Alam D'16 residential project in Shah Alam are slated for completion by end-2012.

The two projects, which are fully sold, were 96% and 84% completed as of end-June 2012, respectively. Thus, we expect much stronger sales and profits recognition from both projects in 2H12. One Sierra has a gross development value (GDV) of RM198 million while GDV for Alam D'16 is estimated at about RM75 million.

Looking ahead into 2013, two more projects are slated for completion – phase 1 of 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 11% and 80% completed at end-2Q12, respectively, with combined GDV of RM450 million.

In 2014, Magna's sales and earnings will come from 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-2Q12. The project has an estimated GDV of A\$210 million or about RM678 million at the current exchange rate. Construction for the project started in August 2012.

Phase 2 for Boulevard Business Park, which consists of serviced apartment units, with total GDV of roughly RM227 million is targeted for launch in 4Q12 and should be completed in 2015. There are also plans for a retail mall within the development but work will likely commence at a later stage.

Elsewhere, phase 2 for Alam D'16, a medium cost high-rise condominium project, with an estimated GDV of RM236 million is targeted for launch in 2H13. If all goes to plan, earnings from this project would also be recognised in 2015.

Magna is currently in the midst of completing the acquisition of a 20-acre piece of land in Shah Alam for RM100 million. GDV for the project, a mix of commercial shop offices and residential apartment blocks – to be developed under a 70:30 joint venture with the original owners of the land – is estimated at around RM800 million. The company is likely to launch the 1st phase (shop offices) sometime in 1H13. The 2nd and 3rd phases will include more shop offices and serviced apartments. The project is expected to be completed in 2015-2016.

The above-mentioned projects will underpin Magna's earnings over the next few years.

For the current year, net profit is estimated at RM56.2 million, up from RM10.2 million in 2011. We forecast earnings will further improve to RM82.6 million and RM99.1 million in 2013-2014, respectively. Looking further ahead, net profit in 2015 is forecast at RM138 million based only on the company's current roster, including the soon-to-be launched projects.

Magna's book value is estimated to rise to about RM1.41 per share by end-2015, upon completion of all the above-mentioned projects. That is a substantial improvement from its current book value of 49 sen per share and well above its prevailing share price of 82.5 sen per share. This suggests room for capital gains in the foreseeable future.

Our projected book value has assumed dividends would increase in line with the company's earnings expansion going forward. Dividends are estimated at 3 and 4 sen per share in 2012-2013 and up to 5-6 sen per share in 2014-2015 – based on a payout ratio of roughly 17%, on average. That 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. There are, currently, two potential projects on the drawing board.

The first will entail the development of a 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.

Finalisation of the land acquisition – for some RM148 million – is pending completion of 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 and completed by end-2013.

In view of Magna's pipeline of projects and relative earnings visibility as well as reasonable valuations, 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	74.7	112.8
Depreciation	0.8	0.4	0.3	0.3
Interest inc/(exp)	(0.8)	0.5	(2.0)	(2.3)
Extraordinary loss/(gain)	-	6.0	(2.6)	-
Pre-tax profit	(10.7)	12.8	74.9	110.2
Tax	2.1	4.4	18.7	27.5
Minorities	(0.4)	(1.8)	-	-
Net profit	(12.4)	10.2	56.2	82.6
Operating margin (%)	(7.8)	9.3	22.8	23.6
Pre-tax margin (%)	(9.2)	6.3	22.9	23.1
Net margin (%)	(10.7)	5.0	17.2	17.3

Per Share Data

	2010	2011	2012E	2013E
EPS (sen)	(5.0)	3.1	16.9	24.8
P/E (x)	nm	27.0	4.9	3.3
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	0.62	0.83
Price/NA (x)	1.7	1.7	1.3	1.0
Cashflow/share (RM)	(0.1)	0.1	0.2	0.2
Price/cashflow (x)	(10.2)	6.8	4.9	3.3
Gearing (%)	79.3	77.0	37.0	56.3
ROE (%)	(10.4)	7.3	30.8	34.4



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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