

Recommendation: **BUY**

Stock Code: 7617 Bloomberg: MAGNA MK Price: MYR0.91 12-Month Target Price: MYR1.10 Date: February 26, 2010

Board: Main

Sector: Construction

GICS: Industrials/Construction & Engineering

Market Value - Total: MYR193.5 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



Results Review & Earnings Outlook

- MPB's 2009 results were within expectations, with net profit of MYR6.6 mln reaching 96% of our projection. The group's performance in 2009 was uninspiring with revenue and net profit both falling 31% and 75% YoY respectively, hampered by the lack of new projects during the year while existing projects are nearing completion.
- MPB has only three ongoing projects in 2009, namely the Magnaville Selayang, Dataran Otomobil and U1 Shah Alam, of which the former two have substantially been completed in 4Q09.
- The absence of new launches in 2009 was also partly due to changes in the management team, which saw the departure of former MD, Lim Ching Choy, and the appointment of Yoong Nim Chee and Loo Kent Choong as the CEO and COO, respectively. From our conversation with the new management, the newly elected professional team has settled in and will be launching a series of new projects in 2010.
- MPB has planned for five new launches beginning 2Q10, namely the Magna City, an integrated project in Jalan Kuching; a residential project in Shah Alam; two residential projects in Selayang; and a commercial project in Petaling Jaya. Total combined GDV amounts to over MYR1 bln.
- With new projects contributing only from 2H10 onward, we trim our 2010 net profit estimate by 14% to MRY21.5 mln. The introduction of our 2011 earnings estimate, however, forecasts a 53% YoY jump in net profit to MYR32.7 mln on higher contributions from the new projects.

Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	3.1	10.0
PER (x)	29.2	9.0
Dividend/Share (sen)	2.3	2.3
NTA/Share (MYR)	0.54	0.57
Book Value/Share (MYR)	0.55	0.57
No. of Outstanding Shares (mln)	213.8	
52-week Share Price Range (MYR)	0.44 - 1.01	
Major Shareholders:	%	
Fantastic Realty Sdn Bhd	15.4	

*Stock deemed Shariah compliant by the Securities Commission.

Recommendation & Investment Risks

- We raise our recommendation to Buy (from Hold) with a higher 12-month target price of MYR1.10 (from 72 sen).
- Our target price is derived by ascribing a target PER multiple of 7x (from 6x) on 2011 (from 2010) earnings, inclusive of a projected dividend. The higher target multiple, which is within the valuation range of between 5x-8x PER for property companies under our coverage, reflects the improved earnings clarity and growth potential of the group.
- After a dreary 2009, we are now more upbeat on MPB's prospects. 2010 will be an interesting and busy year for the group with its planned five new launches. Given the strategic locations of these projects, we believe the take-up rates would be encouraging. With the combined GDV of over MYR1 bln, contributions from these launches will well support earnings for the next three years. MPB's operations are also backed by a healthy net gearing of just 0.1x. At prospective 5.9x 2011 PER, valuation appears to be undemanding, in our opinion, considering the projected 53% earnings growth and solid balance sheet.
- In January 2010, MPB completed its 4-for-1 share split exercise, resulting in the enlarged share base of 213.8 mln shares (from 53.5 mln).
- Risks to our recommendation and target price include execution issues which may lead to potential delays in the new launches and construction progress considering the large scale of the projects.

Per Share Data

FY Dec.	2007	2008	2009	2010E
Book Value (MYR)	0.43	0.53	0.55	0.57
Cash Flow (sen)	13.3	13.1	3.6	10.7
Reported Earnings (sen)	12.9	12.6	3.1	10.0
Dividend (sen)	1.8	1.3	2.3	2.3
Payout Ratio (%)	13.1	9.9	72.6	22.4
PER (x)	7.0	7.2	29.2	9.0
P/Cash Flow (x)	6.8	6.9	25.4	8.5
P/Book Value (x)	2.1	1.7	1.6	1.6
Dividend Yield (%)	1.9	1.4	2.5	2.5
ROE (%)	35.3	26.5	5.7	17.6
Net Gearing (%)	55.5	43.9	11.1	32.3

*Data adjusted to reflect a 4-for-1 share split issue in January 2010.

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Page 1 of 4

Quarterly Performance

FY Dec. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	13.7	80.6	-83.0
Reported Operating Profit	1.8	16.4	-88.7
Depreciation & Amortization	-0.3	-0.3	9.7
Net Interest Income / (Expense)	-0.6	-0.2	>100
Reported Pre-tax Profit	1.2	16.2	-92.3
Reported Net Profit	0.2	12.2	-98.0
Reported Operating Margin (%)	13.5	20.3	-
Reported Pre-tax Margin (%)	9.1	20.1	-
Reported Net Margin (%)	1.8	15.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	280.6	193.0	297.1	395.1
Reported Operating Profit	37.9	14.9	33.9	51.4
Depreciation & Amortization	-1.2	-1.0	-1.3	-1.8
Net Interest Income / (Expense)	-0.4	-3.4	-4.5	-4.6
Reported Pre-tax Profit	37.5	11.4	29.4	46.8
Effective Tax Rate (%)	27.2	41.7	30.0	30.0
Reported Net Profit	26.9	6.6	21.5	32.7
Reported Operating Margin (%)	13.5	7.7	11.4	13.0
Reported Pre-tax Margin (%)	13.4	5.9	9.9	11.8
Reported Net Margin (%)	9.6	3.4	7.2	8.3

Source: Company data, S&P Equity Research

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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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	1.10
26-Nov-09	Hold	0.73
25-Aug-09	Hold	0.60
28-May-09	Hold	0.58
21-Nov-08	Hold	0.55
25-Aug-08	Buy	1.18
26-May-08	Buy	1.30
7-May-08	Buy	1.23

