27 April 2011

Magna Prima Berhad

- New project launches underpin earnings for 2011-2013
- Unbilled sales totaling RM293.3 million
- Jewel in the crown is 2.62 acres land in Jalan Ampang
- Modest valuations should see gains on re-rating

BUY

Price
RM0.775

Market capitalization
RM192 million

Board
Main

Sector
Properties

Stock code
7617

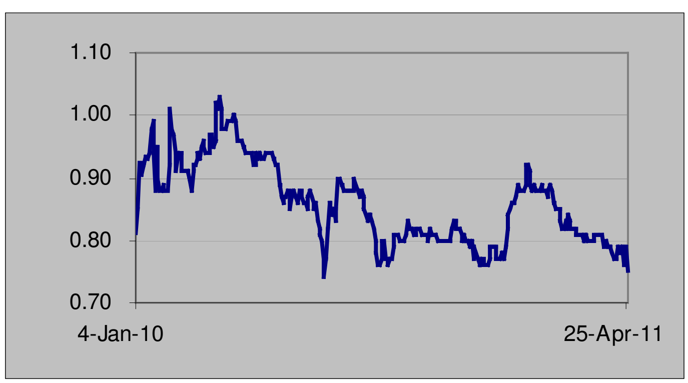
By
The Research Team

Key stock statistics	2010	2011E
FD EPS (sen)	(4.7)	9.2
P/E (x)	NM	8.4
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)	0.73-0.96	

Major shareholders (%)

Fantastic Realty	13.3%

Share Price Chart



Investment Summary

Magna Prima Berhad is a niche property developer focused, primarily, in the mid to high-end market segments for commercial and residential projects in the Klang Valley.

The emergence of a new controlling shareholder in May 2010 heralds a fresh strategic direction for the company. The stock was reclassified as a Property counter, from Construction previously, on the Main Market of Bursa Malaysia.

Having undergone an internal restructuring and management changes as well as the successful acquisition of several pieces of land through the better part of 2010, Magna believes that it is now poised for a turnaround with a rash of new project launches.

The company is upbeat on its earnings outlook for the foreseeable future – based on its newly launched projects as well as two others on the drawing board. The latter includes the jewel in its crown, the development of a 2.62-acre piece of prime freehold land in Jalan Ampang, near the KLCC's Petronas Twin Towers.

At the moment, Magna has five new projects in hand. The One Sierra @ Selayang – a mixed commercial-residential development – was launched in 3Q10. Three other gated and guarded residential developments – the D'Sierra Anggun Selayang, Seri Jalil in Bukit Jalil and d'16 in Shah Alam – were launched in 4Q10. The first phase of its latest project, a mixed commercial-residential development called the Boulevard Business Park @ Jalan Kuching is slated for launch in the current quarter.

With a combined gross development value (GDV) totaling some RM1.05 billion for these projects we expect Magna's sales and earnings to strengthen considerably over the next 2-3 years.

The company has unbilled sales totaling some RM293.3 million at end-1Q11, which will translate into sales and earnings as the projects are progressively completed.

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%.

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 acres 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 – as well as the second phase of the Boulevard Business Park @ Jalan Kuching project would contribute to earnings beyond 2013.

We expect the company to return to profitability this year, boosted by contributions from the five new projects. Net profit is estimated at RM30.8 million, which will rise further to RM63.2 million in 2012. That translates into fairly attractive valuations of 8.4 and 4.1 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 RM0.87 per share by end-2014, upon the completion of all the ongoing projects, but excluding the two new projects on the drawing board.

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, based on the enlarged share capital of 333.1 million shares.

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

Background

Magna Prima was incorporated back in 1995 and listed on the local bourse in January 1997.

Prior to its reclassification as a property counter in March 2010, the company was identified as a construction stock. In the early years, Magna has undertaken a host of external construction and civil engineering jobs, in addition to in-house property projects. These included construction of the Putrajaya Wetlands, high-rise condominiums and related facilities in the Commonwealth Games Village as well as quarrying works, earthworks and dredging works.

However, over the past couple of years, Magna has shifted its focus to developing pocket-sized landbanks in the Klang Valley. The construction arm now undertakes, primarily, in-house projects.

The company also has a manufacturing and trading arm for ready-mixed concrete, supplying both its own projects as well as external parties. External sales contributions are relatively small and the unit's primary aim is to ensure timely and quality supply of materials to its own projects.

One of the company's signature projects was The Avare – a 6-star super luxury condominium located near KLCC that was completed in 2008. Other recent projects include the Magna Ville in Selayang – which consists of medium cost apartments – and Dataran Otomobil in Shah Alam, both of which were completed at end-2009.

Magna undertook a 1-to-4 share split exercise in January 2010, enlarging its share capital to 213.8 million shares of 25 sen par value each. This was followed by the emergence of a new controlling shareholder, Fantastic Realty, in May last year with a 15.4% stake.

An additional 33 million shares were issued in August 2010 as consideration for a piece of land in Selayang valued at RM16.5 million. As a result, the vendor, Muafakat Kekal, now holds a 13.3% stake in the Magna while Fantastic Realty's shareholding was diluted to 13.3%.

There are currently some 85.8 million warrants outstanding that will mature on 26th September 2011. Given that the exercise price, of 37 sen, is well below its prevailing share price, we expect full conversion by the warrant holders.

Fantastic Realty holds about 59% of the outstanding warrants, which would raise its stake in the company to roughly 25% upon conversion – thus cementing its hold on the company.

Upon full conversion, Magna's share capital will be enlarged to 333.1 million shares, from the current 247.3 million shares.

Business

Magna is a niche property developer, focused on pocket-sized landbank for commercial and residential developments in the Klang Valley that are aimed at the mid to high-end segments of the market.

After the completion of projects in hand in 2008-2009, the company went on a shopping spree to replenish its depleted landbank through the better part of 2010. In the absence of new project launches, sales and earnings suffered over the past two years.

For instance, there was only one ongoing project throughout 2010, the U1 Apartment Suites in Shah Alam with GDV of RM108 million. The project is slated for completion by mid-2011.

Sales fell from RM280.6 million in 2008 to RM191.9 million in 2009 and declined further to RM116.3 million last year. Similarly, net profit declined from RM26.9 million in 2008 to RM6.6 million in 2009 and dipping into a loss of RM11.7 million in 2010. The losses last year were attributed, in part, to incubation and marketing expenses for some of its new projects that were launched towards the end of the year.

Earnings Outlook

Going forward, however, the company should see a strong pick up in sales and earnings as the new projects start to contribute.

The company has five new projects – excluding the soon to be completed U1 Apartment Suites – on its plate right now, the majority of which are slated for completion by 2012-2013. They will underpin Magna's sales and earnings for the next two-three years.

Taking into account that the projects are all niche property developments aimed at the mid to upper-end of the market, they are expected to earn fairly robust margins of up to 25%.

Project	GDV (RMm)	Completion	Type
U1 Apartment Suites, Shah Alam	108	mid-2011	Mixed commercial-residential: Apartments and shops & office tower
One Sierra @ Selayang	198	1Q2012	Mixed commercial-residential: superlink homes, semi-Ds, bungalows and shop offices-apartments
D'Sierra Anggun	80	2H2012	Residential: 2 & 2½-storey superlink homes
Alam d'16, Shah Alam	75	2H2012	Residential: 2-storey link homes
Seri Jalil, Bukit Jalil	125	2H2012	Residential: 2½-storey superlink terrace houses and semi-Ds
Boulevard Business Park @ Jln Kuching	572	2013	Mixed commercial-residential: Ph 1: 4-storey shop offices & retail podium Ph 2: serviced apartments

One Sierra @ Selayang
This is a mixed commercial-residential development, a gated and guarded community, on 22.3 acres of land in the suburbs of Selayang. The project consists of 236 units of superlink and semi-detached houses, bungalows as well as three levels of shop offices and apartments.

The homes are priced from RM800,000 to about RM2 million per unit while the shops and apartments are priced from RM500,000 and RM150,000, respectively. Total GDV is RM198 million.

The project was launched in August 2010 and is currently about 70% sold and scheduled to complete by 1Q12.

D'Sierra Anggun Selayang
Another gated and guarded community in Selayang, the project consists of 90 units of 2 and 2½-storey superlink homes on a 6 acres piece of land.

Priced upwards of RM750,000 per unit, the project was launched October 2010 and is roughly 30% sold. Total GDV is RM80 million.

Ground-breaking is expected by mid-2011 and the development is targeted for completion by end-2012.

Alam d'16, Shah Alam
The project consists of 177 units of 2-storey link homes within a gated and guarded community and located on 10 acres of land in Shah Alam. GDV is tagged at RM75 million with the homes selling for RM400,000-RM500,000 per unit.

The project was launched earlier this year and is now about 70% sold. Construction work is expected to start by mid-2011 and should be completed by end-2012.

Seri Jalil, Bukit Jalil
With GDV totaling RM125 million, the project consists of 107 units of 2½-storey superlink terrace and semi-detached houses – priced from about RM900,000 to RM1.2 million per unit.

The project was opened for registration late last year. Based on the overwhelming response, it is likely to be fully sold when launched, slated by the next month or two. Construction work is expected to start shortly after and the project is targeted for completion by end-2012.

Boulevard Business Park @ Jalan Kuching
This is the latest project for Magna. The mixed commercial-residential development will consist of 94 units of 4-storey shop offices under the first phase with GDV of RM310 million. The launch is scheduled for May 2011.

For the second phase, which is expected to start later in 2012-2013, the company is planning to build 288 units of serviced apartments. GDV is estimated at around RM262 million.

Two other projects on the drawing board
Looking further ahead, Magna is working on two other projects. The first is likely to be a mixed commercial-residential development on a 6.95 acres piece of land in Jalan Gasing, Petaling Jaya. The land was acquired for RM48.5 million last year.

The second is widely viewed as a flagship project for the company. Magna is currently in the process of acquiring a 2.62 acres plot of land in Jalan Ampang, where the Lai Meng Girl's School is now located.

The company has already secured another piece of land in Bukit Jalil, for RM10.7 million, which will be the new home for the school. Construction on the new building is expected to begin later this year. Once completed, slated by 2013, the school will be relocated to the new site, whereby development on the Jalan Ampang land can commence.

Magna intends for these two projects to take off after it has completed the five developments currently ongoing. If all goes to plan, its roster of projects – both ongoing and on the drawing board – will sustain sales and earnings for the foreseeable future.

Accounting methodology may restate, distort sales and profit numbers
At the moment, Magna accounts for its projects on a percentage of completion basis. However, Malaysia is expected to adopt the IFRIC 15 (International Financial Reporting Interpretation Committee) method of accounting whereby sales are recognized only on project completion next year.

At the moment, it is still uncertain if the new accounting standard will apply to ongoing as well as new projects. As such, we could see some restatements and distortions to our sales and earnings forecast for the company. But, regardless of the method of accounting, the company's underlying fundamentals would be intact.

Balance Sheet

The company's gearing rose in 2010, primarily due to its land acquisitions, to 79% or net debt of RM94.7 million. Net debt is expected to rise further this year with the completion of two additional land acquisitions in Selayang and Jalan Kuching.

Nonetheless, we are not overly concerned. All of the company's current projects have secured financing and progressive completion will generate revenue and cash flow, which will, in turn, gradually pare back gearing levels.

Magna remains on the lookout for acquisitions to boost its landbank. However, the company's main focus would be on the execution of the projects in hand.

We expect the company to maintain annual dividend at 1 sen per share going forward in order to conserve cash for its expansion plans. At the prevailing price, shareholders would earn net yield of roughly 1.3%.

Investment Risks

As for all property developers, Magna is exposed to the risk of a downturn in the sector.

The property market, especially that for the landed residential segment, has strengthened noticeably over the past two years. Judging by buyer response to recent new launches, we believe the probability of a downturn in the near to medium term is low.

Demand is expected to stay quite robust, particularly for those in choice locations. Indeed, recent news reports suggest that several upcoming residential properties are likely to be launched at record high prices.

The uptrend in property prices is attributed, in part, to the rising cost for land and raw materials, such as cement and steel, as well as low interest rates. Expectations of inflation are providing strong support to property demand.

On the flipside, sharp increases in raw material prices could result in cost overruns and eat into the company's profits. On the positive note, Magna's projects are priced for the mid to high-end market segments where margins are pretty robust. That should, to a certain degree, buffer the company against unexpected cost inflation.

The company is also exposed to execution risks for its projects. With five concurrent projects, the company is running a tight ship. Positively, Magna has a long and pretty solid track record with respect to its previous projects.

Valuation and Recommendation

As mentioned above, the five new projects – excluding the soon to be completed U1 Apartment Suites – will underpin Magna's sales and earnings for the next two to three years.

The company currently has unbilled sales totaling some RM293 million. Construction for the residential projects d'Sierra Anggun, Alam d'16 and Seri Jalil as well as the first phase of Boulevard Business Park @ Jalan Kuching are expected to commence in the current quarter.

Thereafter, we expect the two projects in the pipeline – the developments in Jalan Gasing and Jalan Ampang – to pick up the slack and provide investors with sustainable revenue and earnings beyond 2013.

We estimate sales to grow to about RM261.2 million in the current year and further to RM426.8 million in 2012 on the back of progressive sales from the company's current roster of projects.

The higher revenue will return the company to profitability this year. Net profit is estimated at RM30.8 million, a reversal from net loss of RM11.7 million in 2010. Earnings are forecast to grow to RM63.2 million by 2012 with the projects in full swing.

Based on our forecast, the stock is trading at fairly attractive valuations of 8.4 times estimated earnings this year, on a fully diluted basis, which will drop sharply to roughly 4.1 times by 2012.

Magna's net assets stood at RM0.49 per share at end-2010, which is forecast to expand to RM0.72 per share by 2012 and RM0.87 by end-2014, upon the full completion of the five projects in hand.

Our earnings forecasts have not taken into account any contribution from the projects in Jalan Gasing and Jalan Ampang.

However, it bears to note that the land in Jalan Ampang, which is currently pending completion, is estimated to cost roughly 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 another recent deal, Dijaya Corp paid about RM2,200 per square foot for an adjacent piece of land.

At this price, Magna's land would be valued closer to RM250 million, translating into a revaluation surplus of roughly RM77 million. This could potentially add some 23 sen per share, based on its enlarged share capital of 333.1 million shares, to Magna's share value once the acquisition is completed.

The company has some 85.8 million warrants outstanding that will expire in September 2011. Given that the warrants are deep "in the money", with exercise price of 37 sen, we expect full conversion. This would enlarge Magna's share capital from the existing 247.3 million to 333.1 million. The warrants are current trading at 45 sen per warrant, with a premium of 5.8%.

Taking into account the company's pipeline of projects, anticipated earnings turnaround as well as relatively modest valuations, we are inclined to recommend a **BUY** on the stock.

Profit & Loss Analysis

Year end Dec (RM mil)	2009	2010	2011E	2012E
Turnover	191.9	116.3	261.2	426.8
Operating profit	15.4	(8.4)	51.6	98.5
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	(10.0)	41.1	84.3
Tax	4.8	2.1	10.3	21.1
Minorities	0.0	(0.4)	-	-
Net profit	6.6	(11.7)	30.8	63.2
Operating margin (%)	8.0	(7.2)	19.8	23.1
Pre-tax margin (%)	6.0	(8.6)	15.7	19.8
Net margin (%)	3.5	(10.1)	11.8	14.8

Per Share Data

Year end Dec (RM mil)	2009	2010	2011E	2012E
EPS (sen)	3.1	(4.7)	9.2	19.0
P/E (x)	25.0	nm	8.4	4.1
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	0.72
Price/NA (x)	1.4	1.6	1.4	1.1
Cashflow/share (RM)	(0.1)	(0.1)	0.2	0.2
Price/cashflow (x)	(8.6)	(10.0)	4.1	4.0
Gearing (%)	10.0	78.7	101.4	82.7
ROE (%)	5.7	(9.8)	20.5	30.2

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

Balance Sheet

Year end Dec (RM mil)	2008	2009	2010
Fixed assets	4.0	3.1	1.9
Land held for prop dev	6.0	6.1	62.8
Investments others	7.5	3.2	3.2
Goodwill	-	3.3	3.3
Trade debtors	284.1	203.8	136.3
Stocks	2.3	7.4	9.6
Prop development costs	130.2	109.3	160.1
Cash and equivalents	(48.2)	(11.8)	(94.7)
Total current assets	368.5	308.6	211.3
Trade creditors	231.5	175.0	141.7
Tax payable	35.9	27.1	17.1
Dividend payable	-	-	-
Total current liabilities	267.3	202.0	158.8
Total assets	118.7	122.2	123.7
Share capital	53.5	53.5	61.8
Reserves	60.8	64.8	58.6
Shareholders' funds	114.3	118.2	120.4
MI	3.0	3.0	2.9
Other long term liabilities	1.4	0.9	0.4
Total capital employed	118.7	122.2	123.7

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