

Recommendation: **BUY**

Stock Code: 7617

Bloomberg: MAGNA MK

Price: MYR0.88

12-Month Target Price: MYR1.00

Date: June 1, 2010

Board: Main

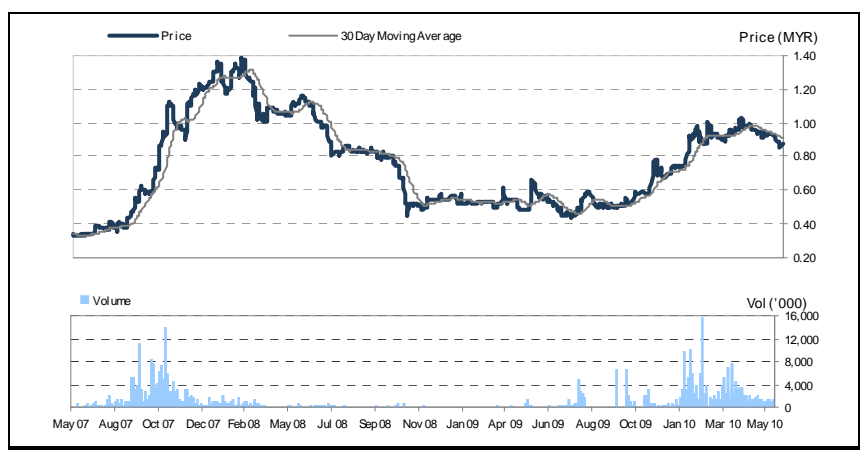
Sector: Construction

GICS: Industrials/Construction &amp; Engineering

Market Value - Total: MYR188.3 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 1Q10 results were disappointing with the group posting a net profit of MYR147,000, compared to our previous 2010 estimate of MYR21.5 mln.
- Following the substantial completion of its Dataran Otomobil and Magnaville projects in 2009, MPB has only one ongoing project (U1 Shah Alam) to support earnings, which resulted in the 70% YoY and 93% YoY decline in 1Q10 revenue and net profit to MYR18.1 mln and MYR147,000 respectively.
- Nevertheless, looking forward, the group will have a string of new launches, with the first being the One Sierra, Selayang residential project in 2Q10, followed by the remaining launches (D'Sierra in Selayang, One Jalil in Bukit Jalil, Magnacity in Jalan Kuching, and One Villa in Shah Alam) in late 3Q10 or early 4Q10. The combined GDV of these five projects are approximately MYR780 mln.
- We had earlier expected the launches to take place in 2Q10 and 3Q10. In view of the later-than-expected launches, contributions from these new developments would only commence in late 4Q10, with earnings over the next two quarters likely to remain subdued. As such, we slash our 2010 net profit estimate by 80% to MYR4.0 mln. We also reduce our 2011 net profit by 9% to MYR29.7 mln to reflect our more conservative assumptions. The estimated substantial jump in 2011 earnings is premised upon the expectation of contributions from all the planned new projects coming on-stream.

### Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	3.1	1.9
PER (x)	28.4	47.5
Dividend/Share (sen)	1.0	1.0
NTA/Share (MYR)	0.54	0.59
Book Value/Share (MYR)	0.55	0.59
No. of Outstanding Shares (mln)	214.0	
52-week Share Price Range (MYR)	0.44 - 1.03	
Major Shareholders:	%	
Fantastic Realty Sdn Bhd	15.4	
Lee Choon Hooi	8.5	

\*Stock deemed Shariah compliant by the Securities Commission.

## Recommendation & Investment Risks

- We maintain our Buy recommendation on MPB but lower our 12-month target price to MYR1.00 (from MYR1.10).
- We arrive at our target price by ascribing a target P/B (from PER) of 1.1x on 2011 BPVS, inclusive of a projected dividend. The target P/B is at the top end of the range for peers within our coverage after considering the high earnings potential of its upcoming projects, and is also in line with its historical five-year average P/B ratio. We have switched our valuation metrics to the P/B method to better reflect MPB's valuation in view of the impending adoption of a new accounting policy, which could result in lumpy development earnings.
- We remain upbeat on MPB's prospects, and view the delays in the launches as a short-term setback. We understand the expression of interests so far for the One Sierra project has been very encouraging. Given the prime locations of its other projects in Selayang, Bukit Jalil, Shah Alam and Jalan Kuching, we believe the take-up rates would be high. Funding-wise, the group has already secured bank financing for majority of its planned new launches. As at end-March 2010, its balance sheet is healthy with negligible borrowings. In our opinion, MPB's valuation is attractive at prospective 2011 PER of 6x, compared to the expected 8-fold growth in 2011 net profit.
- Risks to our recommendation and target price include further delays in the new major launches, in addition to potential slower-than-expected construction progress.

### Per Share Data

FY Dec.	2007	2008	2009	2010E
Book Value (MYR)	0.43	0.53	0.55	0.59
Cash Flow (sen)	13.3	13.1	3.6	2.5
Reported Earnings (sen)	12.9	12.6	3.1	1.9
Dividend (sen)	1.8	1.3	1.0	1.0
Payout Ratio (%)	13.1	9.9	72.7	54.0
PER (x)	6.8	7.0	28.4	47.5
P/Cash Flow (x)	6.6	6.7	24.7	35.7
P/Book Value (x)	2.1	1.6	1.6	1.5
Dividend Yield (%)	2.0	1.4	1.1	1.1
ROE (%)	35.3	26.5	5.7	3.2
Net Gearing (%)	55.5	43.9	11.1	46.8

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

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**Quarterly Performance**

FY Dec. / MYR mln	1Q10	1Q09	% Change
Reported Revenue	18.1	61.1	-70.3
Reported Operating Profit	0.7	3.4	-80.5
Depreciation & Amortization	-0.2	-0.2	-1.6
Net Interest Income / (Expense)	-0.5	-0.1	>100
Reported Pre-tax Profit	0.2	3.3	-95.3
Reported Net Profit	0.1	2.3	-93.5
Reported Operating Margin (%)	3.6	5.5	-
Reported Pre-tax Margin (%)	0.8	5.3	-
Reported Net Margin (%)	0.8	3.7	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	280.6	191.9	100.7	349.9
Reported Operating Profit	37.9	14.9	7.5	42.8
Depreciation & Amortization	-1.2	-1.0	-1.3	-1.8
Net Interest Income / (Expense)	-0.4	-3.4	-2.0	-2.4
Reported Pre-tax Profit	37.5	11.4	5.5	40.4
Effective Tax Rate (%)	27.2	41.7	28.0	28.0
Reported Net Profit	26.9	6.6	4.0	29.7
Reported Operating Margin (%)	13.5	7.7	7.5	12.2
Reported Pre-tax Margin (%)	13.4	6.0	5.5	11.5
Reported Net Margin (%)	9.6	3.5	3.9	8.5

Source: Company data, S&amp;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.

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Buy	1.00
26-Feb-10	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

