

Initiating Coverage

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Magna Prima Bhd		Price:	RM4.36
		Market Capitalisation:	RM225.0m
		Board:	Second Board
		Sector:	Construction
Turnaround continues		Recommendation:	ADD
Stock Code:	7617		

Key Stock Statistics	2008F	2009F
Diluted EPS (sen)	46.3	56.0
P/E (x)	9.4	7.8
Dividend/Share (sen)		7.0
NTA/Share (RM)		1.72
Book Value/Share (RM)		1.72
Issued Share Capital (mil)		51.6
52-weeks Share Price Range (RM)	5.65 - 1.24	
No of warrants (mil)		23.4
Major Shareholders:		
Fantastic Realty Sdn Bhd		16.6%
Tan Teong Han		7.2%

Per Share Data	2006	2007	2008F	2009F
Book Value (RM)	1.20	1.72	2.20	2.89
Cash Flow (sen)	(29.4)	(35.1)	(31.7)	19.3
Basic EPS (sen)	0.25	51.6	65.1	78.8
Diluted EPS (sen)	2.6	37.3	46.3	56.8
Dividend (sen)	0.0	7.0	10.0	10.0
Payout Ratio (%)	0.0	13.6	15.4	12.7
Diluted PER (x)	167.7	11.7	9.4	7.8
P/Cash Flow (x)	(14.8)	(12.4)	(13.7)	22.6
P/Book Value (x)	3.6	2.5	2.0	1.5
Dividend Yield (%)	0.0	1.6	2.3	2.3
ROE (%)	0.2	35.3	33.2	31.0
Net Gearing (%)	59.4	55.5	62.8	45.0

P&L Analysis (RM mil)	2007	2008F	2009F
Year-end: 31 Dec			
Revenue	344.4	356.4	391.6
Operating Profit	37.8	48.2	57.5
Depreciation	(1.0)	(1.0)	(1.1)
Net Interest Inc/Exp	0.3	(2.0)	(2.5)
Pre-tax Profit	37.6	45.7	54.5
Net Profit	26.6	33.5	40.6
Operating Margin	11.0%	13.5%	14.7%
Pre-tax Margin	10.9%	12.8%	13.9%
Net-Margin	7.7%	9.4%	10.4%
Effective Tax Rate	28.7%	26.0%	25.0%

Share Price Chart**1. INVESTMENT HIGHLIGHTS**

- With a new management in place and buoyant property demand, Magna Prima is back on the road to profitability – posting net profits of RM4.0m in FY06 and RM26.6m in FY07 compared to a net loss of RM4.6m in FY05.
- Going forward, unbilled sales of RM250m and planned GDV of 1.4bn on two new projects in Shah Alam and Jalan Kuching will anchor profits in FY08-FY11. The group is also tendering for RM200m of building jobs under the 9MP.
- The Jalan Kuching development includes retail space of around 1m sf which may be retained for recurring rental income or structured into a REIT.
- Building on its Avare franchise and capability in mixed development, the group is looking for new property development and construction projects in the Klang Valley.
- We are initiating coverage with a target price of RM4.65 and ADD rating. The target price is based on a CY08 PE of 10x and is well supported by a base case RNAV of RM4.93. Pricing at RNAV would have to wait until the Jalan Kuching development is finalised and launched.

2. BACKGROUND

• History

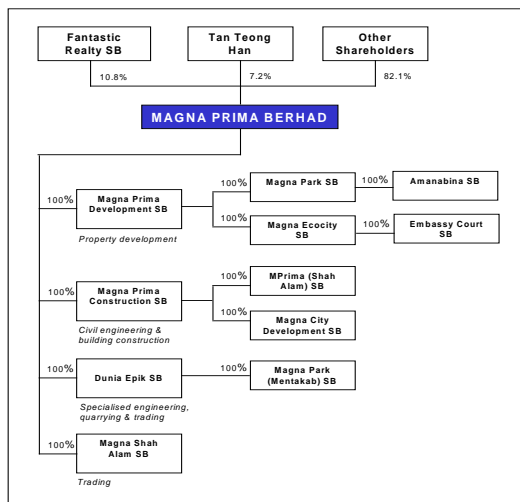
Magna Prima was listed on the Second Board of Bursa Malaysia in January 1997 following a restructuring scheme which involved the acquisition of the Magna Realty Group, Magna Prima Construction Sdn Bhd and the Dunia Epik Group. The Magna Prima Group was then primarily involved in Civil Engineering & Building Works, Specialist Crushing Services, and Project Management & Property Development.

The years after the 1997 Asian Financial Crisis saw a number of changes in substantial shareholdings, including the entry of Tan Sri Chua Hock Chin, who ceased to be a substantial shareholder in September 2007. Current substantial shareholders are Fantastic Realty Sdn Bhd and Tan Teong Han – since November 2005 and December 2006, respectively.

Issued share capital of Magna Prima enlarged to current level after private placements and ESOS issues in 2004, 2005, 2006 and 2007. In 2006, there was a rights issue of 23.4m warrants at RM0.30 each, with a conversion price of RM1.30 and expiring on 26 Sept 2011. As at 16 April 2007, Fantastic Realty held 54.1% of the warrants.

• Corporate Structure

The current structure of the Magna Prima Group is as follows:-



• Business

The principal activities of the Magna Prima Group now are Civil Engineering & Building Construction, Property Development & Property Management, Specialist Engineering & Quarrying Services, and Trading. The group is now primarily in the property development business in the Klang Valley but the construction division is also pitching for building projects under the 9MP. Key project completed include the Metro Prima development in Kepong while projects under

construction include the high-end The Avare in the KLCC area, Casa Prima and Plaza Prima in Kepong as well as Magna Ville in Segambut and a turnkey project called Auto City in Shah Alam. The turnkey Auto city project is structured on the basis of a certain percentage of GDV as payment to the land owner, PKNS.

3. RECENT DEVELOPMENT

In December 2007, Magna Prima announced the purchase of a piece of land measuring approximately 19,350 sq m in Bandar Shah Alam for a cash consideration of RM9.0m. The land, linked by KESAS Expressway, NKVE and Federal Highway and a 5 minutes drive to Subang Jaya, will be developed into a mixed residential and commercial property of about 378 apartments and a 15-storey office building. The development is called U1 Shah Alam and is expected to have a GDV of around RM135m.

In January 2008, shareholders approved the purchase of two parcels of land situated next to Jalan Kuching and the intersection between Jalan Kuching, Jalan Ipoh and Jalan Kepong for a total cash consideration of RM57.9m. The land, measuring approximately 10.23 acres, will be developed into a mixed residential and commercial property with a GDV of around RM1.1bn. The purchase, which works out to approximately RM130 psf, has also been approved by the FIC.

In January 2008, Bursa Malaysia approved in principle the listing of new ordinary shares (representing up to 15% of the issued and paid-up capital of Magna Prima) to be issued pursuant to an Employees Stock Option Scheme.

A civil suit against a company called Top Green and 6 individuals for the recovery of RM22.1m withdrawn from the account of Magna Prima Construction Sdn Bhd and Dunia Epik Sdn Bhd is presently at case management stage.

4. EARNINGS OUTLOOK

Earnings for the Magna Prima Group in the next three financial years (i.e. FY08 – FY11) are expected to come from the following three streams:-

- Unbilled sales of approximately RM250m and outstanding GDV of around RM210m from existing projects (Avare, Magna Ville, and Auto City);
- GDV of RM135m from U1 Shah Alam; and
- GDV of RM1.1bn from the Jalan Kuching development, the concept and design of which are still being finalised.

The Jalan Kuching project is especially massive and given the excellent location, is expected to do well. Current plans call for an integrated 5-in-1 development, i.e. shop lots, office, service apartments, hotel and retail. Total net lettable retail space is approximately 1m sf.

Assuming a conservative EBIT margin of 10%, the outstanding GDV of over RM1.4bn in the next three years would provide an average annual EBIT of approximately RM40m per annum – closely matching the EBIT of RM37.8m in FY07. However, the group may decide to keep the retail space for recurring rental income or structure it into a REIT at a later stage. It is estimated that the retail space can provide as much as RM30m – RM40m a year in gross rental income.

Following the success of The Avare in the KLCC area, the group will continue to pursue opportunities for high-end residential development in the Klang Valley. Towards this end and also for the development of high-rise mass-market residential properties, the group is looking for pockets of land.

The group is also tendering for building projects worth around RM200m under the 9MP. It is still unclear if these tenders would be delayed by the outcome of the recent General Elections.

The Avare, Magna Ville and Auto City projects will contribute bulk of profits in FY08 while FY09 profits will come from U1 Shah Alam (which is expected to be launched in 2QFY08) and the Jalan Kuching development (which we assume will be launched in 2HFY08).

5. BALANCE SHEET

As at 31 December 2007, the group has a cash reserve of RM28.5m and total borrowings of RM76.9m, of which approximately RM60m is related to the Avare project scheduled to be completed this year. Net gearing was 0.5x but would increase to around 0.9x following the purchase of the Shah Alam and Jalan Kuching land. As the group is expected to record good profits from the Shah Alam and Jalan Kuching development, cash reserve should continue to rise.

<i>Key Balance Sheet data (RM mil)</i>	2006	2007	2008F	2009F
Total Assets	183.1	311.5	363.3	429.8
Fixed Assets	32.4	10.8	11.1	11.3
Current Asset	150.7	300.7	352.1	418.5
Cash Reserves	7.4	28.5	32.8	46.2
Current Liabilities	114.4	168.1	186.2	216.9
LT Liabilities	4.7	52.4	61.0	61.2
Share Capital	51.5	51.6	51.6	51.6
Shareholders Funds	61.9	88.6	113.4	148.8

6. VALUATION

Based on the projected profit contributions from existing unbilled sales of RM250m and GDV of around RM1.2bn to be launched, we forecast EPS of 65.1 sen in FY08 and 78.8 sen in FY09. Fully diluted EPS assuming full conversion of the warrants would be 46.3 sen and 56.0 sen, respectively.

<i>Relative Valuation</i>	SPSetia	SunCity	Sunrise	KSL
Share Price (RM) @ 28 March 2008	3.70	3.00	2.21	1.01
Mkt. Cap (RM mil)	3,761.8	1,402.2	989.9	268.5
Ave. Daily Vol. (mil)	3.95	0.46	1.03	0.24
P/E CY08 (x)	12.8	7.4	5.8	4.8
P/E CY09 (x)	11.0	6.1	5.1	4.3
P/NTA (x)	1.4	0.9	1.4	0.6
Gross Div Yield	6.8	3.6	5.2	7.9

Pegged at a target CY08 PE of 10x, fair value is set at RM4.65. The target PE is above the 8x set for **KSL Holdings (RM1.01, BUY, TP RM1.65)** and lower than the 12x for **Sunway City (RM3.00, BUY, TP RM4.85)** and 15x for **SP Setia (RM3.70, BUY, TP RM4.40)**. Even though Magna's size is considerably lower than those of the four property stocks under our coverage and its average daily trading volume is only 0.39m shares, the FY08 10x PE target is justified on the following grounds:-

- Fully diluted EPS is expected to grow by 24% in FY09, bringing prospective PE down to just over 8x;
- Revival of its construction business to tender for public building projects under the 9MP;
- Through The Avare, the company has established a reputation in high-end, high-rise development;
- Good prospects of a steady stream of rental income when the Jalan Kuching retail space is completed; and
- The fair value of RM4.65 is well supported by the base-case RNAV of RM4.93 per share, which assumes a gross profit of RM3 psf on the 1m sf of retail space to be built, 80% occupancy rate, gross yield of 8% when the retail space is injected into a REIT, and land cost of RM57.9m.

<i>RNAV</i>	<i>(RM mil)</i>
Net Tangible Asset @ 31 December 2007	88.6
Net profit from unbilled sales	21.5
Proceeds from warrant conversion	30.4
REITable value of Jln Kuching retail space	228.9
Total RNAV	369.4
Enlarged no of shares (mil)	74.9
RNAV per share (RM)	4.93

7. RECOMMENDATION

We initiate coverage on Magna Prima with a fair value of RM4.65 and ADD rating. Pricing at RNAV would have to wait until the Jalan Kuching development is finalised and launched.

After the difficult and tumultuous years following the Asian Financial Crisis, Magna Prima is poised to recover further under the current management team. The company is also looking for land bank and projects to strengthen its property GDV and construction order books. Plans are afoot to transfer its listing to the Main Board in 2009.

8. INVESTMENT RISKS

Three key investment risks are:-

- A sharper than expected economic slowdown which would affect demand and hence the projected stream of incomes;
- Rising costs of building materials impacting development and construction margins; and
- Inability to secure land bank and construction projects and hence clouding prospects after completion of planned projects in 2011.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +15% over a 12-month period
TRADING BUY (TR BUY)	Total return is expected to exceed +15% over a 3-month period due to short-term positive development, but fundamentals are not strong enough to warrant a Buy call. This is to cater to investors who are willing to take on higher risks
ADD	Total return is expected to be between 0% to +15% over a 12-month period
REDUCE	Total return is expected to be between 0% to -15% over a 12-month period
TRADING SELL (TR SELL)	Total return is expected to exceed -15% over a 3-month period due to short-term negative development, but fundamentals are strong enough to avoid a Sell call. This is to cater to investors who are willing to take on higher risks
SELL	Total return is expected to be below -15% over a 12-month period
NOT RATED	Affin Investment Bank does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation
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OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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