

Sentoria Group Bhd

Aiming RM450mn Property Sales for FY18

TP: RM0.86, Ex-Bonus: RM0.78

(+19.0%)

Last Traded: RM0.73, ex:RM0.66

BUY

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Briefing Takeaways

Sentoria held an analyst briefing yesterday following the release of its FY17 results. Similar to the past briefings, it was mainly a Q&A session with Sentoria's co-founder and joint managing director Datuk Gan Kim Leong.

Briefing highlights are:

- 1) Secured new property sales and design and build (D&B) contract of RM172mn and RM66mn respectively,
- 2) FY18 sales target of RM450mn is maintained – underpinned by RM547mn worth of new launches,
- 3) 2 new theme parks to enhance leisure and hospitality division's performance next year.

FY18 property sales and D&B contract amounted to RM238.1mn

The group recorded RM22mn sales in 4QFY17, bringing the full-year FY17 to RM172mn. This represents a drop of 24% YoY. The weaker sales performance was largely due to the delay in the official launch of affordable housing program in Kuching (Rumah Spektra, Low Cost Terrace house, GDV: RM104mn) and Morib (Rumah Selangorku, Apartment, GDV: RM139mn). In terms of sales breakdown by region, Kuantan accounted for 59% sales achieved in FY17 while the remaining 41% was made up from projects in Kuching. Morib's contribution was negligible as new sales were offset by cancellation. Meanwhile, the group secured one contract to design and build 506 units of single-storey semi-detached houses worth RM66mn in Kuantan in FY17. All in, the combined sales of RM238.1mn came in below our sales assumptions and management's sales target of RM280mn and RM350mn respectively. Total unrecognised revenue as at Sep-17 stood at RM296.5mn (or 1.3x FY17 property revenue), comprising unbilled property sales and D&B contract of RM135.1mn and RM161.4mn respectively.

FY18 sales target of RM450mn is maintained

Recall, management introduced the group's "3-year roadmap to success" in 2015, targeting combined sales of RM1.05bn from FY16-18 – see **Figure 2**. Although FY17 sales alone was falling short of expectations, the combined sales of RM602mn over FY16-17 suggest that Sentoria is still on track to achieve the RM1.05bn sales target. As such, management is maintaining its sales target of RM450mn for FY18, driven by new launches worth RM547mn and on-going phases worth RM105mn – see **Figure 3**. In addition, management also guided that it is actively bidding for additional lands from Pahang State Government for development of PRIMA/government housing program. We see Sentoria as a strong contender to secure D&B contracts for affordable housing projects given its established track record. So far, it has been awarded four D&B contracts for the development of affordable homes in Kuantan and Sepang.

Share Information

Bloomberg Code	SNT MK
Stock Code	5213
Listing	Main Market
Share Cap (mn)	514.7
Market Cap (RMmn)	373.2
52-wk Hi/Lo (RM)	1.00/0.66
12-mth Avg Daily Vol ('000 shrs)	200.5
Estimated Free Float (%)	26.6
Beta	0.3

Major Shareholders (%)

Sentoria Capital	- 57.9
State Secretary, Pahang	- 15.5

Forecast Revision

	FY18	FY19
Forecast Revision (%)	(6.4)	(6.0)
Net profit (RMmn)	46.8	57.0
Consensus	n.a	n.a
TA's / Consensus (%)	n.a	n.a
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY18	FY19
Net gearing (x)	43.2	42.1
CFPS (sen)	0.0	0.0
P/CFPS (x)	nm	nm
ROAA (%)	8.1	9.1
ROAE (%)	9.5	10.1
NTA/Share (RM)	1.0	1.0
Price/NTA (x)	0.8	0.7

Share Performance (%)

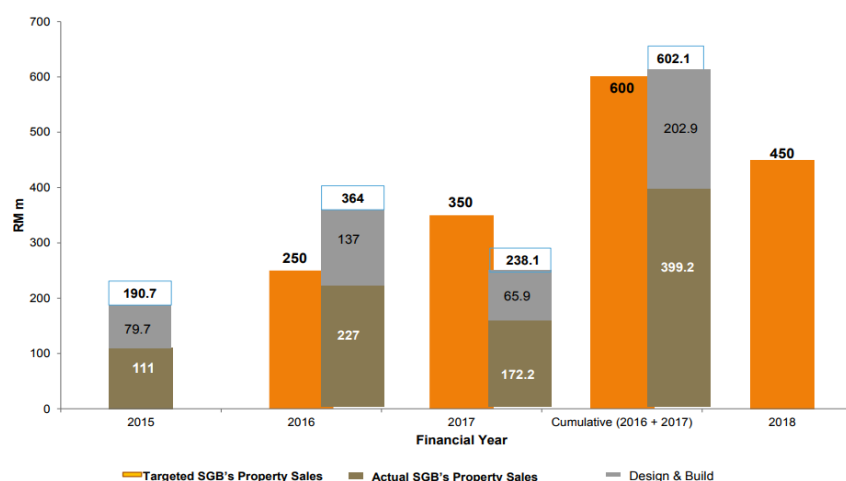
Price Change	SNT	FBM KLCI
1 mth	(2.7)	(1.8)
3 mth	(9.9)	(2.7)
6 mth	(15.2)	(2.9)
12 mth	(9.4)	5.4

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Figure 2 : Historical and Targeted New Sales for Property Segment



Source: Sentoria, TA Securities

Figure 3 : Targeted Property Launches for FY18

Projects	Property Types	Units	GDV(RM mill)	Avg Selling Price (RM k)
Kuantan	Single Storey Terrace House	763	120.0	157
	Subtotal	763	120.0	
Kuching	Single Storey Shops	69	35.03	508
	Low Cost Terrace House	723	103.55	143
	Single Storey Terrace House	189	43.81	232
	Subtotal	981	182.39	
Morib	Apartment (RSKu1)	630	138.60	220
	Apartment (RSKu2)	480	105.60	220
	Subtotal	1,110	244.20	
Total		2,854	546.59	

Source: Sentoria, TA Securities

Leisure and hospitality's performance is set to improve next year

Sentoria's leisure and hospitality division posted a loss before interest and tax of RM5.4mn in FY14 (from RM3mn profit in FY13), mainly due to initial operating costs and overheads incurred for the Safari Park. For FY15, this division's loss before interest and tax narrowed to RM3.2mn, after the implementation of cost rationalisation measures. Driven by continued measure to control costs, the group's leisure and hospitality division has stabilised, generating EBIT of RM2.5mn and RM2.4mn in FY16 and FY17 respectively.

As for the status of the group's other theme parks, we understand that the group's two new theme parks, i.e. Langkawi Nature Park in Langkawi and Borneo Samariang Water Park i.e. will commence operation in 2QFY18. Meanwhile, the water park Morib is on track for completion by end 2018. As such, the leisure and hospitality's performance is expected to improve, following the commencement of Langkawi Nature Park and Borneo Samariang Water Park.

Update on Corporate Exercise

Sentoria's shareholders have approved two proposals – the 1-for-10 bonus issue and rights issue of 4 Warrants B for every 10 ordinary shares, at an issue price of RM0.25 per warrant. The ex-date for the two proposals have been fixed on 8 Dec. To recap, the rights issue of Warrants B is expected to raise gross proceeds of up to RM52.8mn for working capital purposes. As the rights issue of Warrants B will be undertaken on a maximum subscription basis, Sentoria's net gearing is estimated to be reduced to 0.4x, from 0.8x as at Sep-17.

Impact

We cut our FY18 &19 earnings forecasts by 6.4% and 6.0% respectively after incorporating the YE FY17 results and adjusting progress billings assumptions to reflect the timing of new launches. Note that our FY18 sales assumptions is conservative at RM380mn, below management's target of RM450mn. We introduce our FY20 net profit numbers with a growth of 15% YoY. The growth is expected to be underpinned by projected RM430mn sales and higher contribution from 3 new theme parks in Langkawi, Kuching and Morib.

We also adjust our EPS and DPS accordingly after factoring in the proposed 1-for-10 bonus issue and warrant A conversion by major shareholders recently. While the full exercise of all the new warrant B will result in a potential 20% dilution in EPS, we do not factor in the full dilution impact in our earnings model for now. It is not in the money and we expect the Warrants B to be exercised over a period of time and/or to be exercised only closer to the maturity date in 7 years' time.

Valuation

We arrive at a new target price of RM0.86/share (ex-bonus: RM0.78/share), based on unchanged 9x CY18 EPS. Reiterate **Buy**. We see the group's earnings visibility to be underpinned by 1) sizable pipeline of new launches, 2) total unrecognized revenue RM245mn, and 3) leisure division performance to catch up with the opening of Borneo Samariang water park.

Earnings Summary

Profit & Loss (RMm)

YE Sep 30	2016	2017	2018f	2019f	2020f
Revenue	224.2	280.4	309.0	370.8	446.4
EBITDA	54.6	59.8	78.8	93.8	107.0
Dep. & amortisation	(11.8)	(11.2)	(15.8)	(16.8)	(17.8)
Fair value gain	5.8	5.5	0.0	0.0	0.0
Net finance cost	(3.4)	(2.7)	(9.3)	(11.5)	(13.9)
Normalised PBT	39.4	45.9	53.7	65.6	75.4
Taxation	(12.1)	(13.3)	(7.0)	(8.5)	(9.8)
MI	0.0	(0.0)	0.0	0.0	0.0
Reported Net profit	33.1	38.0	46.8	57.0	65.6
Normalised net profit (sen)	28.8	33.9	46.8	57.0	65.6
Core EPS* (sen)	5.1	6.0	8.3	10.1	11.6
GDPS (sen)	0.0	0.0	1.0	1.0	1.0
Div Yield (%)	-	-	1.4	1.4	1.4

Cash Flow (RMm)

YE Sep 30	2016	2017	2018f	2019f	2020f
PBT	45.2	51.4	53.7	65.6	75.4
Adjustments	(0.5)	(2.8)	9.3	11.5	13.9
Dep. & amortisation	11.8	11.2	15.8	16.8	17.8
Changes in WC	(129.0)	(86.9)	58.6	(38.0)	(4.6)
Operational cash flow	(72.5)	(27.2)	137.4	55.8	102.4
Capex	(48.8)	(58.1)	(71.4)	(66.0)	(85.0)
Others	2.0	0.2	0.0	0.0	0.0
Investment cash flow	(46.8)	(57.9)	(71.4)	(66.0)	(85.0)
Debt raised/(repaid)	106.7	110.1	70.0	110.0	120.0
Equity raised/(repaid)	3.0	0.0	0.0	0.0	0.0
Dividend	(9.7)	0.0	(5.7)	(5.7)	(5.7)
Others	0.0	5.2	52.8	0.0	0.0
Financial cash flow	100.0	115.3	117.1	104.3	114.3
Net cash flow	(19.4)	30.2	183.2	94.2	131.7

Assumptions

YE Sep 30	2016	2017	2018f	2019f	2020f
New Sales (RM mn)	229	280	380	470	430
Prop Dev Margins (%)	25	23	23	23	21
No of Visitors ('000)	540	546	551	557	782
Revenue/Visitor (RM)	39	40	40	42	42

Balance Sheet (RMm)

YE Sep 30	2016	2017	2018f	2019f	2020f
PPE	363.1	419.2	424.8	430.1	416.6
Investment Properties	43.0	38.2	78.2	108.2	168.2
Others	89.4	91.5	101.6	115.4	136.1
Total Non Current Assets	495.5	548.9	604.5	653.6	720.9
Trade Receivables	190.3	226.1	262.3	314.7	265.0
Inventories	2.2	1.7	3.0	3.6	4.4
Cash	14.4	46.0	229.3	323.4	455.2
Others	146.1	200.3	129.7	138.9	164.1
Current Assets	353.0	474.1	624.3	780.6	888.6
Total assets	848.5	1023.1	1228.8	1434.2	1609.5
ST debt	84.7	166.2	156.2	146.2	146.2
Trade Payables	162.6	178.9	220.7	264.8	260.2
Other current liabilities	3.0	3.9	3.9	3.9	3.9
Current Liabilities	250.3	349.1	380.8	415.0	410.3
Shareholders' funds	402.7	446.5	540.4	591.7	651.6
MI	0.5	1.0	1.0	1.0	1.0
Long Term Borrowings	195.0	226.6	306.6	426.6	546.6
Total Equity and Liabilities	848.5	1023.1	1228.8	1434.2	1609.5

Ratio

YE Sep 30	2016	2017	2018f	2019f	2020f
EPS Growth (%)	11.4	17.7	37.9	22.0	14.9
PER (x)	14.2	12.1	8.8	7.2	6.3
GDPS (sen)	0.0	0.0	1.0	1.0	1.0
Div Yield (%)	0.0	0.0	1.4	1.4	1.4
Net Debt/ (Net cash) (RMm)	265.3	346.7	233.5	249.4	237.6
Net gearing (x)	0.7	0.8	0.4	0.4	0.4
ROE (%)	7.4	8.0	9.5	10.1	10.5
ROA (%)	6.2	6.5	8.1	9.1	9.5
NTA/share (RM)	0.8	0.9	1.0	1.0	1.2
P/NTA (x)	0.9	0.8	0.8	0.7	0.6

Stock Recommendation Guideline

- BUY** : Total return within the next 12 months exceeds required rate of return by 5%-point.
- HOLD** : Total return within the next 12 months exceeds required rate of return by between 0-5%-point.
- SELL** : Total return is lower than the required rate of return.
- Not Rated:** The company is not under coverage. The report is for information only.

Total Return is defined as expected share price appreciation plus gross dividend over the next 12 months. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Required Rate of Return of 7% is defined as the yield for one-year Malaysian government treasury plus assumed equity risk premium.

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As of Wednesday, November 29, 2017, the analyst, (Thiam Chiann Wen), who prepared this report, has interest in the following securities covered in this report:
(a) nil

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