COMPANY UPDATE

Friday, 2 Dec 2016
FBM KLCI: 1,624.44
Sector: Property

TA SECURITIES
A MEMBER OF THE TA GROUP

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Sentoria Group Bhd

Morib and Kuching Development Contribute to Sales

TP: RM0.84 *(+6.7%)*

Last Traded: RM0.79

Hold

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Briefing Takeaways:

Sentoria held an analyst briefing yesterday following the release of its FY16 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.

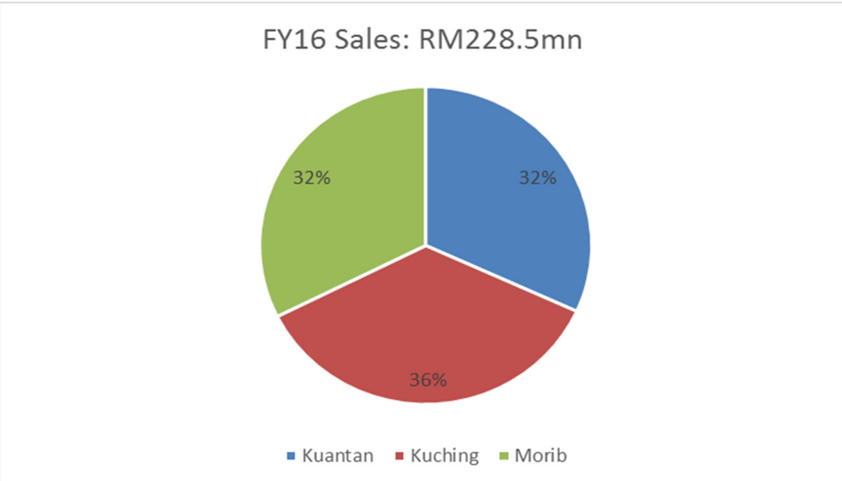
Briefing highlights are:

1) Record Property Sales of RM228.5mn (+144% YoY)
2) FY17 sales target of RM350mn is maintained
3) Leisure division is recovering
4) Solid unbilled sales and steady pipeline of launches to drive future earnings

Record Property Sales of RM228.5mn in FY16

The group achieved record sales in FY16, with new property sales leaping 144% to RM228.5mn. Although the sales performance came in slightly below management's sales target of RM250mn, it exceeded our projection of RM190mn. The stronger-than-expected sales was underpinned by encouraging sales performance from its two new resort city development, Borneo Samariang Resort City (BSRC) in Kuching and Sentoria Morib Resort City (SMRC) in Morib.

Figure 1: FY16 Sales Breakdown by Projects



Source: Sentoria, TA Research

In Jan-16, Sentoria rolled out landed properties within BSRC (GDV: RM84mn, 337units). These terrace houses (ASP: RM220k/unit) and semi detaches (ASP: RM344k/unit) were well received, registering a take up rate of 81% in FY16. Meanwhile, the maiden phase of SMRC, Riviera (GDV: RM101mn) was officially launched in Feb-16. It features 156 unit of resort villas with indicative selling price starting from RM638k/unit. Response was encouraging with 116 units (or 74%) sold to-date.

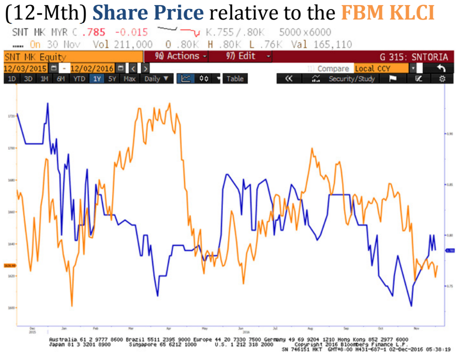
Share Information	
Bloomberg Code	SNT:MK
Stock Name	SNTORIA
Stock Code	5213
Listing	Main Market
Share Cap (mn)	489.1
Market Cap (RMmn)	384.0
Par Value	0.20
52-wk Hi/Lo (RM)	0.95/0.71
12-mth Avg Daily Vol ('000 shrs)	58.90
Estimated Free Float (%)	26.6
Beta	0.51
Major Shareholders (%)	
	Sentoria Capital - 62.0
	State Secretary Pahang - 11.4

Forecast Revision	FY17	FY18
Forecast Revision (%)	(4.0)	6.6
Net profit (RMm)	44.1	70.6
Consensus	n.a	n.a
TA's / Consensus (%)	n.a	n.a
Previous Rating	Sell (Upgraded)	

Financial Indicators	FY17	FY18
Net Debt / Equity (%)	63.3	80.0
FCPS (sen)	(0.0)	0.0
Price / CFPS (x)	nm	nm
ROA (%)	7.8	9.8
NTA/Share (RM)	0.9	1.0
Price/NTA (x)	0.9	0.8

Share Performance (%)		
Price Change	**SNTORIA**	**FBM KLCI**
1 mth	0.6	(2.0)
3 mth	(6.5)	(0.3)
6 mth	(8.7)	(3.0)
12 mth	(14.7)	(2.7)

(12-Mth) **Share Price** relative to the **FBM KLCI**



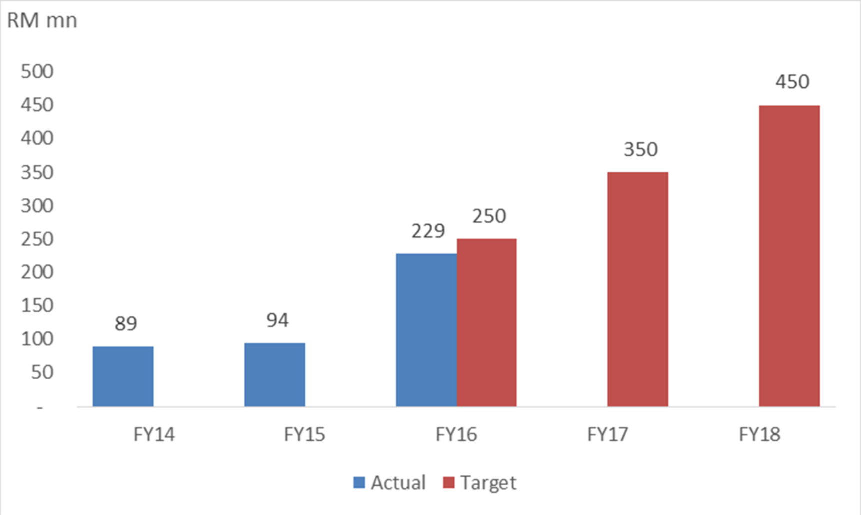
Source: Bloomberg

In addition, bread-and-butter townships in Kuantan also contributed steady sales in FY16. Specifically, Taman Bukit Rangin 3 (GDV: RM46mn, 300 units single storey terrace, ASP: RM150k/unit), which were only launched in Sept, have seen overwhelming response with 64% of the units sold within a month of launched. Overall, we believe the group's ability to deliver the right products at the right price contributed to the strong take up.

FY17 Property Sales Target is Maintained at RM350mn

Last year, management introduced the group's 3-year roadmap to success, targeting combined sales of RM1.05bn from FY16 to FY18 – see **Figure 2.** Despite FY16 sales falling slightly short of expectations, management is maintaining its sales target of RM350mn for FY17. Sales is expected to be driven by new launches worth RM400mn and on-going phases worth RM160mn – see **Figure 3**. We understand that new launches in Kuching and Morib will feature the state government's affordable housing scheme with selling prices of RM135k/unit and RM220k/unit respectively.

Figure 2: Historical Sales Performance and Future Sales Target



Source: Sentoria, TA Research

Figure 3: Upcoming Launches

Regions	On-Going Projects (RM mn)			FY2017 New Launches (RM mn)	Total Available for Sale (RM mn)
	GDV	Sold	Balance		
Kuantan	141.6	87.7	53.9	129.7	183.6
Kuching	215.3	131.1	84.2	131.9	216.1
Morib	95.4	73.3	22.1	138.6	160.7
Total	**452.3**	**292.1**	**160.2**	**400.2**	**560.4**

Source: Sentoria, TA Research

Leisure Division Performance is Recovering

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 division generated EBIT of RM2.5mn in FY16. Management aims to maintain the performance in FY17.

As for the status of the group's other theme parks, we understand that the group's Langkawi Nature Park, a mangrove eco park will open its door next year.

Meanwhile, the water park in Samariang and Morib are on track for completion by end 2017 and 2018 respectively.

Solid unbilled sales and steady pipeline launches to drive future earnings

We see clearer skies ahead for Sentoria as earnings visibility has improved. Supported by strong sales performance in FY16, the group's latest unbilled sales doubled to RM175mn from RM82mn a year ago. The solid unbilled sales represents 1.3x of the group's FY16 property revenue. Meanwhile, the group has clinched RM137.4mn worth of design and build contracts in FY16 and unrecognized revenue from these contracts stood at RM118.9mn as at Sep-16.

Although the sales target and opening timeline of the new theme parks are largely within our expectations, we are upbeat on the group's strategies to drive future earnings. Also, we expect management's track record and experience in building and managing theme park should help clear investors' concerns over its execution capability. We also anticipate the opening of Langkawi Nature Park in 2016, to serve as a platform to build Sentoria's brand name in Langkawi for the benefit of its two future resort city developments.

Forecasts

Our FY17 and 18 earnings are adjusted by -4% and +7% respectively after incorporating the YE FY16 results and performing some house-keeping to our model. Note that our FY17 sales assumption is conservative at RM300mn, below management's target of RM350mn. Coming from a higher base in FY16, we project FY19 EPS to grow 6.5% YoY, underpinned by the projected RM1.0bn sales and contribution from Kuching and Morib's water parks.

Valuation

We value Sentoria at RM0.84/share, based on unchanged 8x CY17 EPS. We upgrade Sentoria to **Hold** from Sell previously as we see improved earnings visibility for the group driven by healthy unbilled sales and steady recurring income when its two new water parks commence operation by FY18 and FY19.

Potential re-rating catalysts include: 1) stronger-than-expected sales from Samariang and Morib, 2) ability to secure additional lands from Pahang State Government for development of PR1MA/government housing program, and 3) ability to successfully build up its brand name in Langkawi.

Profit & Loss (RMm)

YE Sep 30		2015	2016	2017f	2018f	2019f
Revenue		219.6	224.2	348.4	452.7	488.6
EBITDA		51.3	54.6	88.4	126.9	139.3
Dep. & amortisation		(12.0)	(11.8)	(17.5)	(22.9)	(27.4)
Fair value gain		8.3	5.8	0.0	0.0	0.0
Net finance cost		(10.8)	(3.4)	(19.0)	(22.7)	(29.1)
Normalised PBT		28.8	39.4	51.8	81.3	82.8
Taxation		(5.0)	(12.1)	(7.8)	(10.7)	(7.7)
MI		0.0	0.0	0.0	0.0	0.0
Reported Net profit		32.1	33.1	44.1	70.6	75.1
Normalised net profit	(sen)	25.9	28.8	44.1	70.6	75.1
Core EPS*	(sen)	5.3	5.9	9.1	14.6	15.5
GDPS	(sen)	2.0	2.0	2.0	2.0	2.0
Div Yield	(%)	2.5	2.5	2.5	2.5	2.5

Cash Flow (RMm)

YE Sep 30	2015	2016	2017f	2018f	2019f
PBT	37.1	45.2	51.8	81.3	82.8
Adjustments	5.6	(0.5)	19.0	22.7	29.1
Dep. & amortisation	12.0	11.8	17.5	22.9	26.1
Changes in WC	(54.5)	(129.0)	66.8	(47.5)	(119.9)
Operational cash flow	**0.2**	**(72.5)**	**155.2**	**79.4**	**18.1**
Capex	(20.3)	(45.4)	(157.0)	(191.6)	(126.2)
Others	1.9	1.9	0.0	0.0	0.0
Investment cash flow	**(18.4)**	**(43.6)**	**(157.0)**	**(191.6)**	**(126.2)**
Debt raised/(repaid)	(4.8)	106.7	80.0	70.0	120.0
Equity raised(repaid)	26.5	3.0	0.0	0.0	0.0
Dividend	(9.2)	(9.7)	(9.7)	(9.7)	(9.7)
Others	(0.3)	0.0	0.0	(0.0)	0.0
Financial cash flow	**12.1**	**100.0**	**70.3**	**60.3**	**110.3**
Net cash flow	**(6.1)**	**(16.1)**	**68.6**	**(51.8)**	**2.3**

Assumptions

YE Sep 30		2015	2016	2017f	2018f	2019f
New Sales	(RM mn)	111	229	300	450	520
Prop Dev Margins	(%)	28	27	25	25	24
No of Visitors	('000)	577	540	546	551	557
Revenue/Visitor	(RM)	40	39	40	40	42

Balance Sheet (RMm)

YE Sep 30	2015	2016	2017f	2018f	2019f
PPE	345.5	363.1	492.3	642.6	721.4
Investment Properties	19.6	43.0	44.0	45.0	46.0
Others	71.3	89.4	98.7	115.9	136.3
Total Non Current Assets	**436.3**	**495.5**	**634.9**	**803.5**	**903.6**
Trade Receivables	156.8	190.3	204.9	266.3	290.0
Inventories	5.2	2.2	7.9	10.3	15.9
Cash	13.3	14.4	83.0	31.2	33.4
Others	81.8	146.1	118.4	148.1	158.4
Current Assets	**257.2**	**353.0**	**414.2**	**455.9**	**497.8**
Total assets	**693.6**	**848.5**	**1049.1**	**1259.5**	**1401.4**
ST debt	20.6	84.7	64.7	34.7	4.7
Trade Payables	159.3	162.6	248.9	328.3	284.7
Other current liabilities	2.4	3.0	3.0	3.0	3.0
Current Liabilities	**182.3**	**250.3**	**316.6**	**366.0**	**292.4**
Shareholders' funds	376.3	402.7	437.1	498.0	563.4
MI	0.1	0.5	0.5	0.5	0.5
Long Term Borrowings	134.9	195.0	295.0	395.0	545.0
Total Equity and Liabilities	**693.6**	**848.5**	**1049.1**	**1259.5**	**1401.4**

Ratio

YE Sep 30	2015	2016	2017f	2018f	2019f
EPS Growth (%)	(16.1)	11.3	53.0	60.1	6.5
PER (x)	14.7	13.2	8.6	5.4	5.1
GDPS (sen)	2.0	2.0	2.0	2.0	2.0
Div Yield (%)	2.5	2.5	2.5	2.5	2.5
Net Debt/ (Net cash) (RMm)	142.1	265.3	276.7	398.5	516.2
Net gearing (x)	0.4	0.7	0.6	0.8	0.9
ROE (%)	7.4	7.4	10.5	15.1	14.2
ROA (%)	6.0	6.2	7.8	9.8	8.8
NTA/share (RM)	0.8	0.8	0.9	1.0	1.2
P/NTA (x)	1.0	0.9	0.9	0.8	0.7

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.
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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