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Sentoria Group

A Fun Filled Stay at Bukit Gambang

We recently visited Sentoria Group's Bukit Gambang Resort City and its property developments within the vicinity to get a close-up on one of Malaysia's largest integrated resort cities. Located 35km from Kuantan and about 218km from Kuala Lumpur, this resort city sits on 547 acres of land. While we do not have a rating on Sentoria Group, we note that the company posted strong 1QFY12 results, and hence, maintain our sum-of-parts valuation, which gives rise to a FV of RM0.90.

PROPERTY

Sentoria Group in a snap. Established in 1998, the Sentoria Group (Sentoria) is the developer and operator of the Bukit Gambang Resort City (BGRC) in Kuantan, Pahang. Its core business comprises property development and leisure & hospitality. BGRC, sitting on 547 acres of land and featuring a variety of attractions in a single location, is the largest integrated resort city in Malaysia. Currently, the entire BGRC development comprises resort suites (Caribbean Bay Resort), residential developments, MICE (meetings, incentives, conferences and exhibitions) facilities, an outdoor activity facility (Active Academy) and a water park (Bukit Gambang Water Park).

Figure 1: A view of BGRC's Caribbean Bay Resort upon arrival



Source: OSK Research Snapshots

Owns one of the largest integrated resort cities. BGRC, which is the group's pride, is becoming increasingly popular as a holiday destination among locals as well as those in the region. It is surrounded by natural landscape, is easily accessible and features multiple attractions in a single location. In 2011, within two years of opening, the group recorded more than 522,000 visitors compared to 53,000 in 2009, translating into a growth rate of 213.8% p.a over two years. In terms of market share, the group commands about 7.0% of the domestic theme park industry, coming in third behind Resorts World Genting and Sunway Lagoon.

Figure 2: Large lobby caters to big groups during weekends and peak seasons



Source: OSK Research Snapshots

Figure 3: Arabian Bay Resort at a glance



Source: OSK Research Snapshots

A taste of Sentoria's hospitality. During the visit, we stayed in BGRC's only operating resort, Caribbean Bay Resort, and were given the opportunity to visit its property developments. We kicked off our tour by visiting its second resort, Arabian Bay Resort, which is currently under construction and located next to Caribbean Bay Resort. Upon its completion, this resort will bring BGRC's total number of guest rooms to 1,868. Arabian Bay Resort will also have the largest grand ballroom in Malaysia with the capacity to accommodate 3,050 people, as well as more MICE facilities. BGRC's value proposition lies in its vast accommodation and MICE facilities, which enable local organizations to conduct their training and teambuilding activities for large groups. To date, BGRC has hosted than 500 groups, with the largest single day booking involving 16 groups with a total headcount of 2,400.

Figure 4: Bridge connecting Arabian Bay Resort to Caribbean Bay Resort



Source: OSK Research Snapshots

Figure 5: Malaysia's largest grand ballroom in the making



Source: OSK Research Snapshots

Global Heritage lends a foreign flavour. We were also taken on a tour of the upcoming Global Heritage development on 59 acres amid lush greenery, featuring themed villas targeting the high-end market. We understand that the villas, which are selling for RM680,000–RM780,000, are fully furnished and are offered via a sales and leaseback scheme. Under this scheme, investors can lease their villas back to Sentoria Group, upon which BGRC will manage the villas and derive income from guest accommodation. The owners get to enjoy 14 days' stay at their villas every year.

Figure 6: Construction site of Global Heritage



Source: OSK Research Snapshots

Figure 7: Florence Villa



Source: Company Website

Figure 8: Amsterdam Villa



Source: Company Website

Figure 9: San Francisco Villa



Source: Company Website

Figure 10: Himalaya Villa



Source: Company Website

Figure 11: Venice Villa



Source: Company Website

Figure 12: Barcelona Villa



Source: Company Website

Figure 13: Florence Villa



Source: Company Website

Splash! Next, we visited BGRC's water theme park next to the resort. In 2011, within two years of opening, this park saw more than 522,000 visitors versus 53,000 in 2009, making it the third most popular theme park in Malaysia. It is the first in the country to fully utilize the e-value system for cashless payment within the theme park. We understand that the group is also in the midst of building its second theme park, whose operations are slated to commence by end-2012 (Zones 1 & 2 only, out of 7 zones). Called the Bukit Gambang Safari Park, built at a cost of RM48m, is an additional attraction aimed at pulling in even more visitors to BGRC and more importantly, entice them to lengthen their stay there. The second theme park consists of numerous sections, the highlights being Night Jungle, which features animals with nocturnal habits, and Foreign Village, which showcases exotic animals rarely seen in Malaysia. The group also plans to build two more theme parks which are: (i) Aquarium Park, and (ii) Adventure Land. The Aquarium Park spanning 5.4 acres will showcase local fresh water fish and marine wildlife, while the 82.0-acre Adventure Land will feature an amusement park with themed zones. We understand that Sentoria Group will be investing some RM30m in Aquarium Park and some RM170m in Adventure Land.

Figure 14: Water park renting counter



Source: OSK Research Snapshots

Figure 15: Malaysia's longest 6-lane racer



Source: OSK Research Snapshots

Active Academy for teambuilding activities. Following the visit to the water park, we were taken to its outdoor activity facility named Active Academy. Built to complement BGRC's numerous onsite offerings, Active Academy's wide range of teambuilding activities for corporates and families are managed by certified facilitators. Some of the activities available at this facility include: (i) paintball, (ii) all terrain vehicle (ATV) rides, (iii) high rope, and (iv) flying fox, etc.

Figure 16: A participant trying out BGRC's flying fox



Source: OSK Research Snapshots

Property developments in sight. Last but not least, we were taken to visit Sentoria's ongoing and completed property projects. The bulk of Sentoria's property development projects is in Kuantan, and it undertakes most of its property development core functions internally. The group adopts the Industrialised Building System (IBS), as shown in Figure 16, which utilizes building systems that entail prefabricated components and on-site installation. This has enabled its property development business to deliver better profit margins, efficiency, productivity, product quality and service levels. We gather that the group has completed and sold more than 4,000 affordable houses mainly in Kuantan, with more than 90% of the properties completed ahead of schedule and 59% delivered more than six months ahead of schedule.

Figure 17: Industrialised Building System (IBS) prefabricated components on-site



Source: OSK Research Snapshots

Figure 18: Product after IBS prefabricated components removed



Source: OSK Research Snapshots

Figure 19: End-product after construction is completed



Source: OSK Research Snapshots

Figure 20: One of Sentoria's completed projects



Source: OSK Research Snapshots

Afterthoughts on our visit. Overall, we were encouraged by the group's integrated city concept featuring multiple attractions in one location. Its ability to house large groups, coupled with the new attractions in progress, will enhance its recurring income via increasing the average revenue and length of stay per visitor. Besides this, the group also has a proven track record as a property developer as it has been able to increase the value of its property developments over time. Considering that the mass market is its target market, its property sales are expected to stay resilient even in the face of economic recession as the demand for such housing is likely to remain strong at all times.

New safari park to boost FY13 earnings. We think that the second theme park will enhance the group's total number of visitors per year and average spend per visitor as they will probably stay an extra night in BGRC in order to visit both theme parks. As such, we are forecasting a CAGR of 20.5% in the number of tourists to Sentoria for FY11-13 and expect the average spend per visitor to grow by 10% annually. This will boost the company's ancillary income from leisure and hospitality (via services, sale of products such as food, beverage and souvenirs and others). We think that the group's earnings will be flattish in FY12 (+9.7% y-o-y) due to higher depreciation expenses but anticipate a double-digit growth in earnings in FY13 (+27.1% y-o-y) as a result of the spillover effects from the opening of its second theme park.

Table 1: Key forecasts

	2010	2011f	2012f	2013f
No. of tourists to theme parks (m)	7.4	7.8	8.2	8.6
Sentoria's market share (%)	7.0	7.2	7.5	9.0
No. of tourists to Sentoria (m)	0.52	0.53	0.61	0.77
Average spend per visitor (RM)	27.0	32.0	35.2	38.7

Source: OSK, Prospectus

NOT RATED. While we do not have a Rating on Sentoria Group as yet, we maintain our valuation at RM0.90 with our sum-of-the-parts valuation methodology. For its property development business, our earnings forecasts value the business at RM0.60 per share (at a 30% discount of our RNAV estimate of RM0.86 per share), while we value its leisure and hospitality division at RM0.30 per share (pegged to 10.0x FY12 EPS, representing a 30% discount to its peers in the leisure and hospitality industry). The stock's potential rerating catalysts are: (i) a higher-than-expected number of tourists visiting BGRC, (ii) better-than-expected average spend per visitor, and (iii) an increase in the number of new property development projects.

Table 2: Sentoria's sum-of-the-parts valuation

Components of SOP	Value (RMm)	Value/share (RM)	% of total	Basis
Property Development	338.9	0.60	66.7	FY12 RNAV (30% discount)
Leisure & Hospitality	133.4	0.30	33.3	10.0x FY12 fully diluted EPS
Valuation	472.3	0.90	100.0	

Source: OSK

Table 3: Peer comparison for leisure and hospitality business

Company	Listed on	Market Cap (RMm)	FY12 PER (x)	FY12 PBV	FY 12 Dividend yield (%)	FY12 EV/EBITDA
Shangri-la Hotels Malaysia	Bursa Malaysia	1,337.6	13.8	1.5	4.3	7.4
KLCC Property	Bursa Malaysia	3,586.8	11.6	0.7	3.5	11.5
IJM Land	Bursa Malaysia	2,869.2	14.6	1.3	1.8	12.8
Simple average			13.3	1.2	3.2	10.6

Note: Data taken as at 7 June 2012

Source: OSK, Bloomberg

Table 3: Sentoria's RNAV estimation (property development division)

Assets/Projects	Estimated GDV (RMm)	Market value (RMm)
Ongoing Projects		
<u>Kuantan</u>		
Taman Indera Sempurna 2 (Block D - Type J)	20.1	
Taman Indera Sempurna 2 (Block E)	30.6	
Taman Indera Sempurna 2 (Block F)	14.0	
Desa Hijaun - Phase 1	19.2	
Desa Hijaun - Phase 2		
(Pesona Jerman, Pesona Tropika A, B and B1 and Perancis A and B)	25.6	
Arabian Bay	92.0	
<u>Negeri Sembilan</u>		
Fasa Bunga Raya	19.2	
Upcoming Projects		
<u>Kuantan</u>		
Desa Hijaun - Phase 2	12.6	
Taman Bukit Rengin	58.0	
Global Heritage South	335.8	
Mediterranean Bay Resort	80.0	
East Coast Bazaar	40.0	
<u>Selangor</u>		
Taman Bukit Tinggi	7.8	
Future Projects		
<u>Kuantan</u>		
Sungai Karang Beach Resort	48.0	
Global Heritage North	400.0	
Hawaiian Bay Resort	80.0	
Andaman Bay Resort	80.0	
Rainforest Eco Suites 1	75.0	
Rainforest Eco Suites 2	60.0	
Rainforest Eco Suites 3	45.0	
Promenade Retail Suites	40.0	
Heritage Square	20.0	
Business Hotel and Convention Centre	90.0	
Unbilled sales	39.4	
NPV of development profit	1732.3	223.6
Plus: Shareholders equity (assuming full exercise of ESOS options)		197.5
Minus: FY12 total borrowings		(42.1)
Total RNAV		379.1
Current share base (m)		400.0
No. of shares from exercise of ESOS options (m)		40.0
Fully diluted share base (m)		440.0
RNAV/share (RM)		0.86
RNAV (30% discount) (RM)		0.60
<i>Source: OSK, Prospectus</i>		

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Published by OSK Research Sdn. Bhd., 6th Floor, Plaza OSK, Jalan Ampang, 50450 Kuala Lumpur
 Printed by Xpress Print (KL) Sdn. Bhd., No. 17, Jalan Lima, Off Jalan Chan Sow Lin, 55200 Kuala Lumpur

OSK RESEARCH SDN. BHD. (206591-V)

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