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Company Report

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[Property]

Sentoria Group Bhd

Imitating The BGRC's Success Story In Morib

Outperform

Fair Value:RM 0.88 Market Price:RM 0.76

Despite the full year's revenues coming in below our expectations, the bottom lines still outperformed our expectations, albeit marginally (Expected RM47.4m v.s Actual RM47.8m). The stronger bottom lines are beneficiary of the ITA (Investment Tax Allowances), and better contribution from the higher profit margin business, namely Leisure & Hospitality division (Bukit Gambang Resort City). Going forward, the Safari Park in BGRC is expected to be fully operating in year 2013. In addition, another catalyst for Sentoria is the JV with a public listed GLC to jointly develop (360 acres of land with GDV of RM1.6b) and operate a water themepark & resort in Morib, Pahang. With the strong project pipelines in hand, Sentoria's prospects remain compelling. Maintain our OUTPERFORM call with re-adjusted Target Price (TP) of RM0.88.

What we like:

- 1.) The Safari Park (Largest in Malaysia) is expected to improve the themepark's attraction and boost the revenue growth in coming years.
- 2.) Strong project pipeline in property division. Including the JV in Morib and potentially another 500 acres land for development.
- 3.) Highly efficient property developer with good track record.

What we dislike:

- 1.) Higher capex and upfront expenses due on the JV and Safari Park project and this might thin its profitability before the investment monetizes.
- 2.) External threats like the intensified industry competition and political instability.
- 3.) Lack of marketability and illiquidity of the shares.

KEY FINANCIALS

| Valuation | 2013 |
|---------------------------|-------|
| Total Shares Issued (mil) | 400.0 |
| Market Cap. (RM'mil) | 306.0 |
| Trailing P/E (x) | 6.3 |
| Leading P/E (x) | 5.6 |
| Trailing 12m EPS (sen) | 12.0 |
| Forecast EPS (2013) (sen) | 13.4 |
| Enterprise Value (RM'mil) | 328.8 |
| EBITDA (RM'mil) | 56.7 |
| EV/EBITDA (x) | 5.8 |

*Source: Bloomberg, Mercury estimates, Company

Balance Sheet Quality :-

| | |
|----------------------------------|------|
| Total debts (RM'mil) | 44.9 |
| Debt to equity (x) | 0.2 |
| Cash & Cash equivalents (RM'mil) | 22.1 |
| Net debts (RM'mil) | 22.8 |
| Net debts/EBITDA (x) | 0.4 |

*Based on financial ended 7 Dec 2012

Mercury Research:

The Research Team

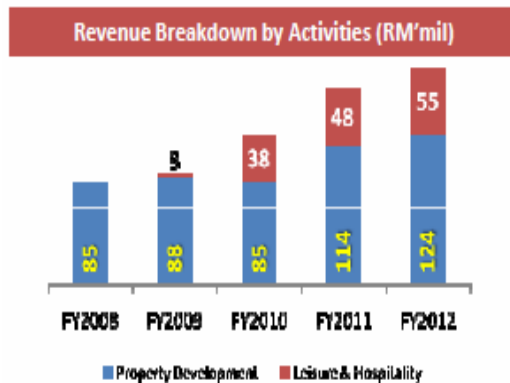


Financial Results Highlights

Sentoria's FY2012 revenues jumped 10.4% from RM162.4m to RM179.3m on y-o-y basis, mainly due to the growth in both segments, with the leisure segment is playing a more significant role. In addition, the net profit was up 24.2% to RM47.8m (v.s our expectation of RM47.4m), benefiting from the Investment Tax Allowance of RM9.8m incurred in 2012, higher margin from property segment due to favourable product mix, higher number of visitors (enhanced leisure segment profitability), and lower financing costs.



Source: Company



Source: Company

| Revenue Breakdown by Activities (RM'mil) | | | |
|--|--------------|--------------|--------------|
| | FY12 | FY11 | Change |
| Property Development | 124.0 | 114.0 | 8.8% |
| Leisure and Hospitality | 55.3 | 48.4 | 14.3% |
| Total | 179.3 | 162.4 | 10.4% |

On q-o-q basis, Sentoria's fourth quarter revenue of RM43.92m was 14% higher than RM38.49m in the preceding quarter (3Q12). However, the PBT of RM10.03m is lower than RM15.07m in 3Q12. This is due to -- in 3Q12 Sentoria had the contribution of its property segment whereby the sale of certain parcels of land recorded a higher percentage of profit margin as compared to other type of development undertaken by Sentoria in 4Q12. The weaker profitability also attributed to the seasonal factor in the Leisure & Hospitality segment during the fasting month.



Company Prospects

Expansion of the existing BGRC Themepark

Sentoria recently has received approval from Pahang state government to acquire additional 180 acres of land in Kuantan with a total consideration of RM37.2 million for further development. This acquisition has effectively expanded BGRC's acreage from 547 acres to 727 acres. The purchases will be financed by internal funds and bank borrowings. The utilization of the extra lands are as follow:-

| Utilization of landbank | Size | Remarks |
|---|------------------|--|
| • Expansion of Bukit Gambang Safari Park | 80 acres | Safari Park will expand to 138 acres – stands to be the largest Safari Park in Malaysia with revised CAPEX of RM55Mill |
| • Retail commercial developments (e.g. Factory Outlet, Brand Village, Wholesale Market) | 50 acres | To complete BGRC's proposition as a leisure destination, and increase average revenue spend per visitor |
| • Residential and support industries @ Desa Hijauan | 80 acres | Increases Desa Hijauan acreage to 180 acres; with additional RM130 mil GDV |
| TOTAL | 180 acres | |

Source : Company

RM400 Million worth of properties to be launched in FY2013

Sentoria will launch its property projects in Kuantan, comprising Taman Bukit Rangin (RM202mil), Desa Hijauan (RM130mil), and Global Heritage South (RM68mil) in FY2013. Historically, Sentoria's projects recorded high take-up rates and good response from the market.



Source : Company

Continue to increase its water theme park attraction

Sentoria will focus on increasing the patronage to BGRC with its increased capacity. The group will strive to tapping tour and retreat operators to attract more MICE groups with A&P budget of RM3mil for FY13. In addition, the Safari Park is expected to be partially opened to the public in early 2013 and fully completed in end of 2013. The Safari Park will increase the revenue per visitor rate and improve the overall themepark operation performance.



Valuation

We reiterate our **OUTPERFORM** call on Sentoria but slightly trim our TP from RM0.94 to **RM0.88**. The TP is pegging to 6.5x of our forecast EPS of 13.5 sen in FY13. We lower our TP due to the following reasons 1) Discount for lack of stock marketability. 2) Competition Intensified. 3) Concentration Risk associated to Kuantan, Pahang. 4) Tightening consumer lending policy by Bank Negara. Nevertheless, Sentoria's current valuation is on the low side and appears to be attractive. The operation performance and profitability growth in FY2012 is convincing. We like Sentoria's asset light balance sheet (due to its sales and lease back strategy) and plenty of headroom for growth. The key catalysts for FY2013 are the Safari Park and the JV project in Morib, Pahang. We expect that the Leisure & Hospitality division will play a more significant role for Sentoria in the future as this business offer a better recurring income and is less sensitive to the economic cycle. The management also provided an optimistic guidance on its FY12 earning growth, which is 25%. Last but not least, the new JV project in Morib, according to the management, is entitled for the Investment Tax Allowance (ITA). This will further strengthen its bottom lines in coming years.

Financials

| Ratio Analysis | 2011 | 2012 | 2013F | 2014F |
|---------------------------|------|-------|-------|-------|
| Book Value Per Share (RM) | N/A | 0.50 | 0.43 | 0.57 |
| Earnings Per Share (sen) | N/A | 11.96 | 13.35 | 15.47 |
| Dividend (sen) | N/A | 2.00 | 2.00 | 2.32 |
| Payout Ratio (%) | N/A | 16.72 | 15.00 | 15.00 |
| PER (x) | N/A | 6.23 | 5.58 | 4.81 |
| P/Book Value (x) | N/A | 1.49 | 1.75 | 1.30 |
| Dividend Yield (%) | N/A | 2.68 | 2.69 | 3.12 |
| ROE (%) | N/A | 47.94 | 28.87 | 30.94 |
| Net Gearing (x) | N/A | 0.34 | 0.47 | 0.35 |

*Source: Mercury Estimates, Company

| P&L Analysis (RM mil) | 2011 | 2012 | 2013F | 2014F |
|-------------------------|------|--------|--------|--------|
| Year end: Dec 31 | | | | |
| Revenue | N/A | 179.30 | 206.19 | 237.12 |
| Operating Profit | N/A | 51.25 | 58.97 | 68.05 |
| Depreciation | N/A | 5.36 | 6.19 | 7.11 |
| Interest Expenses | N/A | 2.40 | 3.73 | 4.05 |
| Pre-tax Profit | N/A | 49.45 | 55.36 | 64.14 |
| Effective Tax Rate (%) | N/A | 3.24 | 3.50 | 3.50 |
| Net Profit | N/A | 47.85 | 53.42 | 61.90 |
| Operating Margin (%) | N/A | 28.58 | 28.60 | 28.70 |
| Pre-tax Margin (%) | N/A | 27.58 | 26.85 | 27.05 |
| Net Margin (%) | N/A | 26.69 | 25.91 | 26.10 |

*Source: Mercury Estimates, Company

*The company listed in year 2011 and hence, 2011 financials are not available.



Recommendation Framework

| | |
|---------------------|---|
| Outperform | The stock's total return is expected to exceed a relevant benchmark's total return by 10% or more over the next 12 months. |
| Neutral | The stock's total return is expected to be within +/-10% of a relevant |
| Underperform | The stock's total return is expected to be below a relevant benchmarks total return by 10% or more over the next 12 months. |
| Trading Buy | The stocks total return is expected to exceed a relevant benchmark's total return by 10% or more over the next 3 months |
| Trading Sell | The stock's total return is expected to be below a relevant benchmark's total return by 10% or more over the next 3 months. |

DISCLAIMER

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

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