Sentoria Group Berhad

Rising Star of the East Coast

Sentoria Group Bhd is a Pahang based property developer which owns and operates the 3rd most popular theme park in Malaysia, namely Bukit Gambang Resort City (BGRC) which spans 547ac. IPO of 60.0m units should yield gross proceeds of RM52m, and implies a market cap of RM348m. BGRC's visitorship has been on an uptrend since its first day of operation. Demand for its property development's units meanwhile is strong and the company can achieve 100% take-ups within a year's time from launch as it operates in the resilient affordable market segment. Even with an asset-light balance sheet, Sentoria has succeeded in achieving high ROE (>30%) every year due to its rich property margins, which is a function of its low land cost, in-house capabilities and short construction time. It will be in a net cash position post IPO, positioning it for further future geographical diversification and expansion of its theme park offerings. We estimate FY11-12E net profit of RM34.8m (+22% YoY) - RM47.6m (+23% YoY). Note, however, that the company's net profit is boosted by its very low tax rate, which is due to deferred tax assets recognition on the ECER tax incentive scheme. There is no dividend policy at the moment, but Sentoria hopes to reward shareholders in FY12 with a potential dividend yield of 4% or GDPS of 3.4sen. We value Sentoria at RM0.93 based on our SoP RNAV. Our TP translates to FY12E PER of 7x, which is close to the 8.0x PER valuation of smaller-cap property stocks now on Bursa Malaysia.

Bukit Gambang Resort City (BGRC) is the 3rd most popular theme park in Malaysia, offering a water theme park, MICE facilities and accommodation for holistic experience among corporate and families. The resort city is strategically located within the ECER, which is earmarked as an Oil & Gas hub. The airport and Kuantan town is less than an hour away, with linkage to the East Coast Expressway. Visitorship has been strong from the beginning, with the theme park breaking even in the first year of operations itself. Upcoming expansion includes the Safari Park, which should be completed by the end of CY12.

Sentoria is actually one of the largest affordable housing developers in Pahang with a market share of 25.6%, which provides it with more stable demand and thus, bread-and-butter earnings. Buyers are largely local and from the east coast region and more importantly, 60% of the buyers are civil servants who enjoy better financing terms and liquidity. The group also enjoys strong property gross margin of 27%-30% given its low land cost, in-house abilities and short construction time.

Asset light model. Sentoria capitalises on both its BGRC and its property development model via sale-and-leaseback arrangements. This has resulted in rapid take-ups in a short period of time, meaning inventory holdings are fairly low. It also prefers to JV with land owners for new property development ventures, which keeps its balance sheet light. This also means an asset light model for its hospitality division, which supports BGRC's visitorship. Additionally, its **recurring theme park income helps bolster against potential weakness in property demand**.

Net cash position post IPO. The company is looking to replicate its successful BGRC business model in other states. Its light balance sheet taps onto bargains and opportunities quickly, particularly when the group is now planning to diversify geographically.

NOT RATED

Retail IPO Price: RM0.85

Target Price: RM0.93

STOCK DATA

Bloomberg Ticker	
Market Cap (RM'm)	348.0
Issued shares ('m)	400.0
Listing Date:	23/02/2012
Board:	Main
Sector:	Property Leisure& Hospitality

Major Shareholders

Sentoria Capital	62%

AT A GLANCE	SENTORIA GROUP BERHAD
Target Price (RM):	**0.93**
Valuation:	SoP
Report Reason:	IPO
Retail IPO Price (RM):	0.85
Placement IPO Price (RM):	0.87

FYE30SEP RMm	2010A	2011F	2012F
Turnover	123.2	155.1	209.3
Net Profit	**19.3**	**34.8**	**47.6**

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BACKGROUND & BUSINESS

Theme park + property development. Sentoria is involved in two complementary businesses i.e. property development and leisure/hospitality. In the property development segment, the company is a Pahang-based developer with its development projects located in Kuantan, Pahang. Its leisure and hospitality segment mainly consists of an integrated theme park resort known as Bukit Gambang Resort located in Gambang, Pahang, which is also within the vicinity of Kuantan as well. Property and leisure/hospitality make up 70% and 30% of earnings at the moment. Sentoria has c. 549 acres of land for future property developments, which are located mainly at Bukit Gambang Resort and in Kuantan.

An experienced management team. The company is led by Dato' Chan Kong San and Dato' Gan Kim Leong, who collectively have 40 years of experience in the field of property development, construction and civil engineering. Sentoria's foray into property development began in 2001 with a small project called Taman Sentoria in Kuantan, while its Bukit Gambang Resort was initiated in 2007 with a land size of 547 acres.

IPO DETAILS

IPO of 60.0m units. Sentoria is proposing to be listed on the Main Board via an Initial Public Offering (IPO). Sentoria will have a market capitalisation of RM348.0m at its IPO price of RM0.85 (public retail portion). It plans to make a public issue of 60.0m shares of par value of RM0.20 each, 30.0m shares under Retail Offering at IPO price of RM0.85 each and 30.0m shares under Proposed Placement at RM0.87 each. The main chunk of the proceeds will be used for its theme park expansions and future landbankings, as well as, repayment of borrowings.

Sentoria's IPO Utilisation of Proceeds

Description	Estimated timeframe for utilisation	Amount (RM 'm)	% of Total Gross Proceeds
Repayment of bank borrowing	Within 6 months	11.2	21.7
Purchase of property, plant and equipment	Within 12 months	9	17.4
Working capital	Within 12 months	27.7	53.7
Estimated listing expenses	Immediate	3.7	7.2
Total proceeds		**51.6**	**100.0**

Source: Company, Kenanga Research

Sentoria's IPO Indicative Timeline

Indicative Timeline*	Event
31-Jan-12	Opening of application
10-Feb-12	Closing of application
14-Feb-12	Balloting of applications
15-Feb-12	Allotment of IPO shares to successful applicants
23-Feb-12	Tentative listing date

Source: Company, Kenanga Research

** Indicative timeline is subject to change*

INVESTMENT CASE

Bukit Gambang Resort City (BGRC) is a fast-growing integrated resort city with theme park, MICE facilities and accommodation for a holistic experience for corporate and families. BGRC is an increasingly popular destination for vacation, featured with rich attractions and natural surroundings. It is located on its very own 547ac land, which makes it to be one of the largest integrated resort cities in Malaysia.

Bukit Gambang Resort City

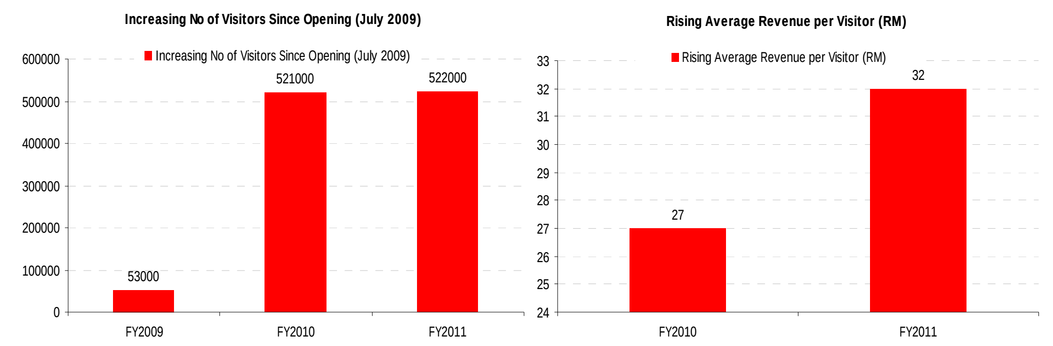
Source: Company, Kenanga Research

3rd most popular theme park in Malaysia. The Resort's water theme park (Bukit Gambang Water Park - BGWP) is ranked third in market share (7% or 521,000 visitors received) among the 11 water parks in the country and boasts of one of the largest wave pool in the country. BRWP has the first and only cashless "e-value" transaction in Malaysia. The Resort also has one of the largest MICE facilities in the country.

Strategically located within the East Coast Economic Region (ECER), which is earmarked as the hub for oil and gas, tourism and manufacturing activities among others. Its location just 35 km from Kuantan and 20 minutes from Kuantan airport and linked via road from the East Coast Expressway allows it easy access to local and foreign travelers, especially those from Singapore.

Incremental number of visitors since opening on July 2009. 53,000 visitors made their trip to BGWP in FY2009. It recorded 521,000 visitors in FY2010 and achieved additional 1000 visitors in FY2011. The increasing popularity of BGWP saw the average revenue per visitor rising from RM27.00 to RM32.00 in FY2011. The company expects another 10% increase in its entrance fee due to the high demand from the public and the additional facilities introduced. To enhance the recurring income stream in terms of average revenue and length of stay per visitor, new attractions are being added while the expansion of MICE division has been completed.

No of Visitors and Average Revenue per Visitor



Source: Company, Kenanga Research

Integrated multiple attractions with natural environment and jungle theme. Upcoming attractions at the Resort include the 88-acre Bukit Gambang Safari Park. BGRC is basically a resort city and its size of 547 acres allows it much future expansion up to at least 2020 for additional theme park attractions as well as residential developments for the locals, visitors as well as for those seeking investment properties. Other future attractions here will include Adventure Land, Aquarium Park, etc.

One of the largest affordable housing developers in Pahang with a **market share of 25.6%**. The group targets mainly the affordable housing market in Kuantan (properties costing below RM200,000), and it has also been able to mix it with resort suites development and residential developments in Bukit Gambang Resort and thus targeting as well visitors and investors riding on the growth of the Resort.

Attractively-priced homes with sale-and-leaseback arrangements. Pricing of most of its properties are below RM200,000/unit, and take-ups tend to hit 100% within a year's time. Of late, the group has been offering higher end products (semi detached and bungalows) at less than RM300,000/unit and so far, the take-ups have been decent at 60% since their launch last year. The resort homes come with 6%-8% p.a. guaranteed returns over a 5 year period, which is much more attractive than most property yields which are at sub 6% p.a. The attractive pricing, coupled with guaranteed returns and proximity to a popular resort like BGRC is a value-for-money offer. It is affordable enough for one to opt for holiday homes. In fact, 60% of the buyers are actually civil servants who enjoy better financing terms. We understand that 70% of the buyers are from the ECER region with the remaining from the other Malaysian states. For example, around 60% of its properties are sold to government servants here, who have easy access to government loans. Another example is where its resort-style accommodations are sold to investors/buyers through a sale and leaseback arrangement for a win-win proposition for both sides.

High take-up rate of Sentoria's properties. Property launches in the state have fetched a higher take-up rate than the national average over the past years, suggesting a firm market for affordable housing in the state. However, note that launches here are typically lower in volume compared to the other more vibrant states.

Mass market housing offers more resilient earnings as demand tends to be steadier in this segment. But going forward, the group intends on moving up the value chain in property development, in line with the success observed by BGRC. This will offer the group richer returns eventually and more importantly, attract a wider range of visitors which are looking for higher-end resort holidays.

The Resort's guaranteed returns are more than covered by hospitality revenue, based on the going ARR rate of RM238-RM488 (depending on the types of rooms) and assuming only weekend occupancies (26% occupancy rate). In fact, 'breakeven' point on the company's guaranteed return commitments via hospitality revenue is only at 10%, based on an average guaranteed rental return of 7% p.a. on a home costing RM200,000/unit.

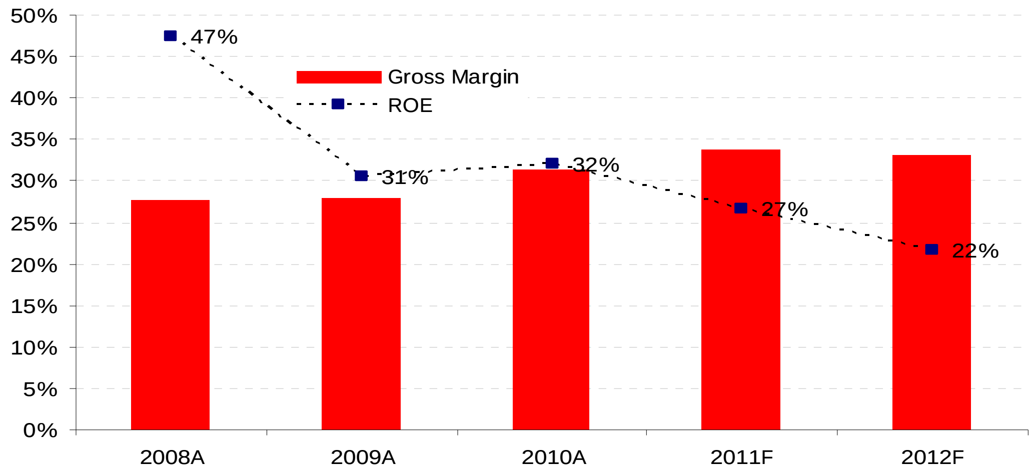
Low land cost, in-house abilities and short construction time. Its in-house design and construction abilities minimize property development cost, allowing the company to reap 27%-30% gross margins. Considering the low pricing of its homes, margins are still comparable to Klang Valley developers. This is largely a function of the lower land cost and increasing value propositions made over the life of BGRC. Construction of the properties can be done within 6 months. Additionally, cash flow turnaround is quick because the construction time is as quick as 1-1.5 years, which is supported by the strong take-up rates. This allows the company to clear inventory quickly as completed properties tend to sell quicker in non-Klang Valley states. Upcoming launches will include Desa Hijauan (GDV RM36.5m), Taman Indera Sempurna 2 (GDV RM64.7m) and Fasa Bunga Raya (GDV RM19.2m).

Bolstered by recurring income earnings. Leisure/hospitality makes up 30% of earnings, while the remaining is property development. We like the steady income stream, which is envisioned to increase to 50% in the next 3-5 years as it helps weather potential property down-cycles, particularly when the group is moving on to higher end developments.

Asset light model. To support BGRC, accommodation for visitors is important and the sale-and-leaseback arrangement provides an asset-light solution. Also, the group prefers to JV with landowners for property development, which also means a lighter balance sheet. Currently the group is in a net cash position, which positions it focus growth on its leisure segment. Even with an asset-light balance sheet, Sentoria has succeeded in achieving high ROE (>30%) every year.

Net cash position post IPO. The company is looking to replicate its successful BGRC business model in other states. Its light balance sheet allows the group to tap onto bargains and opportunities quickly.

Gross Margin & ROE (%)



Source: Company, Kenanga Research

RISKS

Overdependence on Bukit Gambang Resort City and the Pahang property market. The group is heavily dependent on the growth of its Bukit Gambang Resort City as well as the property market of just Kuantan, Pahang. If there are unforeseen negative events affecting BGRC, the entire business model from the theme park to property development will be at risk.

Sentoria still needs more brand building. The group's single location exposure in Pahang also means limited publicity among the west coast of Malaysia. We think BGRC's reach has not reached levels seen in Sunway Lagoon and A Famosa Resort. Hence, more marketing and branding activities are needed to increase the brand name of Sentoria Group and BGRC.

Controversies from rare earth processing plant? The proposal for a rare earth processing plant by Lynas Malaysia Sdn Bhd, a subsidiary of Lynas Corporation Australia, to be situated in Gebeng, Kuantan has attracted negative controversy due to concerns it would emit radiation that would be detrimental to public health. The issue if dragged on could potentially affect the property market in Kuantan and visitors' attendance to Bukit Gambang Resort. However, management notes that the Resort is located about 50 km away from the proposed plant's site at Gebeng, Pahang.

Lack of geographical diversification. Without geographical expansion, its earnings growth prospects are seen hindered as well as more risky in earnings profile than other multi-location developers.

Macro economic and sector risks. This includes overall property down-cycles, tightening of banking liquidity, sharp interest rate hikes, negative real estate policies, global economic slow-downs, etc.

OUTLOOK

Increasing land development value and nurturing Sentoria's cash flow. The growth driver for the company is essentially the continued development of Bukit Gambang Resort as a large portion of the group's property development activities (other than those in Kuantan) are also located in the Resort as well. This is also in addition to other new attractions being proposed to be built in the Resort to enhance its attractions to visitors. We understand the group maybe looking to purchase land banks in surrounding states.

Moderate outlook for the overall Malaysian property market. We believe that the property market is expected to moderate in growth in 2012 after 2 years of record growth. The sector is due for a breather and will likely feel the impact of recent negative real estate and banking policies with the government likely to take more preemptive measures to cool a "runaway" market. Nonetheless, we note that any effect would be more mitigated in the case of Sentoria given its focus on affordable housing.

PROJECTS

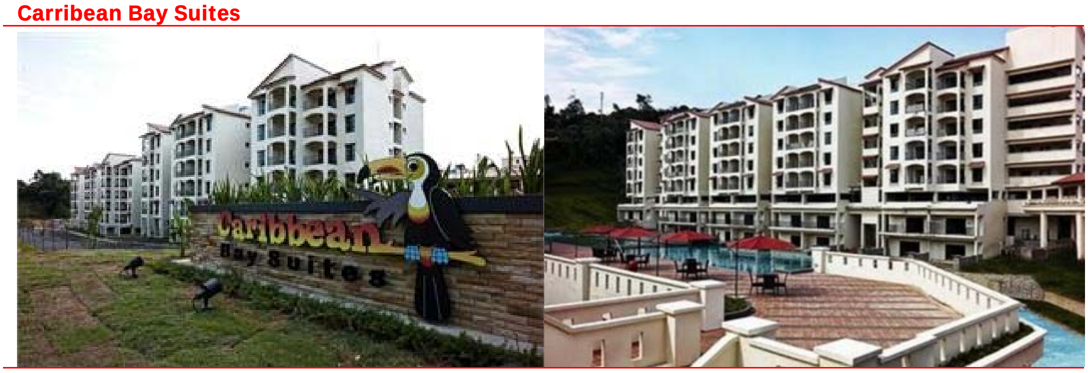
Bukit Gambang Safari Park. In order to attract more visitors, new attraction like Safari Park is being done. Safari Park spans over 88.2ac which comprises of Night Jungle, Foreign Village, Ape Land, Wild Savannah, Malaysia Rainforest, Arctic World and Elephant Lodge. Its construction commenced in June 2011 and Zone 1 and 2 are targeted for completion in end of 2012.

Bukit Gambing Safari Park

Source: Company, Kenanga Research

Carribean Bay Suites is part of the integrated "play-and-stay" offering, located on 15.0ac leasehold land. It comprises of 140 units of 1-bed room apartment and 420 units of 2 bed- room apartment and able to accommodate more than 2,000 pax per day. The suites are completed and fully sold in 2009. Average occupancy rates in Carribean Bay Suites boosts from 24.5% in FY2010 to 30.5% in FY2011.

Carribean Bay Suites



Source: Company, Kenanga Research

Arabian Bay Resort is an ongoing/proposed development of 546 units of resort suites. Arabian Bay Resort is located within the secondary jungle of BGRC. Construction of Arabian Bay began in February 2010 and is expected to complete by September 2012. Upon completion, Arabian Bay will have a club house, a corporate centre and will boast the largest ballroom on the East Coast of Malaysia.

Arabian Bay Resort

Source: Company, Kenanga Research

Taman Indera Sempurna 2 is developed on 246.0 acres of 99-year leasehold land. This project is a mixed residential and commercial development comprising 2,288 units of single-storey houses, bungalows and shop offices in Kuantan. 13.0ac has been allocated for construction of public amenities.

Taman Indera Sempurna 2

Source: Company, Kenanga Research

Global Heritage South, a proposed development of 490 units themed resort villas and a boutique hotel comprising 273 suites in Bukit Gambang Resort. Global Heritage will comprise of landed single or double-storey resort villas. Each group of 50 to 80 units will be developed based on a particular country theme.

Global Heritage South

Source: Company, Kenanga Research

Taman Bukit Rangin, a proposed residential development of 474 units of single-storey and semi-detached houses in Kuantan.

Taman Bukit Rangin

Source: Company, Kenanga Research

Earnings Outlook & Valuation

We estimate FY11-12E net profits of RM34.8m (+22% YoY) - RM47.6m (+23% YoY), supported by deferred tax assets on its ECER tax incentive scheme for BGRC. This is supported by property development's strong unbilled sales as at 30-Sep-11 of RM130m of which the bulk (70%-80%) is recognisable in FY12 due to short construction time (1-1.5 years). Our assumptions are as below;

- FY12 will also see launch of Global Heritage project Phase 1 of GDV RM100m out of total project GDV of RM300m. Management expects 70% take-up rate upon launch, which is similar with their other projects which tends to achieve 70%-90% take-up rates in the first year of launch. Global

Heritage is expected to achieve long term average growth in earnings of 15% in the next few years.

- The leisure and hospitality division earnings are expected to rise around 15% in FY12 from the partial opening of the Safari Park and from management's effort in reducing the cost of its F&B sub-segment here.
- Deferred tax asset recognition amounts of around RM12.5m p.a. up to 2017 from continuing tax incentives granted to the group for ECER company status.

Potential dividend reward? Although the group has no dividend policy, it does intend on rewarding shareholders for FY12. The group intends to dish out 4.0% gross yield (net: 3.0%) for FY12, which implies a GDPS of 3.4sen or net payout of PATMI of 22%. However, we are unclear of future dividends beyond FY12 until management can indicate some form of informal policy or consistent payouts.

Valuing Sentoria at RM0.93 based on SoP. Property projects are valued based on the DCF method (11.7% WACC) while incorporating a 25% discount for sector risk and the fact that these projects are single-location projects. We value the leisure operation at 7.5x FY12 PER which is similar to 8.0x Fwd PERs of smaller-cap property stocks now on Bursa Malaysia. There is no real peer comparison. Sentoria is not a pure developer since 30% of its earnings are derived from the BGRC resort/water park income and there are no real comparables.

SoP

	Valuation basis	RM'm	RM/share
Property Development	Applied 25% discount to RNAV - DCF @ 11.7%wacc	219.2	0.55
Leisure Segment	7.5x FY12PER	153.3	0.38
SOP		**372.5**	
No Of Shares		400.0	
Fair Value (RM)			**0.93**

Source: Kenanga Research

Property RNAV

Projects	Stake	Assumed Duration (Yrs)	GDV (RM'm)	Remaining Net Profit *** (RM'm)	WACC (%)	DCF Value (RM m)***
On-going projects						
Taman Indera Sempurna 2 - Block D (Type J)	100%	0.0	20.1	0	11.93%	1.8
Taman Indera Sempurna 2 - Block E	100%	0.8	30.6	4	11.93%	3.0
Taman Indera Sempurna 2 - Block F	100%	1.8	14	2	11.93%	1.4
Desa Hijauan - Phase 2 (Pesona Jerman and Pesona Tropika A, B and B1)	100%	1.0	17.3	2	11.93%	1.6
Desa Hijauan - Phase 1	100%	0.8	19.2	2	11.93%	1.5
Arabian Bay	100%	0.8	92	9	11.93%	7.9
Fasa Bunga Raya	100%	1.3	19.2	3	11.93%	2.3
Future Projects						
Desa Hijauan - Phase 2	100%	2.0	20.9	3	11.93%	0.0
Taman Bukit Rangin	100%	2.0	58	9	11.93%	6.1
Taman Bukit Tinggi	100%	2.0	7.8	1	11.93%	0.8
Global Heritage South	100%	5.0	335.8	52	11.93%	42.8
Mediterranean Bay Resort	100%	3.0	80	12	11.93%	7.1
East Coast Bazaar	100%	3.0	40	6	11.93%	3.5
Sungai Karang Beach Resort	100%	3.0	48	7	11.93%	3.4
Global Heritage North	100%	10.0	400	62	11.93%	20.0
Hawaiian Bay Resort	100%	4.0	80	12	11.93%	5.4
Andaman Bay Resort	100%	4.0	80	12	11.93%	5.4
Rainforest Eco Suites 1	100%	4.0	75	12	11.93%	5.0
Rainforest Eco Suites 2	100%	4.0	60	9	11.93%	4.0
Rainforest Eco Suites 3	100%	3.0	45	7	11.93%	3.2
Promenade Retail Suites	100%	3.0	40	6	11.93%	2.8
Heritage Square	100%	3.0	20	3	11.93%	1.4
Business Hotel and Convention Centre	100%	4.0	90	14	11.93%	6.0
Revised Asset Value						**136.5**
Shareholder's Funds (at 30/06/11)						155.8
RNAV						**292.3**
RNAV per share (RM)						**0.73**
No of paid-up shares ('m)						400

Source: Kenanga Research

Earnings Estimates

FYE30Sep (RMm)	2008A	2009A	2010A	2011F	2012F
Turnover	84.9	91.4	123.2	155.1	209.3
Gross Profit	23.5	25.4	38.6	52.2	69.3
Pretax profit	19.4	19.2	22.6	30.1	47.2
Net Profit	**14.2**	**13.3**	**19.3**	**34.8**	**47.6**
GP Margin	28%	28%	31%	34%	33%
Pretax margin	23%	21%	18%	19%	23%
Effective tax rate	27%	30%	15%	-16%	-1%
Growth ratios					
Turnover	NA	8%	35%	26%	35%
Gross Profit	NA	8%	52%	35%	33%
Pretax profit	NA	-1%	18%	33%	57%
Net Profit	NA	-6%	44%	81%	37%
ROE	47%	31%	32%	27%	22%
ROA	13%	10%	12%	15%	14%
Net Gearing (x)	0.1	0.6	0.3	-0.1	-0.2
Per share data					
EPS (sen)	3.55	3.34	4.81	8.69	11.90
EPS growth (%)	N.A.	-6%	44%	81%	37%
PER (x)	24.0	25.5	17.7	9.8	7.1
Gross DPS (sen)	0.00	0.00	0.00	0.00	3.40
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%	4.0%
BV/share (RM)	0.09	0.13	0.17	0.48	0.62
P/NTA (x)	0.09	0.13	0.17	0.48	0.62
FYE30Sep (RMm)	**2008A**	**2009A**	**2010A**	**2011F**	**2012F**
Turnover	84.9	91.4	123.2	155.1	209.3
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Pretax margin	23%	21%	18%	19%	23%
Effective tax rate	27%	30%	15%	-16%	-1%

Source: Kenanga Research

Balance Sheet

FYE30Sep (RMm)	2008A	2009A	2010A	2011F	2012F
Non-current assets	94.4	88.5	108.2	178.5	248.8
Current assets	13.9	60.9	63.5	126.3	126.3
Total Assets	**108.3**	**149.3**	**171.7**	**304.8**	**375.1**
Current liability	67.6	76.5	82.8	84.5	96.6
Non-current liability	3.5	22.2	18.9	28.6	29.0
Shareholders funds	37.1	50.4	69.7	191.5	249.3
Minority Interest	0.2	0.3	0.3	0.3	0.3
Equity & Liability	**108.3**	**149.3**	**171.7**	**304.8**	**375.1**

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
(An approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%)
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3%
(An approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate)

Sector Recommendations***

OVERWEIGHT : A particular stock's Expected Total Return is MORE than 10%
(An approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%)
NEUTRAL : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
UNDERWEIGHT : A particular stock's Expected Total Return is LESS than 3%
(An approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate)

*******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.****

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