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IPO REPORT

9 Feb 2011

Sentoria Group Bhd		IPO Offer Price	RM0.85
		IPO Market Cap	RM348m
		Board:	Main
Recommendation:	Subscribe	Sector:	Property
Target Price	RM0.94 (10.59% upside)	Stock Code/Name	N/A

Analyst: Research Team

Sentoria's promoters and main shareholders are Dato' Chan Kong San and Dato' Gan Kim Leong. Its IPO principal advisor is AmInvestment Bank.

- IPO Price: RM0.85/share
- Placement Price: RM0.87/share
- Share capital: RM80 mil
(400 mil shares x RM0.20 par)

BACKGROUND

Sentoria is a holding company and its subsidiaries are mainly involved in property development, general and civil engineering contractor services, project management and hospitality and theme park operations.

Most of its projects are based around Kuantan, Pahang. Its most notable project is the **Bukit Gambang Resort**, which opened for business in July 2009. In 2010, the resort recorded more than 500,000 visitors and is reputedly the 3rd most popular theme park in Malaysia (after Resorts World Genting and Sunway Lagoon). The resort is said to have large MICE (meetings, incentives, conventions and exhibitions) facilities.

CORE BUSINESSES

Sentoria principally has 2 main core businesses – namely “**Leisure & Hospitality**” and “**Property Development**”. The Leisure & Hospitality segment is centred on Bukit Gambang Resort City (BGRC), with offerings of resort accommodation, theme parks and MICE facilities. Meanwhile, its Property Development segment focuses on Township Development and Resort City Development.

Sentoria was involved in a number of property developments around Kuantan e.g. Taman Sentoria (2001), Taman Indera Sempurna 1 (2002), Taman Indera Sempurna 2 (2005), BGRC comprising Bukit Gambang Water Park and Caribbean Bay Resort accommodation (2007), Desa Hijauan (2008), Arabian Bay Resort accommodations (2010) and in Negeri Sembilan, Fasa Bunga Raya Homes (2011).



Key Financials

EPS (Leading 12 months) (Sen)	8.00
Book Value Per Share (Sen)	39.00
Sales Per Share (Leading 12 months) (Sen)	55.77
P/E (Leading 12 months) (x)	9.04
P/B (Leading 12 months) (x)	2.18
P/S (Leading 12 months) (x)	1.52
Net Profit Margin (%)	25.22
Gross Profit Margin (%)	35.05
ROE (%)	26.56
ROA (%)	18.20
Pre IPO Net Gearing (%)	37.00

*Source: Company, Mercury Estimates

Shareholdings Post-IPO

Promoters	62.00%
Other Investors	13.00%
Public:	
-Balloting	5.00%
-Pink form	2.50%
-Private placements	7.50%
Offer for sale:	
-MITI approved investors	10.00%

*Source: Prospectus

Utilisation of Proceeds

Item	Amount (RM'mil)
Repay bank borrowings	11.2
Purchase of property, plant & equipment	9.0
Working capital	27.7
Listing expenses	3.7
Total	51.6

*Source: Prospectus

Property

The outlook of the domestic property market remained resilient, thanks to the government's efforts in propelling the property market growth by launching a few mega infrastructure projects in the Central Region under the ETP (Economic Transformation Programme). The main catalyst for the future growth of Pahang property market will be the East Coast Economic Region (ECER), which is deemed as one of the key contributors to the country's overall economic performance, contributing 8.8% to Malaysia's GDP in 2010. Despite being less developed than the West Coast of Malaysia, the ECER still presents much growth potential and is expected to play a bigger role in the next decade under the ECER Masterplan. In addition, now there is My First Home Scheme, an incentive plan launched by the government to support the lower-income group's goal to own their first residential property (price <RM350k) by offering 100% loan to buyers with gross household income of less than RM3000 per month. This will definitely boost up the demand for budget and affordable housing.

Sentoria Group Bhd is one of the leading residential property developers in Pahang. According to the independent research done by Converging Knowledge Pte Ltd, Pahang recorded a total number of 3546 new residential unit launches in 2010 and Sentoria managed to launch 907 units during the year, which translates to a market share of 25.6%. A total of 2080 units of newly launched residential units in Pahang were sold during the year. Of these, Sentoria successfully sold 504 of its new launches and accounting for 24.2% of the total units sold in Pahang. In addition, Pahang's average residential property price of RM142k is still below average compared to the property in other states across the country. This has made properties to be more affordable to buyers and investors. According to the Valuation and Property services Department's (JPPH) report, Pahang property's inflation index is reported at +4.9% in 2nd quarter of 2011, which is lower than other states like Kuala Lumpur (+6.2%), Selangor (+11.5%), Perak (+7.5%), Terengganu (15.5%), Kelantan, (+10.6%), and Sabah (+15.1%). Their main competitors in Pahang property market include Alam Tenggara Sdn Bhd, PASDEC Holdings Bhd, Perumahan Satelit Jaya Sdn Bhd, Tunas Manja Development & Construction Sdn Bhd, Winfast Corporation Sdn Bhd, and Franky Land Sdn Bhd.



*Source: Corporate Website



*Source: Corporate Website

Theme Park

Tourism is the fifth largest industry in Malaysia. Since 2005, Malaysia has seen a constant rise in the number of tourist arrivals, and also constant increase in its tourist receipt value. In year 2010 alone, 24.6 mil tourist arrivals were recorded in Malaysia, generating RM56.5 bil in revenue for the country. The government estimates tourist arrivals to reach 36 million by the year 2020. The market size of the theme park industry in Malaysia, based on sales revenue, is estimated to be worth between RM300mil and RM350mil in 2010. The number of visitors to theme parks in the country is estimated to be about 7.4 million in 2010. According to the IMRR, the theme park market will grow 4-5% annually and is expected to hit the number of RM405.2 mil in year 2013.

Sentoria's flagship theme park Bukit Gambang Resort City (BGRC) is located neighboring to Kuantan (35KM from Kuantan), the capital for Pahang state, with ready access to a population of 4.1mil in East Coast Malaysia. Its main industry competitors in Malaysia are A'Famosa Water World, Desa Water Park, Berjaya Times Square Theme Park, Bukit Merah Laketown Resort, The Carnivall, Resorts World Genting, Melaka Wonderland Theme Park and Resort, and Sunway Lagoon. Besides the local players, Sentoria also faces a competition from the players in our neighboring country Singapore, for instance Resort World Singapore and Marina Bay. In addition, the yet to be launched theme park, Legoland in Johor, is expected to strongly challenge the existing theme park operators' market share. Currently, Sentoria's Bukit Gambang Water Park is the third largest player in the domestic theme park market with a total market share of 7%, behind Resorts World Genting and Sunway Lagoon.

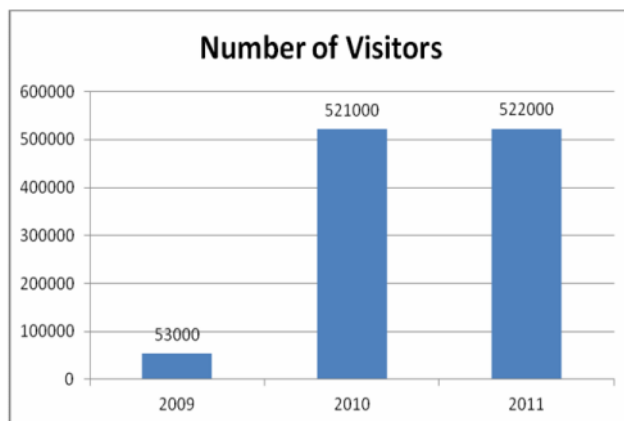


Growth Strategy

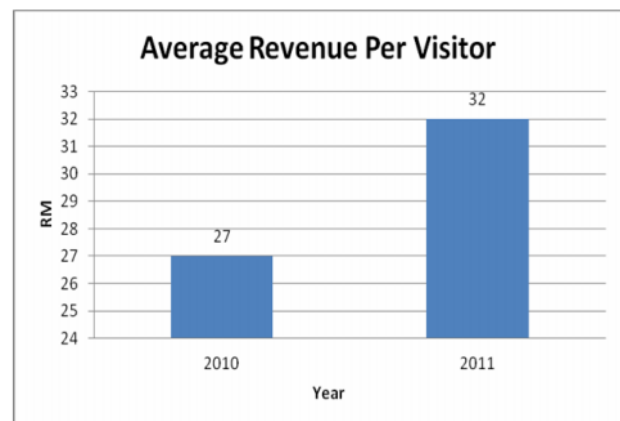
1) EXPANSION IN PRODUCT MIX - To ensure sustainability of its future business growth, the company is striving to expand its property product mix. Instead of solely developing and marketing affordable housing in Pahang, which is also the main contributor for its property development division, the company is planning to diversify its clientele base and product mix by developing other types of properties such as resort-style accommodation, commercial property, and resort villas.

2) GEOGRAPHICAL DIVERSIFICATION ACROSS THE COUNTRY - In addition, the group will expand its business presence across the country by replicating their successful business model in Pahang to other states in Malaysia (e.g. Selangor). However, we remain conservative on this business development as we see that there are plenty of challenges faced by Sentoria to establish its property development business in Selangor as they have to face intense competition from giant property developers in the Klang Valley like SP Setia, Mahsing and Sime Darby. Nevertheless, it does reduce the group's geographical concentration risk by reducing its reliance on Pahang market.

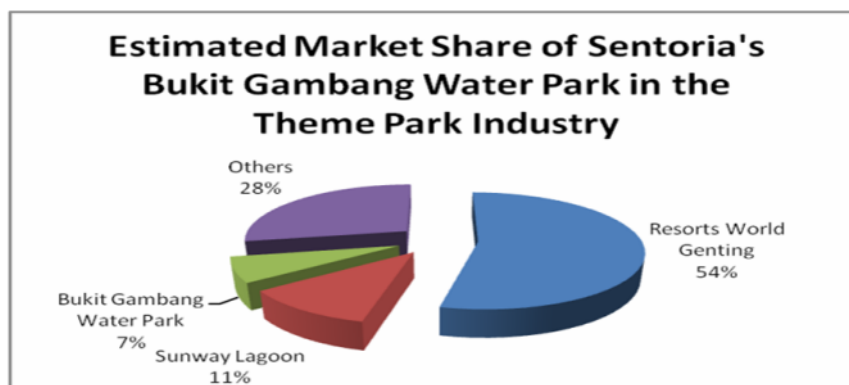
3) ENHANCING THE RECURRING LEISURE AND HOSPITALITY INCOME – Beside of its property development division, Sentoria will enhance and upgrade its existing leisure and hospitality facilities and increase the attraction of BGRC in order to improve the average revenue and length of stay per visitor. They are undertaking a new development phase known as BGRC Master Plan in its flagship water theme park, namely Bukit Gambang Resorts (BGRC), with total GDV of RM1.8 bil including both ongoing and future development projects in BGRC. This is expected to increase the attraction of its water theme park and lure more public visitors and corporate clients. Some of the projects under the master plan are Caribbean Bay (2009), Arabian Bay (2013), Bukit Gambang Safari Park, Aquarium Park, Adventure Land, and other suites, villas, and commercial property development.



*Source: Company Prospectus



*Source: Company Prospectus



*Source: IMRR, Company Prospectus

**PEERS COMPARISONS (Similar Market Cap and Nature of Business)**

Peer Comparisons	RM				Trailing 12 months (Times)		Trailing 12 Months % (Current.)			
	Market Cap	P/E	P/B	P/S	BV Per Share	Net Margin	Gross Margin	ROE	ROA	Debt/Equity
Average (Excluded Sentoria)	278	20.40	0.73	3.50	1.91	11.37	34.47	3.85	2.77	31.42
Average (Excluded Outliers)	296	11.73	0.73	1.73	1.26	13.74	34.47	5.14	3.32	25.88
Sentoria Group Bhd	348	8.21	2.18	2.07	0.39	25.22	35.05	26.56	18.20	27.39
Land & General Bhd	209	60.17	0.83	4.24	0.43	5.97	N/A	4.18	3.03	0.11
TAHPS Group Bhd	314	50.00	0.75	23.04	5.67	26.77	55.67	2.63	2.41	0.00
Bolton Bhd	245	10.34	0.52	0.86	1.47	8.30	31.79	2.90	1.61	29.79
Daiman Development Bhd	390	8.19	0.39	2.25	4.65	9.11	N/A	5.90	5.35	0.00
MK Land Holdings Bhd	368	19.38	0.35	0.86	0.88	4.66	35.55	1.84	1.01	24.77
Selangor Dredging Bhd	311	8.25	0.53	0.81	1.33	10.84	N/A	5.63	2.74	84.10
LBS Bina Group Bhd	300	7.70	0.72	0.67	1.10	6.51	18.46	3.89	1.29	77.76
SHL Consolidated Bhd	315	14.25	0.57	2.13	2.26	15.39	22.04	5.06	4.35	0.43
Magna Prima Bhd	270	N/A	1.72	1.44	0.48	0.69	16.99	-10.43	-3.29	90.71
PASDEC Holdings Bhd	77	N/A	0.22	0.79	1.87	-1.74	49.59	0.29	0.20	26.71
Hunza Properties Bhd	284	7.53	0.56	1.31	2.44	22.44	43.15	14.64	10.09	20.34
Meda Inc Bhd	250	18.21	1.54	3.65	0.35	27.45	36.96	9.62	4.46	22.26

*Source: Bloomberg, Company, Mercury Securities

*Calculation for Sentoria's ratio and figures are trailing 12 months financial and based on share outstanding of 400,000,000 after proposed public issue.

VALUATION

We set our target price (TP) for Sentoria at **RM0.94 (10.58% upside from the IPO price)**. The TP is pegged to the industry average's **P/E of 11.75x** based on our forecast EPS of **8 sen** for year 2012. Nevertheless, the IPO price is set at 2.18 times of its book value of RM0.39, which is much higher compared to the industry average of 0.73 times. This is due to Sentoria having lower book value compared to its peers as their theme park's resort villas are operating under a Sale & Leaseback agreement (the villas are not classified as Sentoria's assets). In addition, the unrealized gains from the property and land appreciation, especially for the land in Selangor and Kuala Lumpur (the states where most of its peers are domiciled), have also directly contributed to higher book value and shareholders equity for its peers. Nonetheless, we believe the high P/B is justifiable with Sentoria's **above average ROE and ROA**, and **lower gearing ratio** (post-IPO's net gearing to drop to 1% from 37%). We also like Sentoria's unique business structure, which is operating under the 2 core businesses of property development and theme park operator. However, the property division still remained as the largest contributor for Sentoria revenue (approximately 70% of its total revenue generated was from property division while 30% was from the leisure and hospitality business in past 3 years).

We foresee that the theme park division will play a more important role for Sentoria in the coming years as this is a highly lucrative business with higher gross profit margin compare to the property division (42.1% gross profit compared to 32.8% for property division). As such, we can see that Sentoria's future direction will be concentrated on its leisure and hospitality business expansion via the upgrading and expansion of its existing water theme park facilities. Notwithstanding, our TP of RM0.94 for Sentoria is priced at a premium to the average P/B of its closest listed competitors of 0.73x to reflect the strong profitability and growth prospect of its leisure and hospitality division. In addition, to establish Malaysia as one of the travelling hot spots in Asia region, the government has implemented few friendly policies to support and encourage the growth of the domestic leisure and hospitality industry. Currently, Sentoria's is enjoying a 10 years tax exemption equivalent to 100% qualifying expenditure incurred from the government for its theme park's division.

Our Concern is whether Sentoria can remain as one of the top three theme park operators (in terms of visitors per annum) in Malaysia once the Legoland theme park in Iskandar Johor has started operations. In addition, Malaysia's tourism industry is not insulated if the Eurozone crisis intensified and negatively affects the global economic growth. For its property side, the sluggishness and uncertainty of the global economic environment, higher interest rates, possible property sector bubble, and tightening banking credit policy might eventually cause potential and interested buyers to delay their house purchasing plan. Nevertheless, with BGRC's affordable fees and support from a group of long-term corporate clienteles, their theme park division is expected to be less vulnerable to the global economy volatility and the effect of the economy slowdown to its business is minimal.

**Latest Property Related IPO's Valuation and Performance**

NAME	IPO Date	IPO Px	Last Px	Current Valuation			Historical High			Historical Low		
				P/E	P/B	P/S	P/E	P/B	P/S	P/E	P/B	P/S
AVERAGE (EXCLUDED SENTORIA)	N/A	1.14	1.30	5.43	1.14	5.62	10.26	1.29	8.21	4.39	0.94	4.72
SENTORIA GROUP BHD	N/A	0.85	N/A	8.21	2.18	2.07	N/A	N/A	N/A	N/A	N/A	N/A
PAVILION REAL ESTATE INVEST	7/12/2011	0.88	1.00	N/A	1.06	N/A	N/A	1.07	N/A	N/A	1.06	N/A
UOA REAL ESTATE INVESTMENT	30/12/2005	1.15	1.40	0.30	0.97	6.96	12.35	1.03	9.98	0.28	0.71	5.46
KIMLUN CORP BHD	29/6/2010	0.97	1.47	8.06	1.85	0.56	13.49	2.08	0.67	6.17	1.24	0.40
SUNWAY REAL ESTATE INVESTMEN	8/7/2010	0.88	1.12	5.57	1.12	9.36	10.47	1.09	9.10	5.38	0.99	8.51
IVORY PROPERTIES GROUP BHD	28/7/2010	1.00	0.94	6.11	0.88	1.08	6.01	1.16	1.31	4.57	0.74	0.91
TAMBUN INDAH LAND BHD	18/1/2011	0.70	0.62	0.64	0.98	0.41	1.96	1.12	N/A	1.95	0.92	N/A
UOA DEVELOPMENT BHD	8/6/2011	2.52	1.33	N/A	0.96	N/A	N/A	1.68	N/A	N/A	0.88	N/A
SUNWAY BHD	N/A	N/A	2.38	0.04	1.18	0.97	N/A	1.09	N/A	N/A	0.87	N/A
CAPITAMALLS MALAYSIA TRUST	16/7/2010	0.98	1.41	17.28	1.32	19.97	17.28	1.32	19.97	8.01	1.04	8.33

*Source: Bloomberg, Mercury

LIST OF ONGOING PROJECTS

Project Name	Property Types	Launched Date	Expected Completed Date	Take-up Rate %	GDV (RM'mil)
Taman Indera Sempurna 2	Residential & Commercial	2010	2013	67	64.7
Fasa Bunga Raya	Residential	2011	2013	13	19.2
Desa Hijauan	Residential	2009	2012	76	36.5
Arabian Bay Resort	Resort	2010	2012	72	92
				Total	212.4

*Source: Company Prospectus

LIST OF FUTURE PROJECTS

Project	Type Of Development	Location	Expected Completion Date	Estimated GDV (RM'mil)
Desa Hijau	Semi-D & Bungalows	Kuantan, Pahang	2013	20.9
Taman Bukit Rengin	Terrace Houses & Semi-D	Kuantan, Pahang	2014	58.0
Taman Bukit Tinggi	Semi-D	Salak Tinggi, Selangor	2014	7.8
Global Heritage South	Resort Villas & Hotel Suites	BGRC	2016	335.0
Mediterranean Bay Resort	Family & Studio Suites	BGRC	2016	80.0
East Coast Bazaar	Wholesale & Retail Outlets	BGRC	2016	40.0
Sungai Karang Beach Resort	Hotel Suites	Kuantan, Pahang	-	48.0
Global Heritage North	Resort Villas	BGRC	-	400.0
Hawaiian Bay Resort	Family & Studio Suites	BGRC	-	80.0
Andaman Bay Resort	Family & Studio Suites	BGRC	-	80.0
Rainforest Eco Suites 1,2,3	Resort Suites	BGRC	-	180.0
Promenade Retail Suites	Retail Suites	BGRC	-	40.0
Heritage Square	Retail Outlets	BGRC	-	20.0
Business Hotel Convention Centre	Hotel Suites & Convention Centre	BGRC	-	90.0
			Total	1479.7

*Source: Company Prospectus



Source: Company Website



*Source: Company Website



SUMMARISED PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Audited as at 31/7/2011	Proforma		
		I After proposed Subdivision and Bonus Issues	II After Proforma I and Proposed Issue	III After Proforma II and Utilisation of gross proceeds arising from Proposed Public Issue
	RM'000	RM'000	RM'000	RM'000
Share Capital	2,000	68,000	80,000	80,000
Share Premium	-	-	39,600	37,974
Revaluation reserve	2,271	2,271	2,271	2,271
Unappropriated profit	103,592	37,592	37,592	35,518
	107,863	107,863	159,463	155,763
Non-controlling interest	150	150	150	150
Total equity	108,013	108,013	159,613	155,913
Number of shares assumed in issue ('000)	10,000	340,000	400,000	400,000
Net Asset per share (RM)	10.79	0.32	0.4	0.39
Total Borrowings	50,085	50,085	50,085	38,885
Gearing (Times)	0.46	0.46	0.31	0.25

*Source: Company Prospectus

**PROFIT AND LOSS STATEMENTS**

	2008	2009	2010	2011E	2012E	2013E
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	84868	91371	123202	172404	189644	202919
Cost of Sales	(61392)	(65926)	(84566)	(116373)	(127062)	(137986)
Gross Profit	23476	25445	38636	56031	62582	64933
Other Operating Income	1450	1462	809	2808	3034	3247
Administration Expenses	(5083)	(7298)	(14800)	(21157)	(23273)	(22869)
Other Expenses	(91)	(4)	(19)	(254)	(189)	(202)
Finance Costs	(361)	(446)	(2068)	(2428)	(2671)	(2858)
PBT	19391	19159	22558	35000	39483	42251
Taxation	(5191)	(5772)	(3298)	(6475)	(7502)	(8239)
PAT	14200	13387	19260	28525	31981	34012
Other Comprehensive Income	-	-	-	-	-	-
Total Comprehensive Income	14200	13387	19260	28525	31981	34012
Attributable To:-						
Equity holders	14195	13349	19255	28491	31956	33985
Non-controlling Interest	5	38	5	34	25	27
No. of Shares in Issue ('000)	340000	340000	340000	340000	340000	340000
Net EPS (Sen)	4.2	3.9	5.7	8.4	9.4	10.0
Fully Diluted (Sen)	3.6	3.4	4.8	7.1	8.0	8.5
EBITDA	20798	21382	27760	46639	51204	54788
Effective Tax rate (%)	26.8	30.1	14.6	18.5	19	19.5
GP Margin (%)	27.7	27.8	31.4	32.5	32.9	32.0
PBT Margin (%)	22.8	21	18.3	20.3	20.1	20.8
PAT Margin (%)	16.7	14.7	15.6	16.5	16.9	16.8

*Source: Prospectus, Mercury Securities Estimates.

*Lower effective rate is attributed to the 10 years contractual tax allowance incentive provided by government to its leisure and hospitality division.

*Fully diluted EPS calculated based on PAT divided by enlarged issued and paid-up capital after the listing scheme of 400,000,000 shares.

Group Remaining Land Available for Development (consisting land owned by Sentoria as well as those under joint development)

Name of Project	Development Stage			Total (acres)
	Ongoing (acres)	Upcoming (acres)	Future (acres)	
Taman Indera Sempurna 2	71.6	-	-	71.6
Desa Hijauan	31.6	15.8	-	47.4
Sungai Karang Beach Resort	-	-	2.6	2.6
Bukit Gambang Resort	15.0	249.9	115.9	380.8
Fasa Bunga Raya	3.1	-	-	3.1
Taman Bukit Tinggi	-	4.0	-	4.0
Morib and Nilai	-	130.0	275.0	405.0
Taman Bukit Rangan	-	39.4	-	39.4
Total	121.3	439.1	393.5	953.9

*Source: Prospectus