



## Sentoria Group Bhd

To Develop 4<sup>th</sup> Resort City in Langkawi

**TP: RM1.70**(+10.4%)

Last Traded: RM1.54

Hold

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### Expanding to Langkawi

Sentoria via its 75%-owned subsidiary, Sentoria Langkawi Sdn Bhd (SLSB), has entered into two separate lease agreements with Lembaga Pembangunan Langkawi (LADA) to lease 2 parcels of Malay Reservation Land, measuring 70 acres (Padang Mat Sirat) and 50 acres (Mukim Ulu Melaka) respectively, in Langkawi.

### 90 years lease period for RM41.4mn

According to the agreements, Padang Mat Sirat Land and Mukim Ulu Melaka Land shall be leased to SLSB for a lease period of 90 years commencing 1 Sep 2014 to 31 Aug 2104, for a consideration of RM30.5mn (or RM10psf) and RM10.9mn (or RM5psf) respectively. The total lease payment of RM41.4mn will be paid over a period of 2 years (see **Appendix 1**)

### 4<sup>th</sup> Resort City in the pipeline

These agreements will pave the way for Sentoria to develop its 4<sup>th</sup> Resort City in Malaysia, with the other three located in Kuantan, Morib and Kuching. This 4<sup>th</sup> resort city, to be known as Langkawi Geopark Resort City (LGRC), will be developed on the 70 acres land in Padang Mat Sirat, which is strategically located near the Langkawi International Airport. Meanwhile, the group will develop the 50 acres land in Mukim Ulu Melaka into Medical Village. We understand that the group will be looking for strategic investor and partner to carry out this Medical Tourism project. The two lands are expected to generate a combined GDV of RM2.1bn (see **Table 1** for projects detail), with a development period of 10 years. Both projects are expected to kick off in one year time after receiving all the necessary approvals from the relevant authorities.

**Table 1: Preliminary Development Plan**

	Langkawi Geopark Resort City	Medical Village
Location	Padang Mat Sirat	Mukim Ulu Melaka
Land Size (acres)	70	50
Components	Street Mall, Service Suites, Corporate Suites, Water Park, Hotel, MICE centre and Resort Mall	Medical Training Centre, Medical Tourism Centre and Housing Quarters
Available for Sale (RM mn)	1,000	360
Retained Properties (RM mn)	380	340
<b>Total GDV (RM mn)</b>	<b>1,380</b>	<b>700</b>

Source: Sentoria, TA Research

### Fair Entry Cost

As far as the lease consideration is concerned, the leasing price of RM5-10psf appears cheap if we compared with the leasing cost of RM14-22psf of Malay reserve land in Padang Mat Sirat that leased to Tradewinds Corporation in 2012 (see **Table 2**). Based on the estimated GDV of RM2.1bn, the land cost makes up only 2% of the total development value. This is reasonable, we

### Share Information

Bloomberg Code	SNT:MK
Stock Name	SNTORIA
Stock Code	5213
Listing	Main Market
Share Cap (mn)	440.0
Market Cap (RMmn)	677.6
Par Value	0.20
52-wk Hi/Lo (RM)	1.60/0.60
12-mth Avg Daily Vol ('000 shrs)	480.62
Estimated Free Float (%)	22.5
Beta	0.51

### Major Shareholders (%)

Sentoria Capital	- 62.0
State Secretary Pahang	- 10.5

### Forecast Revision

	FY14	FY15
Forecast Revision (%)	-	-
Net profit (RMm)	36.3	75.9
Consensus	n.a	n.a
TA's / Consensus (%)	n.a	n.a
Previous Rating	-	-

### Financial Indicators

	FY14	FY15
Net Debt / Equity (%)	49.2	60.5
FCPS (sen)	(0.1)	(0.1)
Price / CFPS (x)	nm	nm
ROA (%)	11.4	18.5
NTA/Share (RM)	0.6	0.8
Price/NTA (x)	2.5	2.0

### Share Performance (%)

	SNTORIA	FBM KLCI
Price Change		
1 mth	41.3	0.2
3 mth	69.2	(0.3)
6 mth	81.2	2.4
12 mth	131.6	8.3

### (12-Mth) Share Pricerelative to the FBM KLCI



Source: Bloomberg

believe, as we expect the group to spend another RM5-10psf to acquire comparable non-Malay reserve land in Mainland Kedah to exchange the Malaysia reserve land status in Langkawi Island. In addition, we also expect substantial infrastructure costs needed to support these Greenfield developments.

**Table 2: Recent Lease Agreement between Tradewinds and LADA**

Date	Location	Size (Acres)	Lease Consideration (RM mn)	Lease consideration (RM psf)	Lease Period
Mar-12	Padang Mat Sirat	37	35	22	Jan-13 to Jan-93 (81 years)
Dec-12	Padang Mat Sirat	105	65	14	Dec- 12 to Dec-64 (52 years)

Source: Tradewinds, Media Reports, TA Research

Overall, we are positive on these land acquisitions as; 1) enable the group to expand and diversify its business into the northern Peninsular Malaysia; 2) enhance future recurring leisure and hospitality income; and 3) fair entry cost for the new land, coupled with the deferred payment term of 24 months.

### Impact

As the company is in the midst of finalizing the master plans of the lands, we maintain our earnings projections for FY14-16. However, based on our DCF assumptions (see **Appendix 2**), the property development component is expected to achieve net present value of RM26.5mn, or 4.5sen/share over a period of 10 years.

Based on the latest quarterly results, the group's net gearing stood 0.45x with a cash balance of RM7.3mn as at June-14. We estimate the group's capital commitment for theme parks and resorts development over the next 3 years to amount to RM840mn, of which RM240mn allocated for Borneo Samariang RC, RM200mn each for Morib Bay RC, BGRC and LGRC. As such, we expect the group to tap on equity financing to avoid overstretching its balance sheet.

### Valuation

We maintain our Hold recommendation with an unchanged target price of RM1.70/share, based on CY15 P/E multiple of 9x. We have ascribed a higher P/E multiple to Sentoria (vs peers target CY15 P/E of 7x), to account for superior earnings growth. Our target price is at a 13% discount to the group's RNAV of RM1.95/share (see **RNAV Table**).

### Earnings Summary

YE Sep 30		2012	2013	2014F	2015F	2016F
Revenue		179.3	207.5	246.6	381.6	477.7
EBITDA		57.1	55.2	61.3	110.0	148.9
EBITDA Margins	(%)	31.9	26.6	24.9	28.8	31.2
Pretax profit		49.4	43.8	42.3	81.2	111.2
Net profit		47.8	53.1	36.3	75.9	102.1
Net profit -adj		47.8	53.1	36.3	75.9	102.1
EPS -Adj	(sen)	10.9	12.1	8.3	17.2	23.2
EPS Growth	(%)	24.0	11.0	(31.6)	109.0	34.6
PER	(x)	14.2	12.8	18.7	8.9	6.6
Gross Div - adj	(sen)	1.8	2.0	2.0	2.0	2.0
Div Yield	(%)	1.2	1.3	1.3	1.3	1.3
ROE	(%)	31.1	23.7	13.9	24.5	26.2

## Appendix 1: Payment Structure

Payment Structure	Amount (RM mn)	Period from date of announcement
Upon Signing of LA (10%)	4.1	-
Subsequent 40%	16.6	Within 12 months
Subsequent 50%	20.7	Within 24 months
	<b>41.4</b>	

Source: Bursa Announcements, TA Research

## Appendix 2: Potential RNAV Enhancement – Property Development

<b>Assumptions</b>											
Projected Saleable GDV (RM bn)	1.36										
Development period (years)	10										
Est. PBT margin	18%										
Discounting factor	15%										
<b>Year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
Revenue (RM'mn)	0.0	50.0	50.0	80.0	100.0	100.0	150.0	150.0	200.0	200.0	280.0
PBT @ 18% (RM'mn)	0.0	9.0	9.0	14.4	18.0	18.0	27.0	27.0	36.0	36.0	50.4
Net profit/cash inflow (RM'mn)	0.0	6.8	6.8	10.8	13.5	13.5	20.3	20.3	27.0	27.0	37.8
Land cost (RMmn)	(4.1)	(16.6)	(20.7)								
Net cash flow (RM'mn)	(4.1)	(9.9)	(14.0)	10.8	13.5	13.5	20.3	20.3	27.0	27.0	37.8
Total NPV (RM'mn)	26.5										
Effective Stake - 75%	19.9										
Outstanding shares	440.0										
<b>Addition to RNAV (sen)</b>	<b>4.5</b>										

Source: Sentoria, TA Research

## RNAV Table

Property	Remaining GDV (RMmn)	NPV (RMmn)
Taman Bukit Rangin 2 @ Kuantan	70	10.61
Global Heritage @ BGRC	30	6.52
Taman Salak Maju @ Salak Tinggi	12	1.68
Taman Bukit Gambang	160	18.77
Bukit Gambang Resort City	1000	51.86
Mbrlb Bay Resort City	2000	75.68
Borneo Samariang Resort City	1740	104.99
Current unbilled sales	164	39.40
<b>Total Property</b>		<b>309.50</b>

Theme Park	DCF (RMmn)
Bukit Gambang Resort City	157.28
Mbrlb Bay Resort City	120.99
Borneo Samariang Resort City	142.16
<b>Total Theme Park</b>	<b>420.43</b>
<b>Total shareholders' funds</b>	<b>248.27</b>
RNAV	978.20
No of share (mn)	440.00
<b>RNAV/share (RM)</b>	<b>2.22</b>
Proceeds from warrant conversions	52.80
Enlarged RNAV	1031.00
Fully diluted no of shares (mn)	528.00
<b>Fully diluted RNAV/share (RM)</b>	<b>1.95</b>

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