TA SECURITIES
A MEMBER OF THE TA GROUP

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RESULTS UPDATE

Wednesday, August 27, 2014
FBMKLCI: 1,861.82
Sector: Property

Sentoria Group Berhad

Look Beyond FY14

TP: RM1.70 *(+9.7%)*
Last traded: RM1.55
Hold

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

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Review

- Sentoria reported 9MFY14 revenue and net profit of RM153.9mn (+4.1% YoY) and RM19.1mn (+5.6% YoY) respectively, which accounted for 35% of our full-year estimates. We expect 4Q to be stronger but it likely to be insufficient to make up for the shortfall due to three reasons. First, the bookings conversion for Taman Bukit Gambang (GDV: RM160mn), which was launched in June-14, are slower than expected due to stringent loan approval despite the units are 80% booked. Second, the leisure division is likely to barely breakeven in FY14 due to higher-than-expected sales and marketing expenses in creating more awareness on BGRC to local & international market. Third, the group is expected to enjoy lesser tax incentives this year due to limited capex spent following the completion of safari park in 1H2013.

- 9MFY14 net profit increased 5.6% YoY to RM19.1mn driven by 1) 4.1% growth in revenue and 2) lower effective tax rate. Property development division performed well, which reported cumulative 9 months revenue and EBIT of RM108.4mn (+12% YoY) and RM34.0mn (+41.5%YoY) respectively. EBIT margins for the property segment expanded by 6ppt YoY to 22%, mainly attributable to better product mix. However, leisure and hospitality division posted a loss before interest and tax of RM4.8mn, mainly due to initial operating costs and overheads incurred for Safari Park.

- The group's 3QFY14 net profit increased 6.3% YoY and > 200% QoQ to RM8.2mn. The solid QoQ improvement was largely due to 1) higher property (+3.2%) and leisure (+43.8%) revenue; 2) higher EBIT margins (+14ppt) at the property division; and 3) lower effective tax. Note that 3Q is traditionally strong quarter for the group's leisure and hospitality business, benefitting from final semester break and school holidays.

Impact

- We adjust our FY14/15/16 earnings projections by -34%/2%/7% respectively after changing our assumptions below:

  1) New property sales assumptions have been revised to RM130-460mn for FY14-16 from RM240mn - RM390mn previously, with a blended EBIT margin of 28-30%. Higher sales assumptions for FY15-16 are premised on higher sales derived from Morib Bay Resort City (MBRC) and Borneo Samariang Resort City (BSRC);

  2)Leisure & hospitality division to make small profits in FY14, after factoring lower visitors assumptions and higher operating expenses;

  3)Reduction in the tax incentives from Bukit Gambang Resort City due to limited capex spent during the year.

Share Information	
Bloomberg Code	SNT:MK
Stock Name	SNTORIA
Stock Code	5213
Listing	Main Market
Share Cap (mn)	440.0
Market Cap (RMmn)	374.0
Par Value	0.20
52-wk Hi/Lo (RM)	0.92/0.60
12-mth Avg Daily Vol ('000 shrs)	198.20
Estimated Free Float (%)	22.5
Beta	0.54
Major Shareholders (%)	
	Sentoria Capital - 62.0
	State Secretary Pahang - 10.5

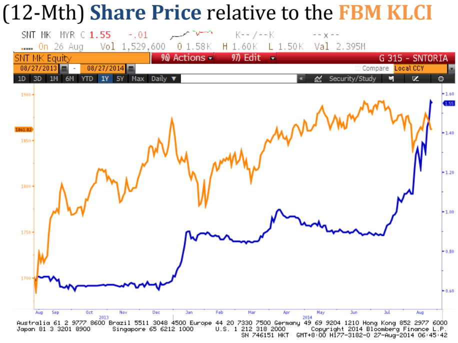
Forecast Revision	FY14	FY15
Forecast Revision (%)	(34.0)	2.4
Net profit (RMmn)	36.3	75.9
Consensus	na	na
TA's / Consensus (%)	na	na
Previous Rating	Buy (Downgraded)	

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

SCORECARD	%of FY	
vs TA	36.0	Below
vs Consensus	n.a	n.a

Share Performance (%)		
Price Change	**SNTORIA**	**FBM KLCI**
1 mth	46.2	(0.8)
3 mth	71.3	(0.3)
6 mth	82.4	1.6
12 mth	138.5	9.4

(12-Mth) **Share Price** relative to the **FBM KLCI**



Source: Bloomberg

Outlook

- Although we are disappointed with the softer-than-expected performance, we draw some comfort from knowing that approval for MBRC and BSRC are now in final stage. Official launch could commence by end-2014 upon securing authority's approval. MBRC with GDV of RM3bn and BSRC with GDV of RM2bn will ensure earnings growth of Sentoria for the next several years. In addition, we note the scale of the maiden launch for both projects are significantly larger than expected, with GDV of phase 1 for MBRC and BSRC are now estimated at RM660mn and RM750mn respectively.

- We believe Sentoria stands a good chance in winning public housing projects from the state government of Pahang given 1) the group is one of the largest developer-cum-contractor in Kuantan and 2) its prior track record of constructing PR1MA project. Note that the Pahang state government aspires to build at least 15,000 PR1MA homes within 2013-2018. Although these contracts are unlikely to garner high profit margin given it is a national project for the Rakyat, we see it as a potential avenue to increase the group's revenue stream.

Valuation

- We advocate investors to look beyond the anticipated soft FY14 performance. FY15 and FY16 are set to be substantially stronger as we expect property developments at Morib Bay and Borneo Samariang to commence. We increase our target price for Sentoria to RM1.70/share (from RM1.22/share previously). This is based on P/E multiple of 9x against our projected CY15 EPS of 18.9sen.

- We believe the recent run up in share price has reflected the exponential future earnings growth of 34-109% driven by commencement of MBRC and BSRC. Hence, we downgrade our recommendation to **Hold** from Buy with a potential total return of 11%. New land acquisition for resort development to expand its presence in Malaysia is a catalyst to drive a re-rating.

Earnings Summary (RM'mn)

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)	14.3	12.8	18.8	9.0	6.7
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

EPS and DPS are adjusted for 1:10 bonus issue completed in FY13

3Q FY14 Results Analysis (RM mn)

	3Q13	2Q14	3Q14	QoQ (%)	YoY (%)	9MFY13	9MFY14	YoY (%)
Revenue	**55.4**	**50.0**	**56.4**	**12.7**	**1.7**	**147.9**	**153.9**	**4.1**
Property Development	*39.0*	*38.3*	*39.6*	*3.2*	*1.6*	*96.7*	*108.4*	*12.1*
Leisure	*16.4*	*11.7*	*16.8*	*43.8*	*2.1*	*51.2*	*45.5*	*(11.1)*
EBITDA	12.9	8.3	15.5	87.0	19.9	31.8	34.8	9.4
Fair value adjustment	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
EBIT	**10.9**	**5.5**	**12.8**	**133.8**	**17.4**	**25.8**	**26.9**	**4.3**
Property Development	*8.4*	*8.9*	*14.8*	*66.4*	*76.4*	*24.1*	*34.0*	*41.5*
Leisure	*1.1*	*(3.6)*	*0.1*	*nm*	*nm*	*4.3*	*(4.0)*	*nm*
Others	*0.2*	*9.6*	*(0.3)*	*nm*	*nm*	*10.2*	*9.4*	*(8.1)*
Eliminations	*1.1*	*(9.6)*	*(1.9)*	*nm*	*nm*	*(12.9)*	*(12.5)*	*(3.4)*
Finance Cost	(1.0)	(1.8)	(1.8)	0.5	75.8	(2.4)	(4.8)	100.3
PBT	9.9	3.7	11.0	197.0	11.5	23.4	22.2	(5.5)
Core PBT	9.9	3.7	11.0	197.0	11.5	23.4	22.2	(5.5)
Tax	(2.2)	(1.2)	(2.8)	*138.9*	29.6	(5.4)	(3.2)	(40.3)
MI	0.0	0.1	0.0	(99.2)	(90.9)	0.0	0.1	nm
Net profit	7.7	2.6	8.2	208.7	6.2	18.1	19.1	5.6
Core net profit	7.7	2.6	8.2	208.7	6.2	18.1	19.1	5.6
EPS -adj (sen)	1.7	0.6	1.9	208.7	6.2	4.1	4.3	5.6
GDPS -adj (sen)	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
EBITDA Margin (%)	23.3	16.5	27.4	10.9	4.2	21.5	22.6	1.1
Pretax Margin (%)	17.8	7.4	19.5	12.1	1.7	15.9	14.4	(1.5)
Net Margin (%)	13.9	5.3	14.5	9.2	0.6	12.2	12.4	0.2
Effective Tax Rate (%)	(22.0)	(31.8)	(25.6)	6.2	(3.6)	(22.9)	(14.5)	8.4

EPS and DPS are adjusted for 1:10 bonus issue completed in FY13