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## IPO Note

# Sentoria Group

## Cementing Its Foothold

Armed with a 10-year track record, Sentoria Group has been successful as a developer of affordable residential and commercial properties and operator of one of the largest integrated water theme park in Malaysia. With a reference market capitalization of RM340.0m, we value the group based on 0.7x of our RNAV valuation and arrive at a Fair Value (FV) of RM0.90 based on its FY12 earnings.

**Established property developer with integrated resort city.** Established in 1998, the Sentoria Group (Sentoria) is a property developer and operator of the Bukit Gambang Resort City (BGRC) in Kuantan, Pahang. Its core business is divided into two segments, namely property development and leisure & hospitality. Its BGRC leisure and hospitality facility in Kuantan is the largest integrated resort city in Malaysia that resides on a 547-acre land area and features multiple attractions in a single location.

**RM48m investment on second theme park.** The group is investing RM48m to build its second theme park whose operations are slated to commence by end-2012. Called the Bukit Gambang Safari Park, this theme park is an additional attraction that can pull even more visitors to BGRC and more importantly, lengthen their stay in the resort and create a more enjoyable overall experience. The second theme park consists of numerous sections – the highlights of which are Night Jungle, which features animals with nocturnal habits, and Foreign Village, which showcases exotic animals rarely seen in Malaysia.

**New safari park to boost FY13 earnings.** We think that the second theme park will enhance the group's total number of visitors per year and average spend per visitor, as they will probably stay an extra night in BGRC to cover both theme parks. With that, we are forecasting a CAGR of 20.5% for the number of tourists to BGRC for FY11-13 and we expect its average spend per visitor to grow by 10% annually.

**Sum-of-parts values the share at RM0.90.** We employ a sum-of-parts (SOP) valuation methodology for Sentoria, which gives rise to a FV of RM0.90. For its property development business, our earnings forecasts value the business at RM0.60 per share (30% discount of our RNAV estimate of RM0.86 per share), while we value its leisure and hospitality division at RM0.30 per share (pegged to 10.0x FY12 EPS, which represent a 25% discount to its peers in the leisure and hospitality industry). Potential rerating catalysts for the stock include: (i) higher-than-expected number of tourists visiting BGRC, (ii) better-than-expected average spend per visitor, and (iii) an increase in new property development projects.

## NOT RATED

Fair Value

RM0.90

IPO Price

RM0.85

## PROPERTY

### Enlarged Share Capital / Par Value

400m shares/RM0.20

### Indicative Listing Date

23 February 2012

### Listing Sought

Main Market

Shariah Compliant

NO

### Major Shareholders (post - IPO) (%)

Dato' Chan Kong San	62.0*
Dato' Gan Kim Leong	62.0*

\*via Sentoria Capital

IPO Details	Shares (m)
Promoters	248.0
Other investors	52.0
MITI investors	40.0
Private placement	30.0
Public	20.0
Eligible directors, employees and business associates	10.0
<b>Total</b>	<b>400.0</b>

Utilisation of Proceeds	RMm
Repayment of bank borrowing	11.2
Purchase of property, plant and equipment	9.0
Estimated listing expenses	27.7
Working capital	3.7
<b>Total</b>	<b>51.6</b>

FYE Sep (RMm)	FY09	FY10	FY11f	FY12f	FY13f
Revenue	91.4	123.2	185.1	223.2	271.9
Net Profit	13.3	19.3	40.9	41.7	52.9
% chg y-o-y	-6.0	44.2	112.4	1.9	26.9
Consensus	-	-	-	-	-
EPS (sen)*	3.4	4.8	9.3	9.5	12.0
NDPS (sen)*	0.0	0.0	0.0	1.4	1.8
Dividend Yield (%)	0.0	0.0	0.0	1.7	2.1
ROE (%)	-	-	26.2	25.5	30.5
ROA (%)	-	-	14.9	14.0	16.3
PER (x)*	25.0	17.7	9.1	9.0	7.1
BV/share (RM)*	-	-	0.35	0.37	0.39
P/BV (x)*	-	-	2.4	2.3	2.2
EV/EBITDA (x)*	-	-	9.2	7.2	5.8

\*assumes full dilution of ESOS options (440m shares)

## IPO DETAILS

**Main board listing:** Sentoria is seeking a listing on the Main Market of Bursa Malaysia with an enlarged share capital of 400m shares. It expects to raise gross proceeds of about RM51.6m from the IPO, of which 53.7% will be used for working capital, 21.7% for the repayment of bank borrowings, 17.4% for the purchase of property, plant and equipment, while the remaining 7.2% will go towards listing expenses. In conjunction with the listing, the company is implementing an Employee Share Option Scheme (ESOS) which entails the issuance of up to 10% of its issued and paid-up share capital or 40m ESOS options.

**Table 1: Post listing shareholders of Sentoria**

Shareholders	No. of shares (m)	% of total shares
Promoters*	248.0	62.0
Other Investors	52.0	13.0
MITI investors	40.0	10.0
Private placement	30.0	7.5
Public via balloting	20.0	5.0
Eligible directors, employees and business associates	10.0	2.5
<b>GRAND TOTAL</b>	<b>400.0</b>	<b>100.0</b>

\*Promoters' stakes are held by Dato' Chan Kong San and Dato' Gan Kim Leong

Source: OSK, Prospectus

**Table 2: Indicative timetable**

Events	Tentative Dates
Issuance of prospectus/Opening date for IPO	31 Jan 2012
Closing date for IPO	10 Feb 2012
Tentative date for balloting of applications	14 Feb 2012
Tentative date for allotment of IPO shares	15 Feb 2012
Tentative listing date	23 Feb 2012

Source: OSK, Prospectus

**Table 3: Utilisation of proceeds**

Description	Timeframe	Amount (RM'000)	% of total gross proceeds
Repayment of bank borrowing	Within 6 months	11,200	21.7
Purchase of property, plant and equipment	Within 12 months	9,000	17.4
Working capital	Within 12 months	27,700	53.7
Estimated listing expenses	Immediate	3,700	7.2
		<b>51,600</b>	<b>100</b>

Source: OSK, Prospectus

## INVESTMENT HIGHLIGHTS

**Sentoria at a glance.** Established in 1998, Sentoria is a property developer and operator of the Bukit Gambang Resort City (BGRC) in Kuantan, Pahang. Its core business is divided into two segments, namely property development and leisure & hospitality. Its BGRC leisure and hospitality facility in Kuantan is the largest integrated resort city in Malaysia that resides on a 547-acre land area and features multiple attractions in a single location. Currently, BGRC comprises resort suites, residential development, MICE (meetings, incentives, conferences and exhibitions) facilities and a water park (Bukit Gambang Water Park).

**Figure 1: Some key milestones**

Year	Event
2001	Entered into a JV to develop Taman Sentoria, the group's first property development project
2002	Acquired 117.0 acres of freehold land in Gambang, Kuantan, Pahang to form part of the group's future plans to develop Bukit Gambang Resort.
	Entered into a JV to develop Taman Indera Sempurna 1, our Group's second property development project
2004	Launched Taman Indera Sempurna 1 for sale
2006	Delivered the residential units in Taman Indera Sempurna 1
	Launched the first parcel of Taman Indera Sempurna 2
2007	Launched the second parcel of Taman Indera Sempurna 2
2008	Launched the third parcel of Taman Indera Sempurna 2
2009	Completed Bukit Gambang Water Park
2010	Launched Arabian Bay
2011	Launched Fasa Bunga Raya
	Commenced construction of Bukit Gambang Safari Park

*Source: OSK, Prospectus*

**Offers affordable housing.** The bulk of Sentoria's property development projects are located in Kuantan and it undertakes most of its property development core functions internally. The group adopts the Industrialised Building System (IBS) which utilizes building systems that embrace prefabricated components and on-site installation. With that, its property development business has been able to deliver better profit margins, efficiency, productivity, product quality and service levels. To date, the group has completed and sold more than 4,000 units of affordable housing mainly in Kuantan, with more than 90% of properties completed ahead of schedule and 59% delivered more than six months ahead of schedule. Considering that the mass market is its target market, its property sales is expected to stay resilient even in the face of an economic recession as the demand for such housing is likely to remain strong at all times.

**Unique business model for property segment.** Unlike other property developers which forks out cash to acquire land banks, Sentoria approaches this issue with its own unique strategy. The group prefers to minimize its initial capital outlay by forming strategic alliances via joint ventures (JV) with land owners to undertake development projects. When combined with its sale and leaseback strategy, the group has been able to recognize property income without needing to borrow much as it prefers to pay out monthly rental to its investors – a financing arrangement which costs less compared to borrowing from banks. This enhances its balance sheet (via low borrowing levels) while ensuring higher profitability (through lower finance costs).

**Bukit Gambang land bank, the gold mine for Sentoria.** The group currently owns 547 acres of land in Bukit Gambang and has only utilized less than half of the land bank over there. Riding on the success of BGRC, the group has been able to increase the appeal of its land bank in Bukit Gambang and thus, leading to more opportunities for higher-end development. Under the property development division's master plan, the group has several upcoming projects to be launched in 2012 or 2013 in Kuantan, BGRC and Selangor with a total estimated gross development value (GDV) of RM534.2m. From 2015 onwards, the group expects to undertake multiple projects within its BGRC land bank with a forecasted GDV of RM938.0m.

**Owns one of the largest integrated resort cities.** BGRC, which is the group's pride, is an increasingly popular holiday destination among the local and regional population. It is surrounded by nature, has easy accessibility (thanks to its prominent location – 35km from Kuantan and 218km from Kuala Lumpur) and features multiple attractions in one location. Within two years of opening, the group has recorded more than 522,000 visitors in 2011 compared to 53,000 in 2009, which translates into a growth rate of 213.8% p.a within two years. In terms of market share, the group commands a share of approximately 7.0% for the domestic theme park industry, coming in third behind Resorts World Genting and Sunway Lagoon).

**Equipped with one of the largest MICE facilities in Malaysia.** Besides the theme park, BGRC is also fully equipped with MICE (meeting, incentive, conference and exhibition) facilities to accommodate multiple functions simultaneously. To date, they have accommodated more than 500 groups and events, such as TNB Family Day – 3,959 pax, PNB Family Day – 2,500 pax and EPIC Bhd Family Day – 2,208 pax. The group is currently expanding its current capacity of 2,400 pax per day to 3,050 pax per day with the construction of the Arabian Bay Resort. With this new facility in place, BGRC will have the capacity to accommodate numerous functions at the same time, boosted by the extra number of rooms that the Arabian Bay Resort brings.

**RM48m investment on second theme park.** The group is investing RM48m to build its second theme park whose operations are slated to commence by end-2012. Called the Bukit Gambang Safari Park, this theme park is an additional attraction for pulling even more visitors to BGRC and more importantly, lengthen their stay in BGRC and create a more enjoyable overall experience. The second theme park consists of numerous sections – the highlights of which are Night Jungle, which features animals with nocturnal habits, and Foreign Village, which showcases exotic animals rarely seen in Malaysia.

**New safari park to boost FY13 earnings.** We think that the second theme park will enhance the group's total number of visitors per year and average spend per visitor as they will probably stay an extra night in BGRC to cover both the theme parks. With that, we are forecasting a CAGR of 20.5% in the number of tourists to Sentoria for FY11-13 and we expect the average spend per visitor to grow by 10% annually and thus, giving a boost to its ancillary income for its leisure and hospitality business (services, sale of products such as food, beverage and souvenirs and others). We think that the group's earnings will be flattish in FY12 (+1.9% y-o-y) due to higher depreciation expenses but anticipate a double-digit growth in earnings for FY13 (+26.9% y-o-y), due to the spillover effects from the opening of its second theme park.

**Table 4: Key forecasts**

	2010	2011f	2012f	2013f
No. of tourists to theme parks (m)	7.4	7.8	8.2	8.6
Sentoria's market share (%)	7.0	7.2	7.5	9.0
No. of tourists to Sentoria (m)	0.52	0.53	0.61	0.77
Average spend per visitor (RM)	27.0	32.0	35.2	38.7

Source: OSK

**Tax rebate for ECER members.** The East Coast Economic Region (ECER) is one of the five economic corridors designated by the government and such corridors are designed with the objective of accelerating the economic growth of its member states. Hence, tourism-related businesses within the ECER are offered the following incentives:

- 1) A choice of:
  - customized incentives (based on merits on a case-to-case basis)
  - 100% income tax exemption for 10 years
  - Investment tax allowance of 100% on qualifying capital expenditure for 5 years
- 2) Stamp duty exemption for land acquired for development
- 3) Withholding tax exemption on royalty and technical fees for 10 years

- 4) Import duty and sales tax exemption on machinery, equipment and consumables that are not produced locally and used directly in the activity.

BGRC qualifies to participate in this scheme as it is located within ECER. Hence, we are forecasting an effective tax rate of 10.0% for FY12 and FY13 as Sentoria will be investing a substantial amount of money into BGRC and that investment qualifies for income tax exemption.

**No dividend policy yet.** We think that the management will most likely conserve its cash in the next few years to be used for further expanding the facilities in BGRC. Nonetheless, we do not discount the possibility of a low dividend payout to reward shareholders. Assuming a dividend payout ratio of 20%, the expected net dividend per share amounts to 1.4 sen in FY12 and 1.8 sen in FY13 (assuming the full dilution of ESOS options for both years). This represents a dividend yield of 1.7% in FY12 and 2.1% in FY13 based on its IPO price of RM0.85.

**Sum of parts valuation values the share at RM0.90.** We employ a sum-of-parts (SOP) valuation methodology for Sentoria, which gives rise to a FV of RM0.90. For its property development business, our earnings forecasts value the business at RM0.60 per share (30% discount of our RNAV estimate of RM0.86 per share), while we value its leisure and hospitality division at RM0.30 per share (pegged to 10.0x FY12 EPS, which represent a 25% discount to its peers in the leisure and hospitality industry). Potential rerating catalysts for the stock include: (i) higher-than-expected number of tourists visiting BGRC, (ii) better-than-expected average spend per visitor, and (iii) an increase in new property development projects.

**Table 5: Sentoria sum-of-parts valuation**

Components of SOP	Value (RMm)	Value/share (RM)	% of total	Basis
Property Development	338.9	0.60	66.7	FY12 RNAV (30% discount)
Leisure & Hospitality	133.4	0.30	33.3	10.0x FY12 fully diluted EPS
<b>Valuation</b>	<b>472.3</b>	<b>0.90</b>	<b>100.0</b>	

Source: OSK

**Table 6: Peer comparison for leisure and hospitality business**

Company	Listed in	Market Cap (RM'm)	FY12 PER (x)	FY12 PBV	FY 12 Dividend yield (%)	FY12 EV/EBITDA
Shangri-la Hotels Malaysia	KLSE	1,100.0	13.2	1.3	4.4	6.8
KLCC Property	KLSE	978.6	12.3	0.6	3.3	11.1
IJM Land	KLSE	3,234.9	14.7	1.4	1.8	8.9
<b>Simple average</b>			<b>13.4</b>	<b>1.1</b>	<b>3.2</b>	<b>8.9</b>

Note: Data taken as at 08/02/12

Source: OSK, Bloomberg

**Table 7: Sentoria's RNAV estimation (property development division)**

Assets/Projects	Estimated GDV (RMm)	Market value (RMm)
<b>On-going Projects</b>		
<u>Kuantan</u>		
Taman Indera Sempurna 2 (Block D - Type J)	20.1	
Taman Indera Sempurna 2 (Block E)	30.6	
Taman Indera Sempurna 2 (Block F)	14.0	
Desa Hijaun - Phase 1	19.2	
Desa Hijaun - Phase 2		
(Pesona Jerman, Pesona Tropika A, B and B1 and Perancis A and B)	25.6	
Arabian Bay	92.0	
<u>Negeri Sembilan</u>		
Fasa Bunga Raya	19.2	
<b>Upcoming Projects</b>		
<u>Kuantan</u>		
Desa Hijaun - Phase 2	12.6	
Taman Bukit Rangin	58.0	
Global Heritage South	335.8	
Mediterranean Bay Resort	80.0	
East Coast Bazaar	40.0	
<u>Selangor</u>		
Taman Bukit Tinggi	7.8	
<b>Future Projects</b>		
<u>Kuantan</u>		
Sungai Karang Beach Resort	48.0	
Global Heritage North	400.0	
Hawaiian Bay Resort	80.0	
Andaman Bay Resort	80.0	
Rainforest Eco Suites 1	75.0	
Rainforest Eco Suites 2	60.0	
Rainforest Eco Suites 3	45.0	
Promenade Retail Suites	40.0	
Heritage Square	20.0	
Business Hotel and Convention Centre	90.0	
Unbilled sales	39.4	
NPV of development profit	1732.3	223.6
Plus: Shareholders equity (assuming full exercise of ESOS options)		197.5
Minus: FY12 total borrowings		(42.1)
Total RNAV		379.1
Current share base (m)		400.0
No. of shares from exercise of ESOS options (m)		40.0
Fully diluted share base (m)		440.0
RNAV/share (RM)		0.86
RNAV (30% discount) (RM)		0.60
<i>Source: OSK, Prospectus</i>		

**EARNINGS FORECAST**

<b>FYE Sep (RMm)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11f</b>	<b>FY12f</b>	<b>FY13f</b>
Turnover	91.4	123.2	185.1	223.2	271.9
EBITDA	21.4	27.8	42.7	54.4	67.6
PBT	19.2	22.6	36.0	46.5	58.9
Net Profit	13.3	19.3	40.9	41.7	52.9
EPS (sen)*	3.4	4.8	9.3	9.5	12.0
NDPS (sen)*	0.0	0.0	0.0	1.4	1.8
Margin					
EBITDA	23.4%	22.5%	23.1%	24.4%	24.9%
PBT	21.0%	18.3%	19.5%	20.8%	21.7%
Net Profit	14.6%	15.6%	22.1%	18.7%	19.5%
ROE	-	-	26.2	25.5	30.5
ROA	-	-	14.9	14.0	16.3
Balance Sheet					
Fixed Assets	-	-	140.0	165.2	174.0
Current Assets	-	-	133.8	133.3	150.5
Total Assets	-	-	273.8	298.5	324.6
Current Liabilities	-	-	88.5	105.4	121.5
Net Current Assets	-	-	59.0	74.5	89.0
LT Liabilities	-	-	29.5	30.9	32.5
Shareholders Funds	-	-	155.9	163.5	173.6
Net Gearing (%)	-	-	Net Cash	Net Cash	Net Cash

\*assumes full dilution of ESOS options (440m shares)

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