

Magna Prima Berhad

A Klang Valley High-end Developer

Initiating MAGNA at MARKET PERFORM with TP of RM1.60. A niche high-end developer with earnings on a recovery track post-delivery of flagship projects in FY15. However, ROE remains below average with soft earnings and value locked in investment properties. Investment properties sale, coupled with development earnings growth, could put ROE on a recovery track. Meanwhile, potential collaborations with new investor HUAYANG serve as longer-term catalysts.

Klang Valley-based developer. Magna Prima Berhad (MAGNA) is a niche high-end property developer with pure exposure in Klang Valley with a total land size of 29.6 acres. Notable developments by MAGNA include The Avare and Boulevard Business Park. In recent years, MAGNA has expanded overseas with "The Istana" in Melbourne, Australia. Excluding unbilled sales of RM49.0m and unsold inventories with GDV of RM198.0m, MAGNA has remaining GDV of RM2.5b, which should provide another 6-8 years of earnings visibility on the back of average annual revenue of c.RM150.0-200.0m.

Long-term earnings recovery, but below-average ROE. With the completion of its flagship projects, we expect FY17E revenue to decline 36% to RM91.4m, while FY18E revenue should recover by 51% to RM138.2m thanks to low base effect, and higher sales (RM155.2m-RM183.2m for FY17-FY18E). In line with lower revenue, FY17E core earnings could weaken 17% to RM6.5m albeit with margin improvement from 5.5% to 7.1% as construction costs have already been incurred. Meanwhile, FY18E earnings should rise on revenue growth. Despite average gearing, ROE at 2-3% is weaker than the sector average of 9-10% as earnings trended down post flagship completions, while its investment properties locks in significant value, which should improve ROE once a sale materialises. ROE should also improve on new large-scale developments. However, we do not expect ROE to reach sector average levels until its investment properties values are realised and/or if development earnings momentum increases significantly.

Potential boost on land sales. Media sources mentioned that MAGNA may sell some 2.6 acres along Jalan Ampang at c.RM400m (at RM3,500psf) with potential disposal gains of RM230m. Should the sale go through, we anticipate the proceeds to pare down borrowings (current net gearing of 0.3x) and support working capital needs. Note that we have not imputed the land sale into our estimates.

New shareholder emerges. Recently, Hua Yang Berhad (HUAYANG) acquired a 20.1% stake in MAGNA for RM1.85/share, raising its stake to 30.9%. We are positive on HUAYANG's move as we believe that there are synergies between the two companies such as similar development perspectives, landbank advantage and affordable housing expertise. However, as management has not specified the details of their collaboration, we believe the move should be more a long-term catalyst.

Initiating coverage at MARKET PERFORM and TP of RM1.60. FD RNAV per share of RM2.94 is driven by an 11% WACC, 15% net margin for planned RM2.5b GDV, RM48.0m unbilled sales, and full warrants conversion. Our TP is based on 35% property RNAV discount rate, among the narrowest for Klang Valley developers because land banks can be readily launched. Its FY17-18E FD PERs of 50.6x and 28.6x is substantially above-average as implied by the price paid by HUAYANG of RM1.85 per share, affirming the company value on a 'land acquisition basis'. This may have raised the pricing benchmark for the stock ahead of current earnings and tighten the gap of its RNAV discount. Nonetheless, we believe it is tough to price the company at such acquisition levels as premiums are usually paid for strategic/controlling stakes in a company.

MARKET PERFORM

Price: RM1.53
Target Price: RM1.60

Expected Capital Gain: RM0.07 4.6%
Expected Divd. Yield: RM0.01 0.4%
Expected Total Return: RM0.08 5.0%

KLCI Index 1,787.95

Stock Information

Bloomberg Ticker	MAGNA MK Equity
Bursa Code	7617
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	332.4
Market Cap (RM m)	508.6
Par value per share (RM)	0.25
52-week range (H)	1.69
52-week range (L)	0.92
Free Float	62%
Beta	0.3
3-mth avg daily vol:	196,398

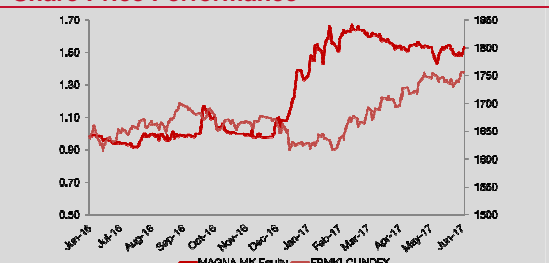
Major Shareholders

Fantastic Realty Sdn Bhd	20.6%
Prisma Pelangi Sdn Bhd	10.8%
Rahadian Bin Mohammad	6.4%

Summary Earnings Table

FY Dec (RM m)	2016A	2017E	2018E
Turnover	142.7	91.8	139.4
EBIT	76.7	16.6	20.8
PBT	67.0	8.7	14.7
Net Profit	44.8	6.5	11.0
Core PATAMI	7.9	6.5	11.0
Consensus (NP)	-	-	-
Earnings Revision	-	-	-
Core EPS (sen)	0.56	1.32	2.22
Core EPS growth (%)	-98%	-17%	68%
NDPS (sen)	0.0	0.6	1.0
NTA per Share (RM)	0.29	1.22	1.24
Price to NTA (x)	5.29	1.25	1.23
PER (x)	272.8	115.9	69.0
Debt-to-Equity ratio (x)	3.18	0.25	0.18
Return on Asset (%)	4.4%	0.7%	1.2%
Return on Equity (%)	7.4%	1.1%	1.8%
Net Div. Yield (%)	0.0%	0.4%	0.7%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	0.0%	-4.4%	56.1%
Relative (%)	-1.7%	-9.0%	46.9%

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06 June 2017

INVESTMENT HIGHLIGHTS

Klang Valley-based... Magna Prima Berhad (MAGNA) is a niche high-end property developer with pure exposure in the Klang Valley at a total land size of 29.6 acres. In terms of GDV, the largest project driver is Magna Suria at 59%, followed by Gasing Lifestyle at 26%, The View Residence at 9%, and Kepong 2D at 6%; all located in the Klang Valley region. Over the years, they have completed projects that range from the mid-end to high-end segments. Notable developments by MAGNA include The Avare, a super-luxury condominium in central Kuala Lumpur comprising 41 storeys of 78 units; and Boulevard Business Park along Jalan Kuching, an integrated development constructed on 10.2 acres of freehold land.

...with its maiden international exposure. In recent years, MAGNA has expanded beyond Malaysia with its development of The Istana, a 25-storey single tower residential apartment, marking their first overseas foray in Melbourne, Australia, comprising 320 apartments, four double storey penthouses, cafes and retail frontages in an area of c.27k square feet (sf), which have been fully sold and completed in 2015.

Remaining GDV of RM2.5b providing 6-8 years' earnings visibility. Excluding its unbilled sales of RM49.0m and unsold inventories amounting to a GDV of RM198.0m (of which the bulk are from its Boulevard Business Park in Jalan Kuching), MAGNA has a remaining GDV of RM2.5b, which we estimate should provide another 6-8 years of earnings visibility on the back of average annual revenue of c.RM150.0-200.0m.

List of Upcoming Projects

Projects	Location	Tenure	Stake (%)	Total GDV (RM'm)	Total Gross Land Size (ac)	Remaining GDV (RM'm)	Effective Remaining GDV (RM'm)	Remaining GDV Composition
The View Residence	KGSAAS Shah Alam	Leasehold (expiring May-2102)	100%	220.0	5.3	220.0	220.0	9%
Kepong 2D	Metro Prima Kepong	Leasehold (expiring Apr-2096)	79%	141.0	1.3	141.0	111.4	6%
Magna Suria	Sec. 15 Shah Alam	Leasehold (expiring Sep-2083)	100%	1486.0	20.0	1486.0	1486.0	59%
Gasing Lifestyle	Jalan Gasing, PJ	Freehold	100%	658.0	7.0	658.0	658.0	26%
Total				2505.0	33.5	2505.0	2475.4	

Source: Company

Future earnings sustained by on-going, new Shah Alam and Kepong projects. Going forward, we expect FY17E revenue to decline 36% to RM91.4m on lower project GDV post the completion of The Istana and The Avare back in 2015-16. However, FY18E revenue should recover by 51% to RM138.2m thanks to low base effect, and higher sales of new developments such as The View Residence and Kepong 2D projects having an effective combined remaining GDV of RM311.0m and RM198m worth of unsold units (completed and WIP), respectively. Furthermore, its project in Shah Alam i.e. The View Residence (GDV of RM220m) should see better margins, being priced at c.RM650.0k per unit and catered for the mid-high end range market as it is located right by the golf course in Shah Alam. We estimate sales of RM155.2m-RM183.2m for FY17-FY18 against FY15-16E sales of RM586-108m. On the earnings side, we believe that 2016 core margins (excluding revaluation gains) at 5.5% were compressed by construction cost of Boulevard Business Park. With construction completed, we expect to see slightly better FY17E core margins at 7.1% on the sales of Boulevard Business Park units in 2017. Looking ahead, FY18E core margins should remain flattish at 7.9% as the higher margin Magna Suria project which has the lowest land cost to GDV ratio of 8.4% is offset by the lower margin Kepong 2D project which is a JV with DBKL providing the land for development. With flattish margin estimates, we expect core earnings patterns to reflect revenue trends and hence decline by 18% in FY17 to RM6.5m and then improve by 69% in FY18 to RM11.0m.

List of Current Projects

Projects	Location	Total GDV (RM'm)	Unbilled Sales (RM'm)	Unsold GDV (RM'm)
Boulevard Business Park	Jalan Kuching	691.0	47.0	142.0
Desa Mentari	Jalan Kelang Lama	96.0	2.0	56.0
Total		787.0	49.0	198.0

Source: Company

06 June 2017

Potential earnings boost from land sales. It was reported in the news that (The Star) MAGNA is also looking to sell selected parcels of its land bank, among which management have indicated consideration to dispose its 2.6 acres plot of the former Lai Meng school along Jalan Ampang. Assuming an average selling price of RM3,500psf, the land value works out to be c.RM400m, with a potential land disposal gain of c.RM230.0m given that MAGNA bought the land in 2010 for RM148.2m. If the sale goes through, we anticipate MAGNA to utilise the sales proceed to pare down its borrowings (2016: RM235.6m) to further bring down its net gearing of 0.33x and also for future working capital needs. Currently, there are no major updates on the potential land sale and hence, we have not imputed it into our estimates.

Land Cost vs. GDV

Projects	Stake (%)	Total GDV (RM'm)	Land Cost (RM'm)	Land Cost to GDV Ratio (%)
The View Residence	100%	220.0	43	19.5%
Kepong 2D	79%	141.0	N.A.	N.A.
Magna Suria	100%	1486.0	125	8.4%
Gasing Lifestyle	100%	658.0	65	9.9%
Total (RM'm) /Average (%)		2505.0	233.0	12.6%

Source: Company

Decent land cost... MAGNA has sourced its land at fairly decent prices, with its land cost averaging 13% of total gross GDV. We note that its largest upcoming project, Magna Suria, has the lowest land cost at 8% of gross GDV, and the potential Jalan Ampang land sale would put them in a stronger financial position. Hence, we are estimating its FY17-18E core net margins to be stable-to-improving at 7.1-7.9%, from 5.5% in FY16.

...but below sector average margins. Despite the improving margin trend, we note that margins remain below the sector average of 16%. We believe this is largely due to MAGNA's smaller revenue base compared to previous recent years, while sales and marketing expenses have remained relatively fixed around the RM18.0m range. Note that core margins peaked at 50% in FY15, on the handover of The Avare and The Istana projects.

Upcoming: The View Residences, Shah Alam



The View Residence will comprise 315 units of three blocks of 15-storey residential apartments and five shop offices. Management noted that the development is an "easy to digest" project with a GDV of RM220 million.

Source: Company; Google Maps

Upcoming: Magna Suria, Shah Alam



Magna Suria, located in Shah Alam, is planned to be a fully integrated mixed commercial hub. The 20 acres parcel will encompass 3, 4 and 5 storey shop offices, 2 huge shopping complexes, 4 blocks of serviced apartments as well as 2 lower ground parking facilities. The GDV for this project is estimated at RM1.4b.

Source: Company

06 June 2017

In Progress: Boulevard Business Park

Source: Company

Boulevard Business Park is a 3-in-1 integrated development that includes shop offices, service apartments and a concept retail mall with two levels of basement parking. Construction on the 10.23 acres of freehold land is expected to commence in 2011 and be completed in stages by 2014. The projected GDV for this development is tagged at RM 635m. The project is connected to the city centre and the Klang Valley via a series of highways located along the mature neighborhood of Jalan Kuching.

In Progress: Desa Mentari

Source: Company

Desa Mentari is a proposed 4 block, 3-storey fully integrated mixed commercial development. The site is situated along the major expressway intersection of Jalan Kelang Lama and LDP. Building up to approximately 212, 262 sq. ft., the proposal consists of 36 units that come in two different sizes: Type A consists of 17 units and type B consists of 19 units with sizes of 24'x70' and 22'x75' respectively. Each unit will be equipped with stairways, a gents and a ladies as well as a disabled-friendly washroom.

Completed: The Istana

Source: Company

The Istana is a 25-storey, single tower residential apartment featuring 320 units of one, two and three bedroom apartments as well as 2 storey penthouses. Spread over approximately 2,700 sq meters of freehold land, The Istana is located on A'Beckett Street in Melbourne's Central Business District with a GDV of AUD210m.

Completed: The Avare

Source: Company

The Avare is a 6-star super luxury condominium that is located in Kuala Lumpur's city centre. This 41 storey, 78-unit building is spread over 1.06-acres of prime real estate. The Avare has a GDV of RM 321m with units ranging from 3,800 sq. ft. to 7,696 sq. ft. in size.

06 June 2017

Completed: One Sierra

Source: Company

The RM198m One Sierra is a low density enclave that was developed based on a detailed site planning roadmap. The area features landscaped streets, spacious roads, clubhouse facilities and 24-hour security.

Completed: Alam D'16

Source: Company

Spread across 10-acres of landscaped land, Alam d'16 is a gated and guarded community in Shah Alam city. With a GDV of RM 75 million, this development features 177 units of 2-storey link houses, with built up areas ranging from 2,000 sq. ft. to 2,100 sq. ft. The development contains not more than 18 units per acre.

Completed: Seri Jalil

Source: Company

Seri Jalil comprises 10.86 acres in the township of Bandar Bukit Jalil. With a GDV of RM126 million, the development contains 107 units of houses comprising on 2.5-storey super-link and semi-detached homes. Nearby amenities include Bukit Jalil Integrated Business Park, the Bukit Jalil Golf & Country Club and the relocated Lai Meng Girl's School as well as a network of highways.

FINANCIALS

Expecting earnings to track revenue. In line with lower revenue expectations, we estimate FY17E core earnings to soften 17% to RM6.5m albeit with core margin improvement from 5.5% to 7.1% as construction costs on its Boulevard Business Park project have already been incurred. Meanwhile, FY18E earnings should rise in tandem with revenue growth as well as sustained margins on the back of existing inventory (RM198m GDV) and upcoming launches (The View Residence and Kepong 2D in FY17E with total GDV of RM361m). Looking ahead, we estimate FY17-18E CNPs to track revenue trend by declining 17% before rising 68% to RM6.5-11.0m on the back of RM155.2-183.2m sales based on an effective take-up rate of 28-33%, respectively.

Core net margin to stabilise. With the completion of its overseas project, we expect margins to see better stability as its non-JV local projects commands better cost-control and more favourable land costs. We expect construction cost to decline in FY17 due to the completion of Boulevard Business Park in 2016. However, for FY18 we note that the benefits from lower land cost Magna Suria project could be offset by the higher cost Kepong 2D JV project. Hence, we estimate FY17-18E core net margins to see flattish movement from 5.5% in FY16 to 7.1-7.9% in FY17-18E, which is approaching to the FY12-FY14 average level of 9%.

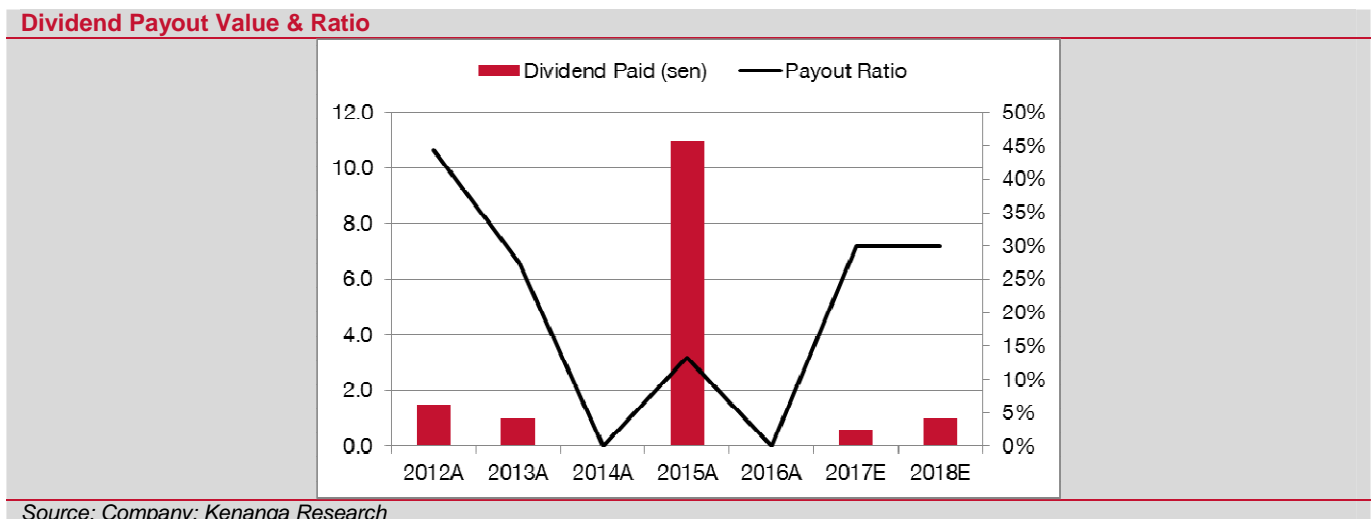
06 June 2017

Steady net gearing. In tandem with better earnings performance, we expect MAGNA's declining net gearing trend to continue, from its FY14 high of 3.5x to FY16 of 0.4x while we expect net gearing to go lower at 0.3-0.2x for FY17-18E (excluding the potential disposal of its Jalan Ampang land), as they normally retire their land banking loans upon completion of a project or land sale.

Lower ROE after delivery of The Avare and Istana, Melbourne. We note that FY16 Core ROE dropped to a mere 1.3% from 73.1% in FY15 due to the completion and delivery of its flagship projects, The Avare and The Istana, Melbourne in 2015. This was compounded by revaluation of investment properties in 2016, which resulted in revaluation gains of RM211.7m. Looking ahead, we expect to see flat-to-better FY17-18E ROEs to 1.1-1.8% on margin improvement and recovering sales on the back of higher value launches. We think the disposal of its Lai Meng land would unlock further value in ROE, should it materialise. However, ROE may only approach closer to sector average values if development earnings momentum also rises significantly.

DIVIDEND POLICY

The company has no fixed dividend policy. However, it has a 5-year historical average dividend pay-out ratio of 27% (range: 0-44%). Its FY15 pay-out was the highest in the last 5 years at 11.0 sen (13% pay-out ratio) largely thanks to the completion of its Australian project. For FY17-18E, we conservatively expect the company to propose lower dividend per share pay-out, which implies dividend pay-out ratio of 30% or net dividend per share of 0.6-1.0 sen/share, implying a dividend yield of 0.4-0.7%.



COMPANY OUTLOOK

Local focus for the time being. With the completion of its landmark overseas project, MAGNA appears to be in consolidation mode, with more focus towards its existing local developments. The completion of the high-end projects enabled MAGNA to slash net gearing from a 5-year high in FY14 to a low of 0.3x in FY15. Looking ahead, we believe MAGNA will continue focusing on its local projects in the mid-high end developments before taking on its next significant 20-acre development in Shah Alam. That said, management does not rule out the possibility of replenishing its land bank in sub-urban areas in Klang Valley i.e. Shah Alam should they are able to dispose their land in Jalan Ampang. We gather that management does not expect to develop any new overseas projects in the medium term.

Possible JV with new major shareholder? Recently, Hua Yang Berhad (HUAYANG) acquired an additional 20.1% stake in MAGNA for RM1.85/share raising its stake to 30.9% from 10.8% previously. We are rather positive on HUAYANG's move in increasing its stake in MAGNA as we believe that there are synergies between the two companies as both management teams have similar approach in development; HUAYANG is able to tap into MAGNA's land bank while MAGNA is able to leverage on HUAYANG's development expertise in the affordable housing segment if a JV materialises. We do not rule out the potential possibilities of a merger between the two companies in the future. Nevertheless, with management yet to clarify on the potential collaboration, we believe the move could prove to be more of a long-term catalyst.

SECTOR OUTLOOK

3M17 Residential Loan Applied improved further at +18.6% while 3M17 Residential Loans Approved continued its strong momentum at +19.7% YoY; this is the 5th and 3rd consecutive month of positive trends, respectively, after two years of decline. Sentiment for Non-Residential has improved slightly with 3M17 Non-Residential Loan Applied at +5.1% although corresponding Loans Approved remained soft at -18.0% YoY. The ratio of Property Loans Approved to Applied had eased slightly to 39% (slightly lower than CY16: 40%) while Property Loans to Banking System Loans Approved Rates is at 33% (CY16: 35%) which is close to a historical low.



06 June 2017

We are heartened by these positive loan indicators for the residential market as it indicates that developers are coming up with more affordable housing supply while banks are more willing to lend to this segment. We reiterate that the odds of developers meeting their targets this year is much better while some may surprise on the upside. We observed a lot of new launches were only rolled out in 2QCY17 indicating that developers' sales figures could be skewed to 2H17.

Recall in our recent sector report (21/3/17), we have positioned this sector as a tactical play given that our studies show that the KLPRP tends to outperform the FBMKLCI every 1-2 years regardless of the physical market and as long as the FBMKLCI is expected to be positive that year, this means the KLPRP could do better than the broad market over 2017-18. In view that developers' sales risks are now minimal, we reiterate that investors may find this sector a worthwhile bet this year, particularly as the broad market has done well to date.

(Refer to Property SU report on 21/3/17 for further details).

RISKS AND CHALLENGES

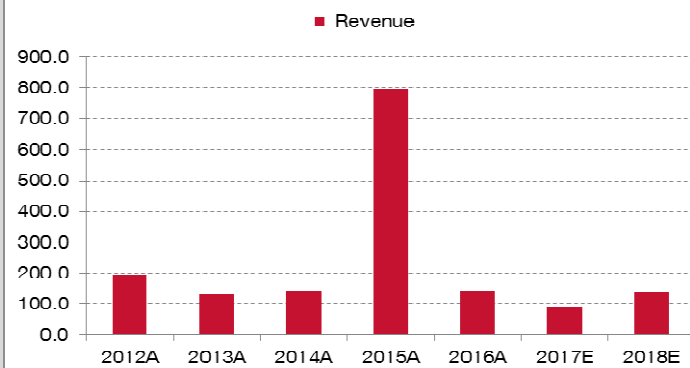
Industry risk. This includes negative real estate policy (limiting demand or supply), tightening of bank liquidity, sharp interest rate hikes. Political instability and economic growth risks also have implications on the company's ability to sustain its sales momentum and thus, earnings.

Dilution from conversion of warrants. Issuing 166.4m warrants (expiry in Sep-2020) which represent 33% of the enlarged share base which has an exercise price of RM0.90 which is in the money. With 164.6m warrants outstanding, assuming all warrants are converted, we expect FY17-18E EPS to be diluted by 33%.

Sustainability risk. The company may face sustainability issues with regards to land banking at low cost in strategic locations to uphold decent net margins, without risk of stressing the balance sheet. It will be increasingly challenging as replacement or land costs tend to move up more quickly than property prices. Additionally, if the new land banks are heavily financed by equity, it would mean ROE dilutions while gearing up to above 0.5x net gearing could put the company's balance sheet in a risky position should the sector face a sharp slow-down. In general, developers tend to benefit from high margins due to old purchases or long term holdings of land banks. The group could possibly consider joint ventures to avoid over stressing its balance sheet or rely on its expertise and negotiation skills to continue replenishing land at decent prices.

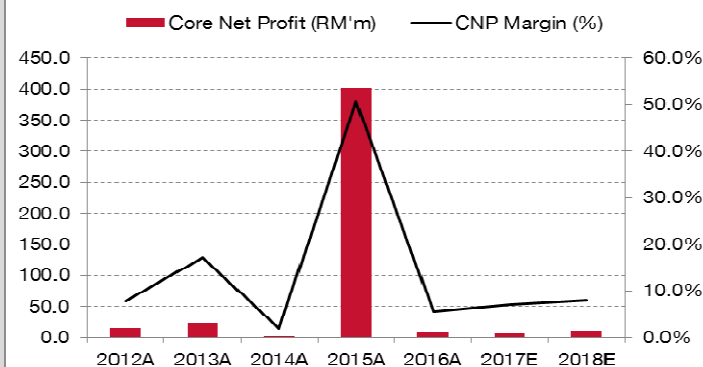
HISTORICAL FINANCIAL ASSESSMENT

Historical and Forecasted Revenue



Source: Company; Kenanga Research

Historical and Forecasted Core Net Profit & Margin



Source: Company; Kenanga Research

06 June 2017

Bumper year in FY15 thanks to Australian project. Back in 2015, MAGNA completed and handed over its Australian project, The Istana, which was recognized on the completion method. This resulted in a substantial revenue jump of 4.6x to RM796m in FY15, as opposed to its typical top-line, which came in RM136-143m between FY13-16. However, the substantial recognition resulted in a subsequent sharp 82% revenue drop in FY16, although we note that revenue in the year at RM143.0m was flat against the year before (RM143.0m in FY14). Likewise, its earnings jumped in tandem with the recognition of The Istana, with FY15 core net profit soaring 143.0x to RM401m, from a low base of RM2.8m in FY14. Subsequently, FY16 core earnings fell 98% to RM7.9m, though we note this was a substantial 1.8x improvement over FY14 performance (RM2.8m CNP).

PEER COMPARISONS

A low base effect. After a weak-performing year in FY16, we are expecting MAGNA's performance to gradually pick up over the longer term, backed by its unbilled sales of RM48.0m and also the prospect of clearing its unsold GDVs amounting to RM198.0m. That said, we are also looking forward to the launch of its next project, i.e. The View @ Shah Alam which would cater well for the mid-higher range residential segment as we gather it will be priced at the range of RM500-600psf. However, FY18 margins may only remain flattish as lower land cost on its Magna Suria project is offset by the more expensive Kepong 2D JV. In line with the revenue outlook, we expect FY17-18E earnings growth of -18% and +69%, which is more volatile than our sector average growth of 8%-17%, respectively. This is explained by MAGNA's niche developments with a lower number of concurrent projects.

Company	Market Cap (RM'm)	Core Net Margin (%)		ROE (%)		Net Profit Growth (%)		Net Gearing (x)	Net Gearing (x)
		FY16/17E	FY17/18E	FY16/17E	FY17/18E	FY16/17E	FY17/18E	FY16/17A	FY17/18E
CRESNDO*	384.4	11%	11%	3%	4%	57%	20%	0.22	0.24
ECWLD	4652.1	5%	7%	3%	5%	5%	68%	0.60	0.77
HUAYANG	373.1	17%	17%	12%	10%	-36%	-12%	0.34	0.49
IOIPROP*	11507.8	24%	24%	4%	4%	16%	0%	0.15	0.42
MAHSING	3734.6	12%	12%	11%	11%	3%	0%	0.04	0.05
MATRIX	1551.2	24%	24%	23%	22%	-12%	13%	0.06	0.08
SPSETIA*	11048.3	16%	18%	9%	9%	-25%	13%	0.20	0.27
SUNWAY*	7272.0	10%	9%	7%	7%	-18%	1%	0.50	0.35
UEMS*	5944.0	9%	9%	2%	2%	-47%	12%	0.26	0.45
UOADEV*	4453.5	35%	31%	12%	13%	-1%	8%	-0.15	-0.19
SUNSURIA	1078.4	19%	19%	14%	20%	142%	67%	0.23	0.34
Peer Average		16%	17%	9%	10%	8%	17%	0.22	0.30
MAGNA	508.6	14%	14%	2%	3%	31%	77%	0.25	0.12

Source: Kenanga Research, Bloomberg

*Core NP

Weaker development margins, but... Its core net margins for FY17-18E are lower than peers' average of 16-17% at 14%. However, we note that it is still higher as compared to developers like UEMS and ECWLD where net margin ranges from 5-9%. Going forward, we hope to see its net margins improving closer to its shareholder HUAYANG at 17% given the potential for JV agreements and other synergies.

Below-average ROE. We note that while FY16-17E net gearing levels are in line with the sector, its ROE at 2-3% is weaker than the sector average of 9-10% as earnings trended down post completion of its flagship Istana and Avare projects. Furthermore, we note that its investment properties such as its Lai Meng land holds significant value which should improve ROE thanks to a lower denominator once a sale materialises. Looking ahead, we think ROE should gradually improve as development begins on new large-scale projects such as Magna Suria (GDV of RM1.49b) and Gasing Lifestyle (GDV of RM658m). However, we do not expect ROE to reach sector average levels until its investment properties values are realised.

VALUATION & RECOMMENDATION

Initiating coverage with a MARKET PERFORM call and TP of RM1.60. Our FD RNAV per share of RM2.94 is driven by an 11% WACC rate, assuming a net margin of 15% for its overall planned GDV of RM2.5b, unbilled sales of RM48.0m, and after assuming the full conversion of its outstanding warrants. Our Target Price is based on 35% property RNAV discount rate, which is one of the narrowest discounts applied for Klang Valley-based developers because its land banks can be readily launched. Its FY17-18E FD PER of 50.6-28.6x are substantially higher compared to other developers which could be a function of the implied price paid by HUAYANG of RM1.85 which has affirmed the value of the company on a 'land acquisition basis'. We think this may have raised the pricing benchmark for the stock ahead of its current earnings and tighten the gap of its RNAV discount. Nonetheless, we believe it is tough to price the company at those acquisition levels as premiums are usually only paid for strategic/controlling stakes in a company.

06 June 2017

APPENDIX

Magna Prima was incorporated in Malaysia on 5 December 1995 as a private limited company before subsequently being converted to a public limited company, assuming its listing status on Bursa Malaysia and adopting its present name of Magna Prima Berhad on 16 January 1997.

Magna Prima Berhad is an investment holding company and through its subsidiaries, provides a diverse range of property development, building construction, trading and management services.

Focused in the Klang Valley, Magna Prima Berhad is a niche developer of integrated lifestyle themed projects that attract robust take-up rates. The Group focuses on purchasing and developing pocket-sized land banks which are located in high density areas, with easy accessibility and have a significant gross development value.

MAGNA's two core business segments as below:

1. Property

MAGNA has developments sprawled across Malaysia and Australia.

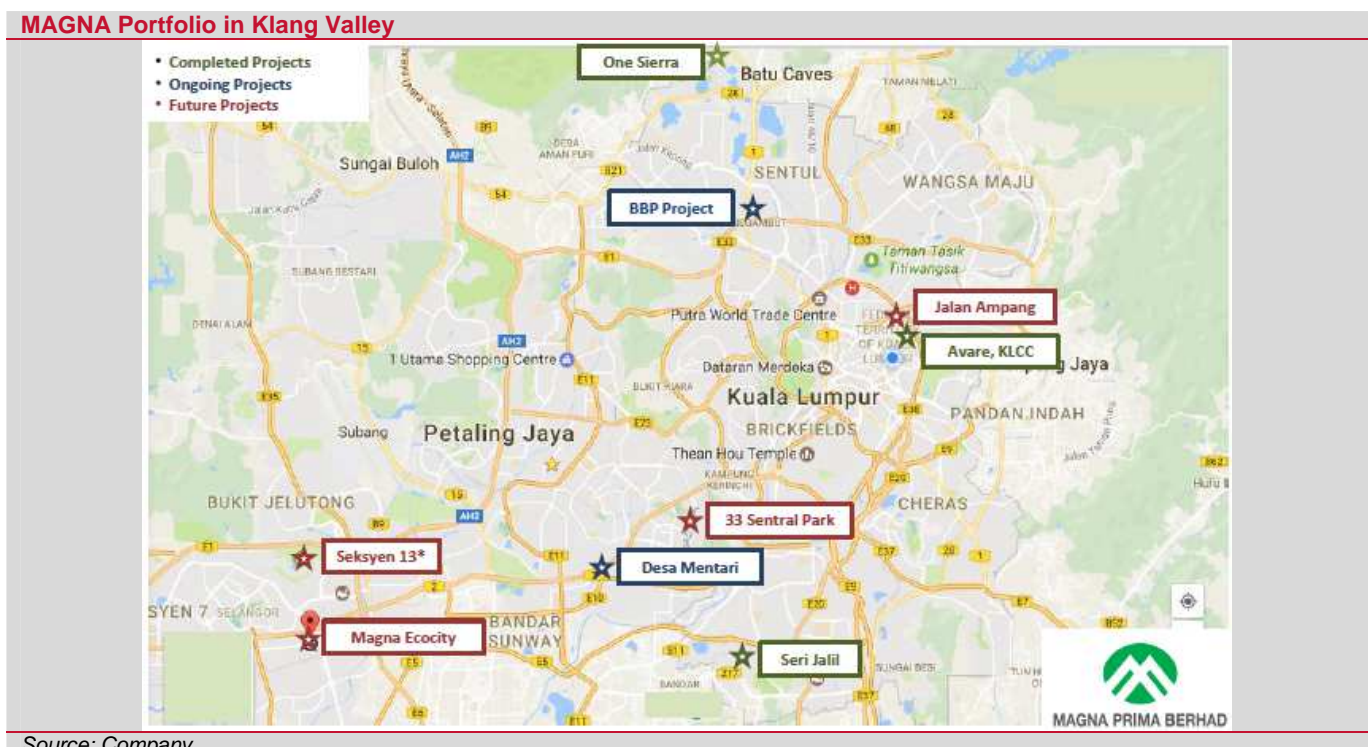
Magna Prima's two current signature projects are The Avare and The Istana, Melbourne.

The Avare, an immaculate 6-star super luxury condominium located near KLCC, was awarded the CNBC Asia Pacific Property Award in the light rise development category. This jewel in Magna Prima's portfolio is spread over 1.06 acres of magnificently landscaped terrain and consists of one 41-storey tower that houses just two units per floor.

The Istana Melbourne, a 25-storey single tower apartment located in the heart of Melbourne's Central Business District.

2. Construction

Founded in 1989, Magna Prima Construction Sdn Bhd (MPC) is a Malaysian based commercial and residential construction and civil engineering firm that has grown to become an industry leader. Led by an experience management team, MPC is a dynamic company that is known for its reputation, financial stability and excellent track record. MAGNA's team has more than 25 years of industry experience as general contractors and design builders, and the company's specialties include building construction, engineering, earthworks, drainage works, quarrying and crushing services among others. Major projects worked on ranged from state-of-the-art high rise condominiums to an airport, highways, dams, shopping malls, hospitals and even the largest man made wetlands to name a few. MAGNA is registered with the Ministry of Entrepreneur & Corporative Development and the Construction Industry Development Board. The company is also recognized as a "Class A" contractor by Pusat Khidmat Kontraktor. Magna Prima Construction was awarded MS ISO 9001:2008 status for complying with the required quality management system requirements.



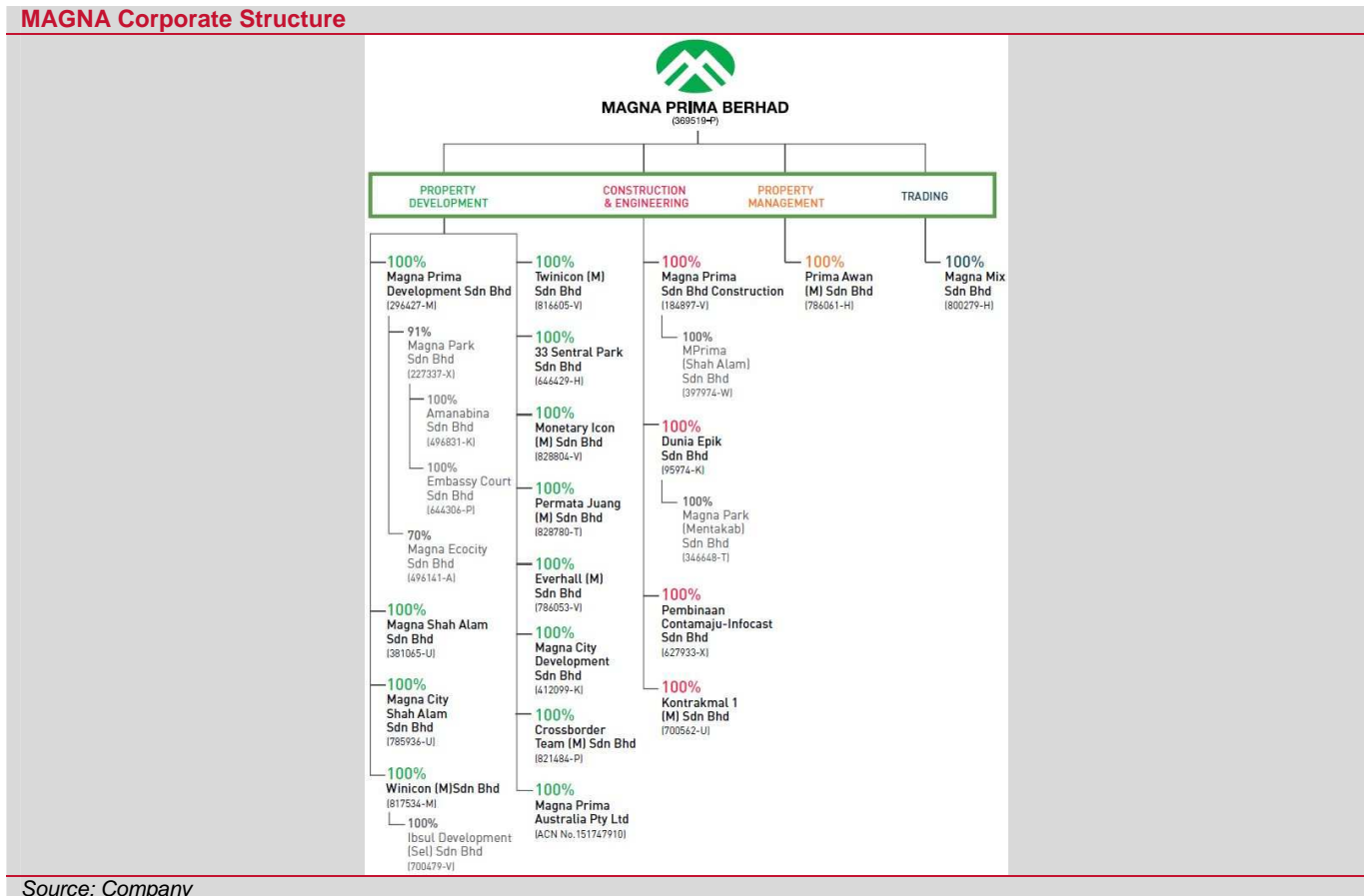
06 June 2017

Management Details

Board of Directors' Profile		
Name	Position	Background
Tan Sri Datuk Adzmi bin Abdul Wahab	Independent Non-Executive Director, Chairman	<ul style="list-style-type: none"> Aged 74 Appointed as Independent Non-Executive Director, Chairman on 2-May-2006. Member of Audit and Nomination Committee. Chair of Remuneration Committee. Chairman and Director of a number of companies, and also Advisor to Yasmin Holding Sdn Bhd and Malaysian Franchise Association. Holds a Bachelor of Arts (Honours) degree in Economics and a Post Graduate Diploma in Public Administration from the University of Malaya and Master of Business Administration from University of Southern California, USA. Served the Malaysian Administrative and Diplomatic from 1967 to 1982 including the Ministry of Finance and Prime Minister's Department.
Datuk Wira Rahadian Mahmud bin Mohammad Khalil	Group Managing Director	<ul style="list-style-type: none"> Aged 43 Appointed to the Board on 16-Jul-2007 as Independent Non-Executive Director. On 12 May 2011, he was made Executive Director and promoted to Group Managing Director on 14 April 2014. Member of the ESOS and Tender Committees. He is the Chairman of the Executive Committee (EXCO). Involved in the reforestation business as well as the construction and manufacturing sectors and is the Chairman of Permaju Industries Berhad. He also sits on the Boards of Sanbumi Holdings Berhad and KYM Holdings Berhad.
Ho Wen Yan	Executive Director	<ul style="list-style-type: none"> Aged 42 Appointed to the board on 13-Feb-2017 as an Executive Director. Member of the ESOS, Tender and Executive Committee (EXCO). Joined Hua Yang on 20 October 2003 as a Project Coordinator at its Johor Branch. He has been an Executive Director of the Group since 1-Jun-2007 and was appointed Chief Executive Officer on 20-Aug-2010.
Cheong Choi Yoon	Independent Non-Executive Director	<ul style="list-style-type: none"> Aged 36 Appointed to the Board on 3-Feb-2016 as an Independent Non-Executive Director. Chairman of the Audit, Nomination, ESOS and Tender Committees. She is a member of the Remuneration Committee. Possesses more than a decade of extensive experience in the financial industry and currently in Maybank Investment Bank Berhad.
Sazali bin Saad	Independent Non-Executive Director	<ul style="list-style-type: none"> Aged 44 Joined the Board on 2-May-2006 as Independent Non-Executive Director. Member of the Audit, Remuneration and Nomination Committees. Lecturer in the College of Business, Universiti Utara Malaysia (UUM) since 2003. Holds a Bachelor of Accountancy (Hons) degree from UUM and a Masters in Electronic Commerce from Deakin University, Melbourne. He has also been a member of the Malaysian Institute of Accountant (MIA) since September 2000.
Chang Chee Kok	Non-Independent and Non-Executive Director	<ul style="list-style-type: none"> Aged 51 Appointed on 3-Mar-2016 as a Non-Independent and Non-Executive Director. Civil Engineer by profession and graduated from University Malaya in 1990. He holds directorships in two private companies involved in building and civil construction works.

Source: Company

Operation Details

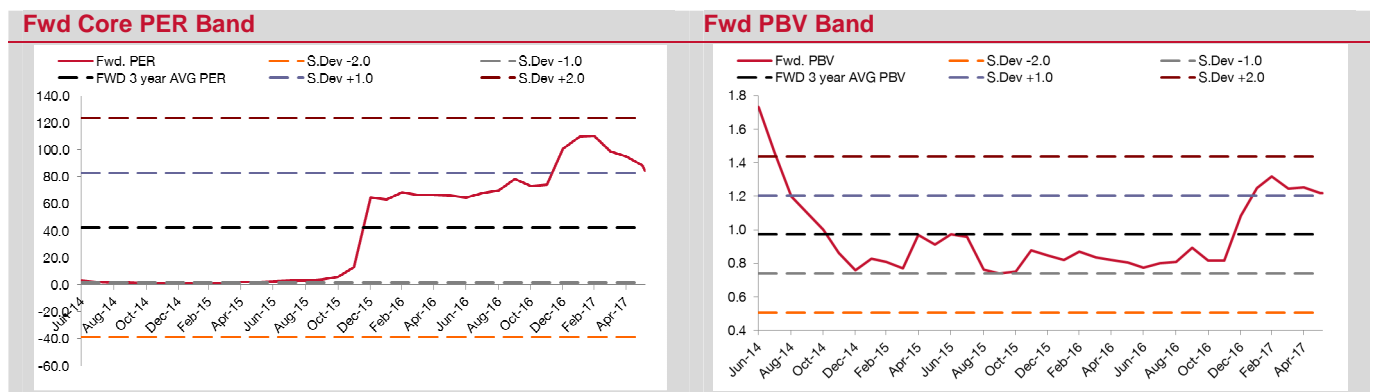


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06 June 2017

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E	FY Dec (RM m)	2014A	2015A	2016A	2017E	2018E
Revenue	142.6	795.5	142.7	91.8	139.4	Growth					
EBITDA	2.9	507.5	77.3	17.2	22.1	Turnover (%)	4.9%	458.0%	-82.1%	-35.7%	51.8%
Depreciation	-0.3	-0.3	-0.6	-0.6	-1.4	EBITDA (%)	-85.3%	N.M.	-84.8%	-77.7%	28.4%
Operating Profit	2.6	507.2	76.7	16.6	20.8	Op.Profit (%)	-86.4%	N.M.	-84.9%	-78.3%	24.9%
Interest Expense	-9.7	-13.6	-9.7	-7.9	-6.1	PBT (%)	-137%	N.M.	-86.4%	-87.0%	68.0%
PBT	-7.0	493.7	67.0	8.7	14.7	CNP (%)	-88.0%	N.M.	-98.0%	-17.3%	68.0%
Taxation	-8.0	-85.2	-22.3	-2.2	-3.7	Profitability (%)					
Minority Interest	1.4	0.0	0.2	0.0	0.0	EBITDA Margin	2.0%	63.8%	54.1%	18.8%	15.9%
Net Profit	-13.7	408.5	44.8	6.5	11.0	Op. Margin	1.9%	63.8%	53.7%	18.1%	14.9%
Core Net Profit	2.8	401.3	7.9	6.5	11.0	PBT Margin	-4.9%	62.1%	46.9%	9.5%	10.5%
						Core Net Margin	2.0%	50.4%	5.5%	7.1%	7.9%
						Eff. Tax Rate	-114%	17.3%	33.4%	25.0%	25.0%
						ROA	-1.2%	39.8%	4.4%	0.7%	1.2%
						ROE	-9.5%	74.4%	7.4%	1.1%	1.8%
						DuPont Analysis					
						Net Margin (%)	-9.6%	51.3%	31.4%	7.1%	7.9%
						Assets T'over (x)	0.12	0.77	0.14	0.10	0.15
						Lev. Factor (x)	8.09	1.87	1.71	1.52	1.51
						ROE (%)	-9.5%	74.4%	7.4%	1.1%	1.8%
						Leverage					
						Debt/Asset (x)	0.43	0.26	0.23	0.19	0.15
						Debt/Equity (x)	3.51	0.49	0.39	0.29	0.22
						Net (Cash)/Debt	456	164	200	150	108
						Net Dbt/Eqty (x)	3.18	0.30	0.33	0.25	0.18
						Valuations					
						EPS (sen)	(2.75)	82.36	9.04	1.98	3.32
						Core EPS (sen)	0.56	80.92	1.60	1.32	2.22
						NDPS (sen)	0.0	11.0	0.0	0.6	1.0
						NTA (RM)	0.29	1.11	1.22	1.22	1.24
						PER (x)	-37.3	1.2	11.3	77.4	46.1
						Core PER (x)	272.8	1.9	95.9	115.9	69.0
						Net Div. Yld (%)	0.0%	7.2%	0.0%	0.4%	0.7%
						P/NTA (x)	5.29	1.38	1.26	1.25	1.23
						EV/EBITDA (x)	17.5	0.7	4.0	20.7	18.0

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

06 June 2017

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

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

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