

01 March 2019

Magna Prima Berhad FY18 Below Expectation

FY18 recorded CNL of RM36.0m, missing our expectation of RM14.3m CNP, mainly due to unexpected reversal of sales of service apartments at Jalan Kuching and higher-than-expected tax expenses. As a result, no dividend was declared. Moving forward, we believe management will continue to focus on clearing its existing inventory. Post-results, we cut FY19E earnings by 89%. Downgrade to UNDERPERFORM with lower TP of RM0.785.

FY18 core net losses (CNL) missed expectation. Post stripping out one-off fair value loss on investment properties, FY18 recorded CNL of RM36.0m, which missed our estimate of RM14.3m CNP. The deviation from our estimate was mainly due to unexpected reversal of sales of service apartments at Jalan Kuching and higher-than-expected tax expense incurred in 4Q18. As a result, no dividend was declared.

Results Highlight. YoY-Ytd, FY18 recorded CNL of RM36.0m vs FY17 CNP of RM10.7m mainly due to: (i) decrease in revenue (-61.4%) from reduction in sales of its completed residential properties projects, (ii) weaker EBIT margin (-16.0 ppt) likely from recognition of lower margin property products, and (iii) higher tax expense (+296%) due to unrelieved tax loss. **QoQ,** 4Q18 saw CNL of RM48.2m vs CNP of RM5.3m in 3Q18, attributable to: (i) reversal of unsuccessful sale of 24 units of service apartments in Jalan Kuching residential project that saw negative revenue of RM10.1m, and (ii) higher tax expense incurred on the same reason above, vs positive tax recorded in 3Q18.

Outlook. We believe MAGNA will continue to clear its existing inventory of RM263.3m at cost in Boulevard Business Park, Jalan Kuching, Desa Mentari, Jalan Kelang Lama projects and The View Residences at Shah Alam. That said, we also believe that earnings could be boosted should MAGNA successfully monetize its 2.6 acres of land along Jalan Ampang, valued at c.RM400m, which we have not imputed into our estimates.

Cut FY19E earnings by 89%. Post results, we cut our FY19E CNP by 89% as we lowered our sales assumption by 59% to RM51m after taking into account the challenging property market and its inability to meet our earnings estimate in FY18. We also introduce FY20E CNP of RM2.5m and sales of RM50m.

Downgrade to UNDERPERFORM with a lower TP of RM0.785 (from MARKET PERFORM; TP: RM0.955). We lower our FD SoP to RM1.94 (from RM2.28) after lowering our net margin assumption to 9% in view of the challenging property market. We also widen our property RNAV discount to 70% (from 67%), which implies a 60% discount (at historical trough level) to our FD SoP of RM1.94 due to volatility in earnings.

Risks to our call include: higher-than-expected margins/property sales, lower-than-expected administrative costs, changes in real estate policies, and changes in lending environment.

UNDERPERFORM ↓

Price: RM0.880
Target Price: RM0.785 ↓

Expected Capital Gain: -RM0.095 -10.8%
Expected Divd. Yield: RM0.000 -0.0%
Expected Total Return: -RM0.095 -10.8%

KLCI Index 1,707.73

Stock Information

Bloomberg Ticker	MAGNA MK Equity
Bursa Code	7617
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	332.6
Market Cap (RM m)	292.7
Par value per share (RM)	0.25
52-week range (H)	1.25
52-week range (L)	0.84
Free Float	49%
Beta	0.5
3-mth avg daily vol:	27,990

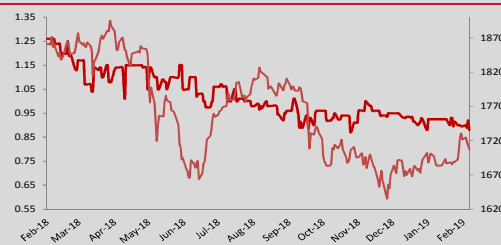
Major Shareholders

Prisma Pelang Snd Bhd	30.9%
Fantastic Realty Sdn Bhd	13.5%
Bin Mohammad Khalil Rahadian Mahmud	6.4%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	38.1	53.4	59.3
EBIT	5.2	13.9	15.0
PBT	-26.1	2.4	3.9
Net Profit (NP)	-53.7	1.6	2.5
Core NP	-36.0	1.6	2.5
Consensus (CNP)	n.a.	n.a.	n.a.
Earnings Revision	n.a.	-89%	n.a.
Core EPS (sen)	-7.3	0.3	0.5
EPS growth (%)	-437.1%	-104.4%	60.7%
DPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	1.1	1.1	1.1
PBV (x)	0.8	0.8	0.8
Core PER (x)	n.m.	278.3	173.2
Dbt-to-Eqty ratio (x)	0.4	0.2	0.3
Return on Asset (%)	-5.8%	0.2%	0.3%
Return on Eqty.(%)	-9.6%	0.3%	0.5%
Dividend Yield (%)	0.0%	0.0%	0.0%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-4.9%	-8.3%	-30.2%
Relative (%)	-5.5%	-9.6%	-21.9%

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01 March 2019

Results Highlight								
	4Q18	3Q18	QoQ	4Q17	YoY	FY18	FY17	YoY
FYE Dec (RM'm)								
Turnover	-10.1	9.7	n.m.	8.4	n.m.	38.1	98.9	-61.4%
EBITDA	-12.5	4.5	n.m.	17.4	n.m.	5.4	30.4	-82%
Depreciation	0.0	0.0	n.m.	-0.1	n.m.	-0.2	-0.3	-38%
EBIT	-12.6	4.5	n.m.	17.3	n.m.	5.2	30.1	-83%
Interest inc/(exp)	-3.4	-3.9	-12%	-3.5	-2%	-13.6	-13.7	-1%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	-17.7	0.0	n.m.	0.0	n.m.	-17.7	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	-33.6	0.6	n.m.	13.8	n.m.	-26.1	16.4	n.m.
Taxation	-32.6	4.4	n.m.	-3.5	828%	-29.0	-7.3	296%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	-66.3	5.1	n.m.	10.3	n.m.	-55.1	9.1	n.m.
Minority interest	0.4	0.3	55%	0.4	9%	1.4	1.6	-11%
PATAMI	-65.9	5.3	n.m.	10.7	n.m.	-53.7	10.7	n.m.
Core PATAMI	-48.2	5.3	n.m.	10.7	n.m.	-36.0	10.7	n.m.
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	125%	46%		206%		14%	30%	
Pretax margin	335%	6%		165%		-68%	17%	
NP margin	335%	6%		165%		-68%	17%	
CNP margin	479%	55%		128%		-94%	11%	
EPS (sen)	-19.8	1.6		3.2		-16.2	3.2	
Core EPS(sen)	-14.5	1.6		3.2		-10.8	3.2	
BV/share (RM)	1.6	1.8		1.8		1.6	1.8	
Net gearing (x)	0.4	0.3		0.4		0.4	0.4	
Effective tax	-97%	-736%		25%		-111%	45%	

Source: Company, Kenanga Research

Segmental Results								
	4Q18	3Q18	QoQ	4Q17	YoY	FY18	FY17	YoY
External Revenue								
Property Development	-10.3	9.5	n.m.	10.2	n.m.	37.1	99.9	-62.9%
Construction & Engineering	0.0	0.0	n.m.	-2.1	n.m.	0.0	-2.1	-100%
Trading	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Others	0.2	0.2	1%	0.2	2%	1.0	1.0	2%
PBT Segmentation								
Property Development	-30.5	17.3	n.m.	3.6	n.m.	-3.3	6.9	n.m.
Construction & Engineering	-1.7	-9.7	-82%	1.7	n.m.	-11.7	8.1	n.m.
Trading	0.0	0.0	500%	-0.2	n.m.	1.0	-0.2	n.m.
Others	-1.4	-7.0	-80%	8.7	n.m.	-12.1	1.6	n.m.
PBT margins								
Property Development	296%	183%		36%		-9%	7%	
Construction & Engineering	n.m.	n.m.		-83%		n.m.	-395%	
Trading	n.m.	n.m.		n.m.		n.m.	n.m.	
Others	-562%	-2842%		3602%		-1176%	154%	

Source: Company, Kenanga Research

01 March 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																	
AMVERTON BHD	1.00	365.1	Y	12/2019	18.3%	-1.4%	-27.5%	2.2%	15.3	21.1	20.7	0.5	0.5	2.4%	0.0%	1.00	MP
ECO WORLD DEVELOPMENT GROUP	0.950	2,797.2	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	16.9	13.7	11.0	0.7	0.7	4.5%	1.1%	1.15	OP
HUA YANG BHD	0.405	142.6	Y	03/2019	9.0%	0.3%	149.1%	22.3%	32.3	13.0	10.6	0.2	0.2	1.8%	0.0%	0.410	OP
IOI PROPERTIES GROUP BHD	1.61	8,864.9	Y	06/2019	-15.0%	-6.0%	0.8%	-3.4%	13.4	13.3	13.8	0.5	0.5	3.6%	3.1%	1.65	MP
LBS BINA GROUP BHD	0.680	1,060.1	Y	12/2019	31.3%	0.9%	7.9%	3.4%	12.5	11.5	11.2	0.7	0.7	6.6%	2.6%	0.720	MP
MAGNA PRIMA BHD	0.880	292.7	Y	12/2019	40.0%	11.1%	2295.6%	60.7%	N.A.	278.3	173.2	0.8	0.8	0.3%	0.0%	0.785	UP
MAH SING GROUP BHD	1.00	2,427.7	Y	12/2019	4.5%	7.0%	-2.5%	1.0%	14.8	15.2	15.0	0.7	0.7	5.2%	4.0%	1.05	MP
MALAYSIAN RESOURCES CORP BHD	0.780	3,431.9	Y	12/2019	5.0%	5.0%	26.9%	19.5%	45.4	35.8	29.9	0.7	0.7	2.0%	2.2%	0.750	MP
SIME DARBY PROPERTY BHD	1.05	7,140.9	Y	12/2018	14.6%	15.1%	9.5%	45.5%	19.5	18.1	15.2	0.7	0.8	4.1%	2.2%	1.10	MP
SP SETIA BHD	2.29	9,065.1	Y	12/2019	7.8%	15.3%	71.3%	53.9%	42.1	24.6	16.0	0.6	0.6	2.5%	3.1%	2.45	MP
SUNSURIA BHD	0.630	503.3	Y	09/2019	-36.0%	25.2%	0.7%	2.6%	3.8	6.0	4.8	0.6	0.6	15.1%	0.0%	0.835	OP
SUNWAY BHD	1.62	7,856.5	Y	12/2019	1.2%	8.6%	1.4%	15.1%	13.5	13.3	11.6	1.0	0.9	7.5%	4.0%	1.50	MP
UEM SUNRISE BHD	0.820	3,720.7	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	11.4	10.5	11.9	0.6	0.5	4.9%	1.2%	0.835	MP
UOA DEVELOPMENT BHD	2.28	4,203.7	Y	12/2019	0.6%	-0.4%	4.6%	0.9%	12.6	12.1	12.0	0.9	0.9	7.4%	6.1%	2.15	MP
Simple Average					8.1%	3.4%	183.6%	16.8%	19.5	34.7	25.5	0.7	0.7	4.9%	2.1%		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
CONSENSUS NUMBERS																	
GLOMAC BHD	0.385	300.8	Y	04/2019	-38.8%	43.7%	-77.6%	210.7%	9.6	43.0	13.8	0.3	N.A.	0.7%	1.3%	0.370	SELL
MATRIX CONCEPTS HOLDINGS BHD	1.97	1,483.0	Y	03/2019	25.1%	12.1%	-2.3%	10.9%	7.0	7.1	6.4	1.2	1.1	16.2%	6.2%	2.32	BUY
PARAMOUNT CORP BHD	2.15	920.8	Y	12/2019	-5.1%	9.5%	-3.1%	10.9%	9.7	10.0	9.0	0.9	N.A.	8.3%	4.7%	2.56	BUY
TAMBUN INDAH LAND BHD	0.765	331.5	Y	12/2019	-14.3%	10.6%	-24.0%	9.5%	6.0	7.9	7.2	0.5	N.A.	7.7%	5.5%	0.917	BUY
TITIJAYA LAND BHD	0.315	411.7	Y	06/2019	-12.2%	9.9%	-23.5%	16.4%	5.7	7.4	6.4	0.4	0.3	4.2%	1.6%	0.385	BUY
YONG TAI BHD	0.330	160.3	Y	06/2019	65.7%	87.4%	-143.0%	42.2%	10.3	N.A.	10.1	0.4	0.4	-1.1%	0.0%	0.398	NEUTRAL

Source: Kenanga Research

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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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