

03 September 2019

# Mah Sing Group Berhad

## Below Expectations

By Adrian Ng | [adrian.ng@kenanga.com.my](mailto:adrian.ng@kenanga.com.my)

1H19 CNP of RM59.9m came in below expectations, at 33%/29% of our/consensus full-year estimates. 1H19 sales of RM761.4m are on track to meeting management's target and ours. No dividends declared, as expected. Management is sticking to its FY19 sales target of at least RM1.50b, driven mainly by its Klang Valley affordable housing products. Lowered FY19E earnings by 12%. Reiterate **OUTPERFORM** with a lower TP of RM1.00 (previously, RM1.05).

**Below expectations.** 1H19 CNP\* of RM59.9m came in below expectations as it only makes up 33%/29% of our/consensus full-year estimates. We believe this is due to our optimistic progressive billings assumptions while street's estimates could be on the high-side due to definitions of CNP where some forecasts included perpetual sukuk distributions while others did not. 1H19 sales of RM761.4m are on track to meeting management's target of at least RM1.50b and our RM1.52b forecast. No dividends, as expected.

**Results' highlights.** YoY, 1H19 CNP fell 40% primarily due to a 21% drop in revenue given the declining annual sales trend over the last few years, coupled with the decline in EBIT margin to 15% (1ppt) which we believe was due to timing differences in its progressive billings recognition as some projects might command a lower margin. **QoQ**, 2Q19 CNP fell 37% due to higher interest expense (+78%), and higher minority interest contribution (+50%) underpinned by its perpetual sukuk distributions. We note that inventories have dropped by 10% QoQ to RM595.6m (at cost), thanks to their strong marketing initiatives, including the Home Ownership Campaign.

**FY19E sales target of RM1.50b remains intact**, driven by RM2.0b GDV worth of launches (of which RM723m was launched over 1H19) from its on-going projects. Products offered are mainly urban affordable units to residential upgrades of which 81% are priced below RM700,000. With its light balance sheet, we note that MAHSING is still on the lookout for affordable housing land bank in Klang Valley, likely those in more established areas.

**Earnings review.** We lowered our FY19E earnings by 12% after rescheduling some of our billings recognition and fine-tuning our margin assumptions. Unbilled sales of RM1.65b provide less than 1-year's visibility.

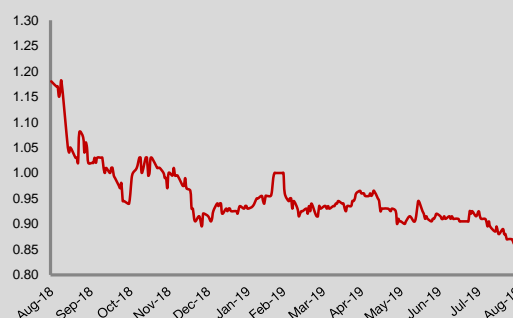
**Reiterate OUTPERFORM with a lower TP of RM1.00** (previously, RM1.05) based on a SoP discount of 63% (-1.25SD) on its FD SoP of RM2.80 (from RM2.84) as we fine-tuned our margin assumptions for some of its projects. This is in-line with our universe's valuation range (-1.0SD to trough levels) while MAHSING's positioning as an affordable housing player warrants the better-end of our applied discount spectrum. Nonetheless, Fwd. PBV of 0.6x is at historical trough levels. We also expect the group to continue land bank replenishment in the affordable housing space (note that our FD SoP already included remaining GDV replenishments of RM0.6b).

**Risks include:** (i) weaker-than-expected property sales, (ii) margin compressions, (iii) changes in real estate policies, and (iv) changes in lending environment.

# OUTPERFORM ↔

Price : RM0.865  
Target Price : RM1.000 ↓

### Share Price Performance



KLCI	1,612.14
YTD KLCI chg	-4.6%
YTD stock price chg	-5.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MSGB MK EQUITY
Market Cap (RM m)	2,099.9
Shares Outstanding	2,427.7
52-week range (H)	1.19
52-week range (L)	0.86
3-mth avg daily vol:	1,184,403
Free Float	80%
Beta	0.8

### Major Shareholders

Employee Provident Fund Board	8.7%
Urusharta Jamaah Sdn Bhd	5.8%
Kumpulan Wang Persaraan Diperbadankan	5.0%

### Summary Earnings Table

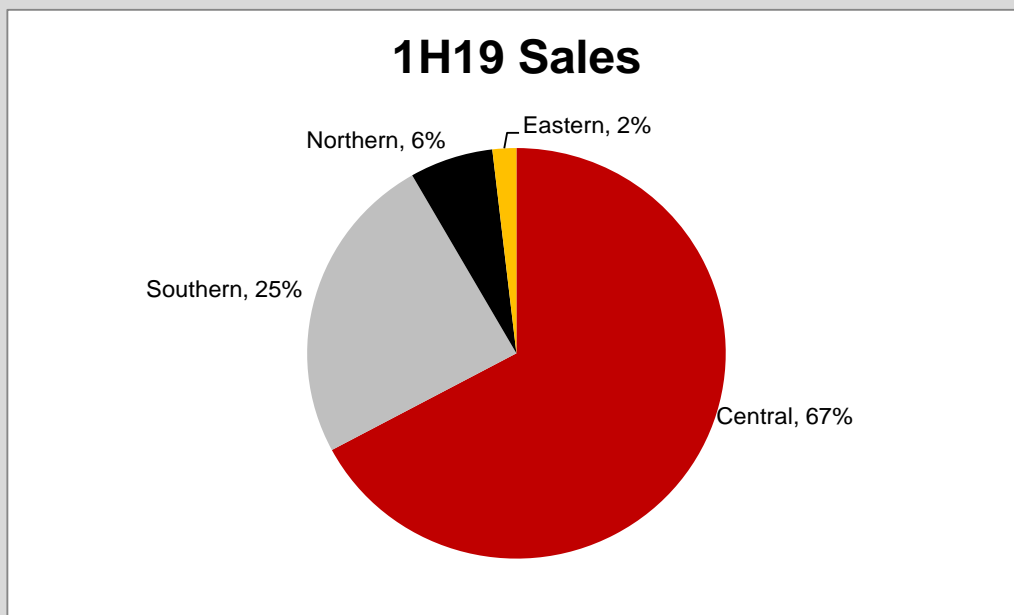
FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2,193	2,190	2,415
EBIT	368	356	387
PBT	348	333	361
<b>Net Profit (NP)</b>	<b>190</b>	<b>159</b>	<b>181</b>
<b>Core NP (CNP)</b>	<b>190</b>	<b>159</b>	<b>181</b>
Consensus (CNP)	N.A.	195.9	209.8
Earnings Revision	N.A.	-12%	0%
FD EPS (sen)	6.8	5.7	6.4
FD EPS growth (%)	-36	-16	13
NDPS (sen)	4.5	4.0	4.0
BV/Share (RM)	1.44	1.46	1.50
FD PER (x)	12.8	15.3	13.5
Price/BV (x)	0.6	0.6	0.6
Net Gearing (x)	-0.2	-0.1	0.0
Dividend Yield (%)	5.2	4.6	4.6

\* CNP : Defined as core net profit to attributable to ordinary shareholders i.e. net of hybrid capital financing costs (e.g. Perpetual bonds). But note that our CNP excludes one-offs and non-cash adjustments.

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OTHER POINTS

1Q19 Sales Composition



Source: Company, Kenanga Research

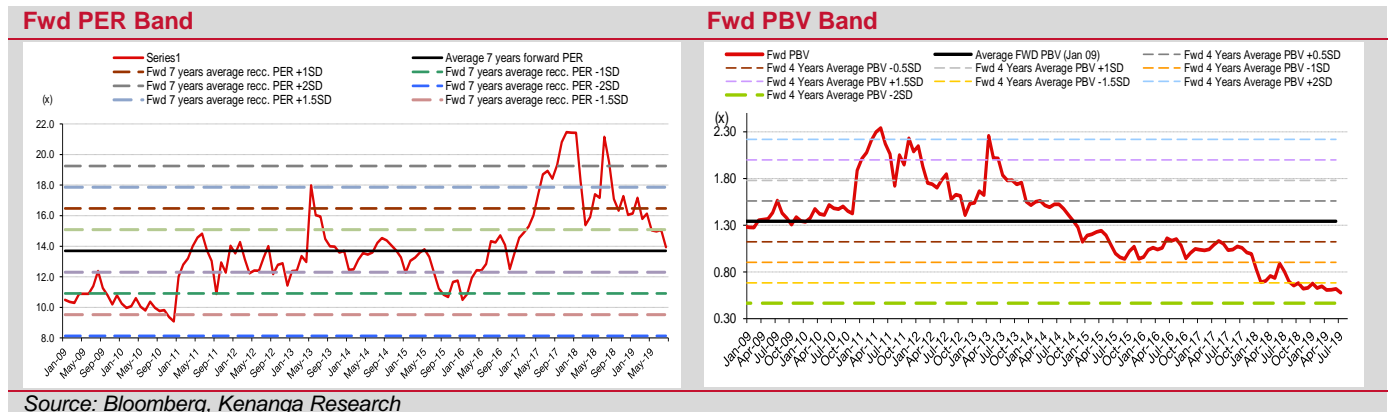
Result Highlight

	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
<b>FYE Dec (RM'm)</b>								
<b>Turnover</b>	481.2	450.3	7%	589.3	-18%	931.6	1,174.0	-21%
<b>EBIT</b>	69.5	74.8	-7%	99.6	-30%	144.3	188.1	-23%
Interest inc/(exp)	-1.5	-0.8	78%	-3.5	-57%	-2.4	-5.9	-60%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Pretax profit</b>	68.0	73.9	-8%	96.1	-29%	142.0	182.2	-22%
Taxation	-17.8	-19.3	-8%	-19.2	-7%	-37.0	-40.7	-9%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Profit after tax</b>	50.3	54.7	-8%	76.9	-35%	104.9	141.6	-26%
Minority interest	-27.0	-18.0	50%	-22.6	20%	-45.0	-40.9	10%
<b>PATAMI</b>	23.2	36.7	-37%	54.3	-57%	59.9	100.7	-40%
<b>Core PATAMI</b>	23.2	36.7	-37%	54.3	-57%	59.9	100.7	-40%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	14%	17%		17%		15%	16%	
Pretax margin	14%	16%		16%		15%	16%	
NP margin	14%	16%		16%		15%	16%	
CNP margin	5%	8%		9%		6%	9%	
EPS (sen)	1.0	1.5		2.2		2.5	4.1	
Core EPS(sen)	1.0	1.5		2.2		2.5	4.1	
BV/share (RM)	1.4	1.5		1.4		1.4	1.4	
Net gearing (x)	-0.2	-0.2		-0.1		-0.2	-0.1	
Effective tax	26%	26%		20%		26%	22%	

Source: Company, Kenanga Research

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<b>FD SOP</b>						
<b>Projects</b>	<b>Stake</b>	<b>Duration (assumed) Years</b>	<b>Remaining GDV (RM'm)</b>	<b>Remaining Net Profit *** (RM'm)</b>	<b>WACC (%)</b>	<b>DCF Value (RM m)***</b>
Total Unbilled Sales	various	various	4,754	680	10%	577
<b><u>Northern Region</u></b>						
Legenda @ Southbay, Penang	70%	2	104	12	10%	11
Southbay City (Commercial), Penang	100%	6	1722	287	10%	209
Icon Residence, Georgetown	100%	2	280	40	10%	35
BatuFerringhi / Ferringhi Residence	100%	5	614	88	10%	67
BktMertajam Industrial Park	100%	4	150	18	10%	14
<b><u>Southern Region</u></b>						
Sri Pulai Perdana, Skudai	100%	2	56	8	10%	7
Sri Pulai Perdana 2, Skudai	100%	12	28	4	10%	2
Austin Perdana, Tebrau	100%	2	139	20	10%	17
Sierra Perdana, Tebrau-Plentong	100%	5	560	80	10%	61
Meridin@Medini	100%	6	407	49	10%	40
Mah Sing iParc @ TjKupang Johor	100%	3	283	34	10%	28
Bandar Meridin East	100%	7	5000	668	10%	464
<b><u>Central Region</u></b>						
Aman Perdana, Meru Shah Alam	100%	2	94	13	10%	12
Hijaun Residence, Cheras	100%	3	226	32	10%	27
Southgate Commercial Centre, KL	100%	1	2	0	10%	0
Icon Residence, Mont Kiara	100%	2	94	13	10%	12
Low cost housing, BayuSekamat, Hulu Langat	100%	2	7	0	10%	0
Garden Residence, Cyberjaya	100%	2	139	20	10%	17
Clover, Garden Residence 2, Cyberjaya	100%	2	24	3	10%	3
Garden Plaza, Cyberjaya	100%	2	32	5	10%	4
Perdana Residence 2, Selayang	100%	1	13	2	10%	2
Icon City (PJ Commercial Hub @ LDP)	100%	6	1937	286	10%	208
M Suites @ Jln Ampang	100%	1	6	1	10%	1
Kinrara Residence + Kinrara JV	100%	1	33	4	10%	4
Star Avenue, Pekan Subang	100%	2	88	13	10%	11
M-City	100%	2	171	22	10%	19
Star residence, Subang	100%	3	155	20	10%	17
D'saraSentral	100%	4	406	52	10%	41
SouthVille City @ Bangi	100%	8	9694	1,387	10%	1,052
M Residence @ Rawang	100%	5	475	68	10%	52
M Residence 2 @Rawang	100%	5	322	46	10%	37
Lakeville Residence, Tmn Wahyu	100%	4	673	96	10%	73
M Residence 3@Rawang	100%	5	520	74	10%	56
Sentul KL land	78%	4	1300	160	10%	115
Cheras, KL land	100%	5	2200	262	10%	189
Mukim Petaling KL land	100%	5	500	60	10%	43
Taman Metropolitan, Kepong	100%	5	705	84	10%	61
Wangsa Melawati	100%	5	378	45	10%	32
<b><u>East Malaysia</u></b>						
Sutera Avenue @ KK Sabah (portion 1: 4.26ac)	100%	5	178	21	10%	16
GDV Replenishment	100%	6	622	104	10%	91
Property BV @ 31/12/15						2,896
<b>Property RNAV</b>						<b>6,620</b>
Plastics - based on FY16E PER of 10x						89
Other Assets at 0.8x PBV						470
FD impact (RM'm)						695
<b>FD SOP per share (RM)</b>						<b>RM 2.80</b>
FD No of shares ('m)						2,810
Discount to Property RNAV						-76%
SOP Discount						-64%
<b>TP per share (RM)</b>						<b>RM 1.00</b>
* Our TP is rounded to nearest 0 or 5 sen						
Source: Kenanga Research						



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### Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				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.	1-Yr. Fwd.		
<b>PROPERTY DEVELOPERS UNDER COVERAGE</b>																		
AMVERTON BHD	1.07	390.6	Y	12/2019	-22.4%	-3.1%	-75.5%	-3.8%	16.3	66.5	69.1	0.5	0.5	0.8%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.670	1,972.7	Y	10/2019	-4.4%	-18.3%	9.5%	18.8%	11.9	10.9	9.2	0.4	0.4	4.8%	1.4%	1.15	OP	
HUA YANG BHD	0.345	121.4	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	14.8	16.8	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.19	6,552.3	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	9.9	10.2	9.5	0.4	0.3	3.5%	4.2%	1.65	OP	
LBS BINA GROUP BHD	0.525	818.0	Y	12/2019	31.3%	0.9%	-22.4%	9.5%	9.5	12.3	11.2	0.6	0.5	4.8%	2.4%	0.495	MP	
MAGNA PRIMA BHD	1.19	395.8	Y	12/2019	-5.6%	28.8%	-572.6%	-139.5%	N.A.	N.A.	N.A.	0.8	0.8	-2.0%	0.0%	0.710	UP	
MAH SING GROUP BHD	0.865	2,099.9	Y	12/2019	-0.1%	10.3%	-16.4%	14.1%	12.8	15.3	13.5	0.6	0.6	4.5%	4.6%	1.00	OP	
MALAYSIAN RESOURCES CORP BHD	0.730	3,220.8	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	42.5	907.1	31.4	0.7	0.7	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.880	5,984.7	Y	12/2019	127.9%	3.9%	7861.6%	-2.3%	856.2	10.8	11.0	0.6	0.6	5.9%	3.7%	1.10	OP	
SP SETIA BHD	1.56	6,306.3	Y	12/2019	5.5%	24.3%	27.2%	46.0%	28.7	22.6	15.4	0.4	0.4	1.9%	4.5%	1.85	MP	
SUNSURIA BHD	0.730	654.0	Y	09/2019	-2.7%	7.3%	-4.0%	4.8%	4.9	5.1	4.9	0.7	0.7	14.5%	0.0%	0.760	MP	
SUNWAY BHD	1.65	8,044.1	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	13.8	15.0	13.6	1.0	0.9	6.3%	3.6%	1.60	MP	
UEM SUNRISE BHD	0.670	3,040.1	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	9.3	8.8	10.7	0.5	0.4	4.8%	2.3%	0.835	OP	
UOA DEVELOPMENT BHD	1.99	3,912.4	Y	12/2019	0.6%	-0.4%	4.4%	0.8%	11.0	10.6	10.5	0.8	0.8	7.4%	7.0%	2.15	MP	
<b>Simple Average</b>					<b>8.0%</b>	<b>8.8%</b>	<b>518.9%</b>	<b>194.9%</b>	<b>85.6</b>	<b>85.4</b>	<b>17.4</b>	<b>0.6</b>	<b>0.6</b>	<b>4.3%</b>	<b>2.4%</b>			
*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																		
<b>CONSENSUS NUMBERS</b>																		
GLOMAC BHD	0.375	292.0	Y	04/2020	12.9%	38.7%	25.7%	90.1%	21.5	17.1	9.0	0.3	N.A.	1.6%	2.4%	0.405	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.90	1,494.9	Y	03/2020	4.6%	3.2%	7.6%	7.5%	6.8	6.4	5.9	1.1	1.0	16.3%	6.8%	2.28	BUY	
PARAMOUNT CORP BHD	1.35	819.0	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	8.9	8.7	8.3	0.8	N.A.	7.2%	4.7%	1.83	BUY	
TAMBUN INDAH LAND BHD	0.760	329.4	Y	12/2019	-11.1%	1.5%	-21.2%	1.9%	5.9	7.5	7.4	0.5	0.5	6.7%	5.9%	0.863	BUY	
TITIJAYA LAND BHD	0.295	373.8	Y	06/2020	19.5%	13.8%	58.2%	1.7%	10.7	6.8	6.7	0.3	0.3	3.7%	43.4%	0.310	BUY	
YONG TAI BHD	0.215	116.7	Y	06/2020	132.7%	8.3%	-3768.9%	-134.2%	N.A.	N.A.	N.A.	0.4	0.3	-1.9%	0.0%	0.230	N.A	

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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Published and printed by:

**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

