

2Q FYE JUN 2013 RESULTS REPORT

5 March 2013

Name of PLC: <i>Malton Berhad</i>		Target Price:	RM0.70
Business Summary : <i>Property development, construction and project management, property investment</i>			
Major Shareholders :			
<i>Datuk Lim Siew Choon</i>		37.91%	
<i>Lee Kim Hooi</i>		3.47%	
PLC Website : www.malton.com.my		Recommendation:	BUY
IR Contact : <i>Mr Ng Chee Kiet, Director of Corporate Finance</i>		Market Capitalisation:	RM200.7m
Constituent of:-		Current Price :	RM0.48
- <i>FBM Small Cap Index</i>		Market / Sector:	<i>Properties</i>
- <i>FBM Emas</i>		Stock Code:	6181
Analyst : <i>Corinna Cheah / Lim Boon Ngee</i>			
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Key Stock Statistics	FY12	FY13F	FY14F
EPS (sen)	15.4	8.4	14.0
P/E on EPS (x)	3.1	5.7	3.4
Dividend/Share (sen)	2.5	2.5	2.5
NTA/Share (RM)	1.37	1.44	1.56
Book Value/Share (RM)	1.37	1.44	1.56
Issued Capital (m shares)	418.1	418.1	418.1
52-weeks Share Price Range (RM)			0.47-0.675

Per Share Data	FY11	FY12	FY13F	FY14F
Year-end 30 Jun				
Book Value (RM)	1.46	1.37	1.44	1.56
Cash Flow (sen)	74.5	(9.6)	3.7	8.9
Earnings (sen)	20.8	15.4	8.4	14.0
Dividend (sen)	2.0	2.5	2.5	2.5
Payout Ratio (%)	7.0	11.9	21.8	13.0
PER (x)	2.3	3.1	5.7	3.4
P/Cash Flow (x)	0.2	(1.2)	3.1	1.3
P/Book Value (x)	0.3	0.3	0.3	0.3
Dividend Yield (%)	4.2	5.2	5.2	5.2
ROE (%)	14.3	11.2	5.8	9.0
Net Gearing (%)	n.c.	n.c.	n.c.	n.c.

P&L Analysis (RMm)	FY11	FY12	FY13F	FY14F
Year-end 30 Jun				
Revenue	462.5	341.3	362.9	511.2
Operating Profit	105.7	74.4	48.5	75.8
Depreciation	(2.4)	(2.2)	(2.2)	(2.3)
Net Interest	(8.2)	(6.0)	(5.1)	(3.5)
Pre-tax profit	98.0	84.7	43.4	72.3
Effective Tax Rate (%)	26.0	24.0	24.0	24.0
Net Profit	72.6	64.4	35.0	58.5
Operating Margin (%)	22.9	21.8	13.4	14.8
Pre-tax margin (%)	21.2	24.8	12.0	14.1
Net margin (%)	15.7	18.9	9.7	11.4

1. 2QFY2013 Results Highlight / Review

Year-end 30 June	2Q13 RMm	2Q12 RMm	Chg %
Revenue	77.3	77.7	(0.6)
Operating Profit	15.2	12.1	25.6
Finance costs	(3.6)	(3.8)	(3.2)
Associate	1.0	2.3	(56.9)
Pre-tax Profit	12.6	10.7	18.1
Net Profit	9.3	7.2	29.3
Operating Margin (%)	19.7	15.6	
Pre-tax Margin (%)	16.3	13.7	
Net-Margin (%)	12.0	9.2	
Year-end 30 June	1HFY13 RMm	1HFY12 RMm	Chg %
Revenue	155.3	177.0	(12.3)
Operating Profit	30.1	32.1	(6.0)
Finance costs	(7.3)	(7.9)	(7.1)
Associate	1.2	3.2	(63.4)
Pre-tax Profit	24.0	27.3	(12.3)
Net Profit	17.7	19.3	(8.1)
Operating Margin (%)	19.4	18.1	
Pre-tax Margin (%)	15.4	15.4	
Net-Margin (%)	11.4	10.9	

- Malton's 2QFY13 results were within our expectations. Our forecasts currently do not assume any en-bloc sale proceeds from VSQ Block 1 (estimated at RM140m), which the group is negotiating to dispose of.
- 2QFY13 revenue was largely flat YoY but profits at the pre-tax and net levels increased by 18% and 29% YoY respectively, due to higher contribution from commercial projects with better margins. Associate contributions declined sharply YoY as a result of the disposal of Austin Heights in FY12.
- Property projects that will contribute to group revenue and earnings in FY13-14F include the tail-end of the Amaya Maluri serviced apartment project in Cheras, Cantonment high-end condominium project in Penang, and Nova Saujana serviced apartments in Subang, as well as initial contributions from expected launches at

Ukay Spring @ Ampang semi-detached, super-link and bungalow development, Sungai Long gated residential development, Batu Kawan mixed development, Seri Kembangan serviced apartments, Bukit Jalil mixed development, and Jalan Kuching serviced apartment and shops.

- The construction division should complete the Jaya Shopping Centre and Da:men contract in FY13 with the Villa Heights contract expected to complete in FY14.
- Malton's share price has underperformed in recent weeks and the stock is now trading near its 52-week low. The stock continues to trade at low, single-digit valuations and at these levels, share price downside appears limited in our

opinion. Looking into FY14 and assuming projected property launches take place as planned, the group is expected to stage a strong YoY recovery in FY14.

- Upgrade to **BUY** with a revised RNAV-based price target of RM0.70/share, which implies an FY14F PER and PBR of 5.0x and 0.4x respectively. The implied FY14F PER of 5.0x is at the lower end of the stock's PE trading band of 5-6x over FY11-12, when Malton's earnings were similar to our projected FY14F numbers.
- Potential upside to our earnings estimates include the en-bloc sale of VSQ Block 1 as well as earlier-than-expected launching of upcoming new projects.

2. Key Investment Risks

- a) Softening of demand in the property market with tighter bank lending rules and economic uncertainties;
- b) Higher raw material input costs for the property development and construction divisions due to supply constraints and inflationary pressures.

3. Recent Developments

On 27 Jun 2012, Malton disposed of its entire 20% stake comprising 1m shares of RM1 each in Austin Heights Sdn Bhd for RM34m cash.

On 3 Jul 2012, Pioneer Haven Sdn Bhd (PHSB), a wholly-owned subsidiary of Malton entered into a Supplemental Agreement with Bukit Jalil Development Sdn Bhd (BJDSB) to vary and modify certain terms and conditions set out in the Joint Development Agreement (JDA) dated 16 Mar 2010 entered into by PHSB with BJDSB, a 70% owned subsidiary of Ho Hup Construction Company Berhad (Ho Hup), for mutual interest and benefits.

Pursuant to the Supplemental Agreement, Ho Hup has agreed to discontinue its appeal to the Federal Court and withdraw the Civil Suit and any ancillary matters without admission of liability and with no order as to costs and no liberty to file afresh.

On 16 Mar 2010, PHSB had entered into a JDA with BJDSB for the joint development of a freehold land located in Bukit Jalil, measuring approximately 243,000 sqm (approximately 60 acres). Subsequently, BJDSB, PHSB and 10 others were involved in a civil suit filed by Ho Hup in the KL High Court for inter alia, a declaration that the JDA was void. On 17 Jun 2011, the High Court had ruled in favour of Ho Hup, a decision which was later reversed on 20 Dec 2011 by the Court of Appeal on PHSB's appeal. On 17 May 2012, the Federal Court had granted Ho Hup leave to appeal against the said Court of Appeal's decision.

Salient modifications of the Supplemental Agreement include:

- Land size for development shall be 202,500sqm or 5/6 of the original land size, with BJDSB being entitled to develop the balance 1/6 of the original land size at its own cost;
- PHSB's entitlement shall be 82% of GDV (from 83% previously);
- BJDSB's entitlement shall be 18% of GDV (from 17% previously);
- Based on revised GDV of RM2.1bn, the minimum entitlement for BJDSB shall be no less than RM220m;
- The original land is now charged to Insas Credit & Leasing Sdn Bhd, and PHSB shall obtain financing to settle indebtedness not exceeding RM80m before 31 Dec 2012 subject to any extension mutually agreed on, and undertake to pay for and on behalf of BJDSB all monthly interest payable to the new charge until settlement. PHSB is entitled to charge the original land for refinancing and financing of development.

The proposed development of the JV land is expected to comprise mixed commercial and residential development and PHSB shall prepare the development plans and take full charge of planning and submission of the new master development plans. The proposed development shall be carried out in phases over 10 years from the date the new master development plans are approved, with an automatic extension of a further 5 years.

We understand that thus far, master development plans for the Bukit Jalil project have yet to be finalised and any launches would most likely be in FY14 at the earliest. As such, we have conservatively not imputed any contributions from the Bukit Jalil development into our forecasts.

On 10 Oct 2012, Silver Setup Sdn Bhd, an indirect wholly-owned subsidiary of Malton had entered into a joint development agreement with Batu Kawan Development Sdn Bhd to jointly develop a piece of land in Batu Kawan, Seberang Perai Selatan, Penang, measuring 300 acres.

4. Earnings Outlook

We estimate total unbilled sales from existing property development projects to be around RM100m, mainly from the nearly completed Amaya Maluri serviced apartment project in Cheras, KL, and the Cantonment high-end condominium development in Penang.

At the construction & project management division, total unbilled sales from existing contracts are estimated at around RM270m of which RM250m are external contracts. Main contracts are Jaya Shopping Centre (RM90m balance), Da:men (RM92m balance), and Villa Heights (RM60m balance). Jaya Shopping Centre and Da:men should be completed in FY2013.

The group is currently in negotiations to dispose of VSQ Block 1 en-bloc, which could bring in an estimated RM140m in sale proceeds. We have conservatively excluded any en-bloc sale proceeds from our forecasts.

Recent and upcoming property development project launches include:

- Cantonment Road, Penang, high-end duplex condominiums – launched at the end of Aug 2012 and fully-sold with total GDV of RM63m;
- Nova Saujana serviced apartments – launched in early Mar 2013 with estimated total GDV of RM256m;
- Jalan Kuching serviced apartments and shops – expected launch by end-FY13 with estimated total GDV of RM800m;
- Seri Kembangan serviced apartments & shops – expected launch by FY14 with estimated total GDV of RM200m;
- Ukay Springs, Ampang semi-detached, super-link and bungalow houses – expected launch by FY14 with estimated total GDV of RM600m;
- Sungai Long gated low-density residential development – expected launch in FY14 with estimated total GDV of RM440m.
- Bukit Jalil mixed development comprising purpose built retail shops, office blocks and service apartments – expected launch in FY14 with estimated total GDV of RM500m (retail shops) and RM400m (serviced apartments). Total estimated GDV over 8 years is RM2.5bn.
- Batu Kawan mixed development comprising purpose built shop office, office blocks and service apartments, retail mall – 1st phase expected launch in FY14 with estimated total GDV of RM500m. Total estimated GDV over 10 years is RM3.8bn.

Potential upside surprises to our forecasts include en-bloc sale proceeds from the disposal of VSQ Block 1 and earlier-than-expected launching of upcoming new projects listed above.

5. Valuation & Recommendation

Malton's share price has underperformed in recent weeks and the shares are now trading near its 52-week low. Malton's prospective PE valuations remain at low, single-digit levels and we believe any share price downside appears limited from these levels. We are projecting a strong YoY recovery in FY14 although our earnings estimates for that financial year are heavily dependent on new launches in FY14 going through as planned.

We are upgrading our recommendation to **BUY** with a revised RNAV-based price target of RM0.70/share, which implies an FY14F PER and PBR of 5.0x and 0.4x, respectively. The implied FY14F PER of 5.0x is at the lower end of the stock's PE trading band of 5-6x over FY11-12, when Malton's earnings were similar to our projected FY14F numbers.

Events that would lead to an upgrade of our earnings estimates and possibly the stock's re-rating include the en-bloc sale of VSQ Block 1 as well as earlier-than-expected launching of new property development projects.

Disclosures/Disclaimer

Investment ratings:

Buy (generally >10% upside over the next 12 months)

Hold (generally negative 10% downside to positive 10% upside over the next 12 months)

Sell (generally >10% downside over the next 12 months)

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