

Malaysia Company Guide

MKH Bhd

Version 11 | Bloomberg: MKH MK | Reuters: METR.KL

Refer to important disclosures at the end of this report

DBS Group Research . Equity

29 Nov 2017

HOLD (Downgrade from BUY)

Last Traded Price (28 Nov 2017): RM1.83 (KLCI : 1,714.42)

Price Target 12-mth: RM2.00 (9% upside) (Prev RM2.50)

Analyst

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What's New

- 4QFY17 results missed expectations
- Cut FY18-19F earnings by 8%/11%
- Challenging property market to cap earnings growth in the near term
- Downgrade to HOLD with lower TP of RM2.00 on wider discount to property RNAV

Price Relative



Forecasts and Valuation

FY Sep (RM m)	2017A	2018F	2019F	2020F
Revenue	1,069	1,121	1,147	1,106
EBITDA	285	292	284	281
Pre-tax Profit	193	202	189	182
Net Profit	130	135	127	120
Net Pft (Pre Ex.)	138	135	127	120
Net Pft Gth (Pre-ex) (%)	(7.9)	(1.7)	(6.2)	(5.2)
EPS (sen)	23.0	23.0	21.6	20.5
EPS Pre Ex. (sen)	24.3	23.0	21.6	20.5
EPS Gth Pre Ex (%)	(32)	(5)	(6)	(5)
Diluted EPS (sen)	23.0	23.0	21.6	20.5
Net DPS (sen)	5.17	4.28	4.28	4.28
BV Per Share (sen)	261	270	287	303
PE (X)	8.0	7.9	8.5	8.9
PE Pre Ex. (X)	7.5	7.9	8.5	8.9
P/Cash Flow (X)	18.4	2.2	6.2	5.4
EV/EBITDA (X)	5.5	4.4	4.5	4.4
Net Div Yield (%)	2.8	2.3	2.3	2.3
P/Book Value (X)	0.7	0.7	0.6	0.6
Net Debt/Equity (X)	0.3	0.1	0.1	0.0
ROAE (%)	9.5	8.8	7.8	6.9
Earnings Rev (%):		(8)	(11)	N/A
Consensus EPS (sen):		29.5	23.5	N/A
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P

Subdued prospects

No signs of recovery. We had earlier expected MKH to substantially benefit from improved MRT connectivity in Kajang as it has ~500 acres of prime land bank in Kajang/Semenyih. However, contrary to our expectations, the completion of the MRT stations since Jul 2017 has not resulted in better property sales. In addition, persistently weak property market sentiment and affordability continue to adversely affect the company. There is demand for affordable housing but costs are escalating, giving rise to margin compression concerns. Therefore, we downgrade to MKH to Hold in view of lacklustre earnings growth in the near term.

Where we differ? Our FY17-18F earnings are lower than consensus, probably due to our more conservative assumption on new property sales and CPO selling price.

Potential catalyst? MKH has deliberately deferred property launches on its prime land in Kajang/Semenyih over the past two years as it awaited the completion of key infrastructure (RM62m flyover in Kajang 2 and Sg. Buloh-Kajang MRT line) which has been operational since Jul 2017. Stronger-than-expected sales from launches in Kajang 2 could be a re-rating catalyst.

Valuation:

We adjust our SOP-derived TP to RM2.00 after incorporating a larger 60% discount to property RNAV, from 50% previously, in view of the persistently weak property market which is not expected to recover in the near term.

Key Risks to Our View:

Margin compression. Rising construction cost could erode profit margins for property projects. Exposure to fluctuations in CPO prices can increase earnings volatility.

At A Glance

Issued Capital (m shrs)	563
Mkt. Cap (RMm/US\$m)	1,031 / 251
Major Shareholders (%)	
Chen Choy & Sons Realty	43.1
Public Bank Grp Off Fund	9.8
Free Float (%)	47.1
3m Avg. Daily Val (US\$m)	0.15

ICB Industry : Real Estate / Real Estate Investment & Services

WHAT'S NEW

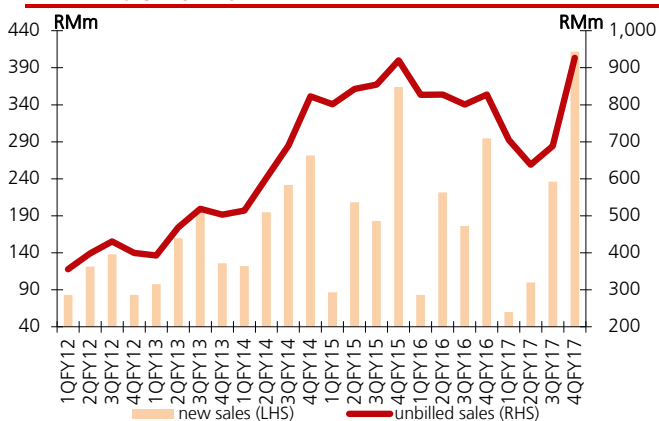
Disappointing quarter

4QFY17 missed expectation: Excluding RM7.2m unrealised forex loss, MKH reported weaker-than-expected 4QFY17 core earnings of RM13.4m (-66% q-o-q, -69% y-o-y), taking FY17 core profit to RM138m (-8% y-o-y). The disappointing 4QFY17 result was largely due to much weaker contributions from its plantation division which was dragged by higher cost of production as well as RM4.8m write-off as a result of La Nina weather.

Lower margin at property division: The property division's EBIT fell 42% q-o-q and 56% y-o-y to RM32m due to lower revenue as ongoing high-rise projects such as Saville Puchong and Hillpark Residence were still at preliminary stage of development, while Saville Cheras experienced slower work progress. Also, segmental EBIT margin normalised to 18% from 31% in 3QFY17.

Property sales picked up. 4QFY17 property sales surged by 75% q-o-q and 40% y-o-y to RM412m due to the strong response for its TR Residence project at Jalan Tun Razak. This takes FY17 full-year property sales to RM808m, of which 34% was contributed by TR Residence project which is 50%-owned by MKH. Therefore, unbilled sales improved substantially to RM927m as at end-Sep 2017 from RM689m as at end-Jun 2017.

Quarterly property sales and unbilled sales



Source: AllianceDBS, Company

Low profit at plantation. Plantation division booked 4QFY17 EBIT of a mere RM1.7m, on the back of RM56m revenue (-18% q-o-q, +9% y-o-y). The quarterly performance missed our expectations due to higher cost of production and RM4.8m biological asset write-off due to heavy rainfall.

Cut FY18-19F earnings by 8%/11%. This is after we imputed higher operating expenses for both property and plantation divisions. We had earlier expected FY17 to be a record year, driven by progress billings from its property division as well as a significant recovery at its plantation division. However, La Nina has greatly affected its production cost and oil extraction rate which came in at 20.3% in FY17, compared to 22.3% in FY16.

Downgrade to Hold. Following the earnings revision, we trim our SOP-derived TP to RM2.00. We have imputed a higher 60% discount to our property RNAV and employed DCF methodology for our plantation valuation (7.1% WACC, 1.5% TG). We expect the property market to remain challenging in FY18 due to the persistently weak sentiment as well as affordability issues. There is demand for affordable housing but costs are escalating, giving rise to margin compression concerns. Therefore, we downgrade MKH to Hold in view of the lacklustre earnings growth in the near term.

Sums-of-part (SOP) valuation

SOP	RMm	RM/share	Remarks
Shareholders fund	507	0.89	Exclude plantation NAV; 60% discount
Land bank surplus	138	0.24	60% discount
NPV of near-term projects	110	0.19	60% discount
Plantation	368	0.65	95% stake; DCF (WACC 7.1%, TG 1.5%)
	1,122	1.98	
Warrant proceeds	33	-	conversion@RM1.55
Total	1,155	1.96	Fully diluted basis
	TP	2.00	

Source: AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Sep	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	404	269	261	(35.5)	(2.9)
Cost of Goods Sold	(278)	(169)	(181)	(35.0)	7.3
Gross Profit	126	100	80.0	(36.5)	(20.1)
Other Oper. (Exp)/Inc	(30.3)	(35.2)	(39.3)	29.5	11.6
Operating Profit	95.8	65.0	40.8	(57.5)	(37.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	(0.4)	(0.5)	(0.4)	11.3	(25.5)
Net Interest (Exp)/Inc	(22.8)	(9.4)	(16.2)	29.1	(72.0)
Exceptional Gain/(Loss)	7.43	(5.0)	(7.2)	nm	45.0
Pre-tax Profit	80.0	50.1	17.0	(78.7)	(66.1)
Tax	(30.1)	(16.7)	(13.0)	(56.9)	(22.5)
Minority Interest	0.57	0.83	2.11	271.9	154.5
Net Profit	50.4	34.2	6.14	(87.8)	(82.0)
Net profit bef Except.	43.0	39.2	13.4	(69.0)	(65.9)
EBITDA	104	74.8	49.8	(52.2)	(33.4)
Margins (%)					
Gross Margins	31.2	37.3	30.7		
Opg Profit Margins	23.7	24.2	15.6		
Net Profit Margins	12.5	12.7	2.4		

Source of all data: Company, AllianceDBS

CRITICAL DATA POINTS TO WATCH

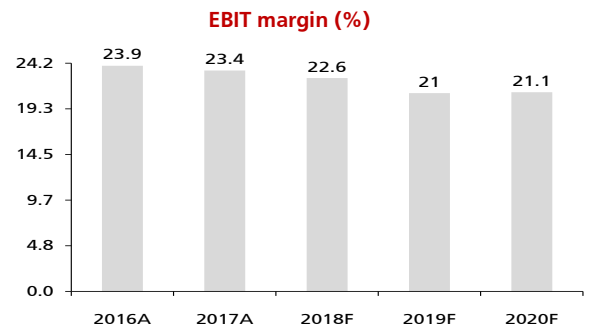
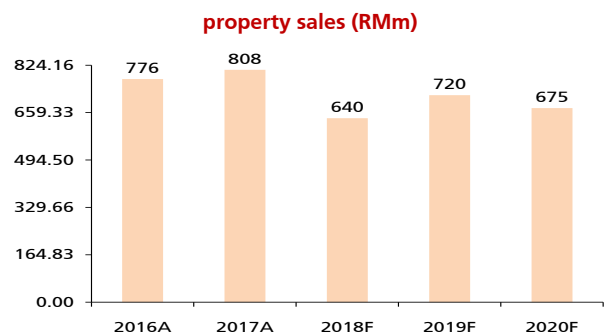
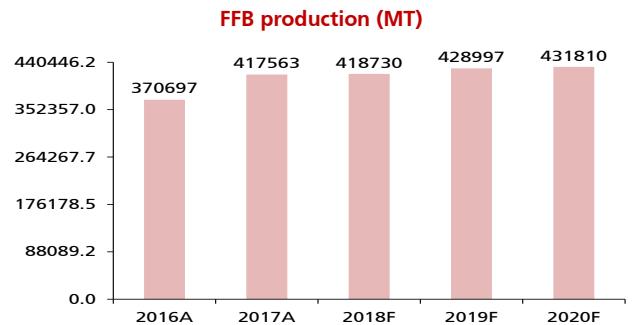
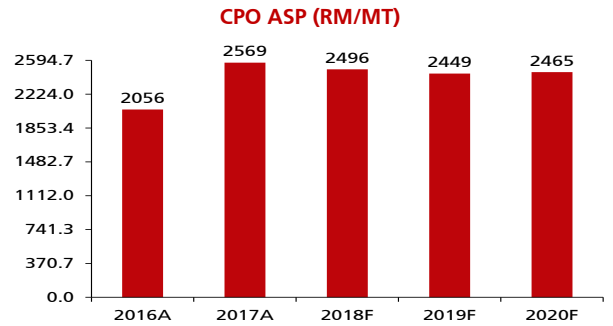
Critical Factors

First-mover advantage. We expect MKH to do well in property development, given its entrenched brand name in the Kajang-Semenyih growth corridor and stronghold in the affordable housing segment. This has placed the company in an enviable position with property sales and unbilled sales remaining healthy despite the relatively weak property market. Unbilled sales of RM927m offer earnings visibility in the near term

Focusing on affordable housing. MKH continues to focus on affordable housing projects as this is the most saleable product in the current challenging market, though competition is getting more intense as all developers are eyeing the same market. MKH's FY17 property sales came in at RM808m (+4% y-o-y) which is a commendable performance. However, sales replenishment is set to be a major challenge in the near term in view of the persistently weak property market.

Plantation earnings dependent on CPO price. MKH's 16k-ha fully planted oil palm estate in East Kalimantan has reached full maturity since its first planting in 2008. FY17 FFB production came in at 407k MT which is a 10% growth from FY16. However, s FFB volume growth is expected to be muted going forward given the matured age profile. Therefore, plantation earnings contribution will be highly dependent on CPO price.

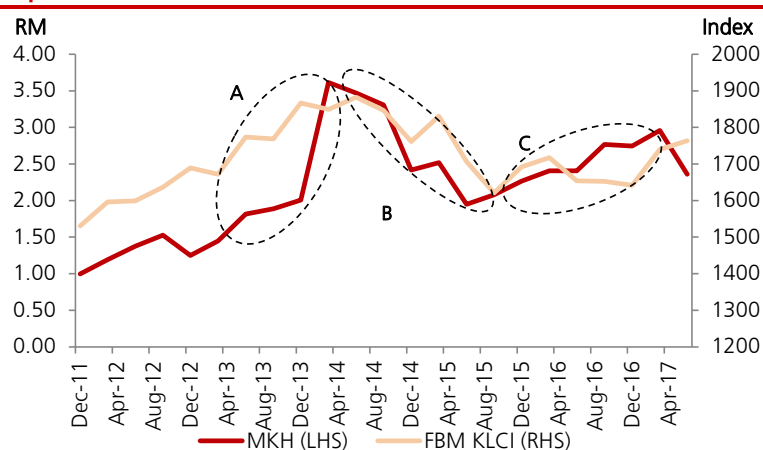
Growing plantation contribution. Plantation EBIT contribution made up ~20% of MKH's FY17 EBIT, and this is likely to be higher in FY18 as we expect lower production cost which had adversely affected its FY17 contribution. The plantation business will underpin the strong recurring earnings base for MKH going forward, thus complementing its property business which is project-based.



Source: Company, AllianceDBS

Appendix 1: A look at Company's listed history – what drives its share price?

Share price vs FBM KLCI



Remarks

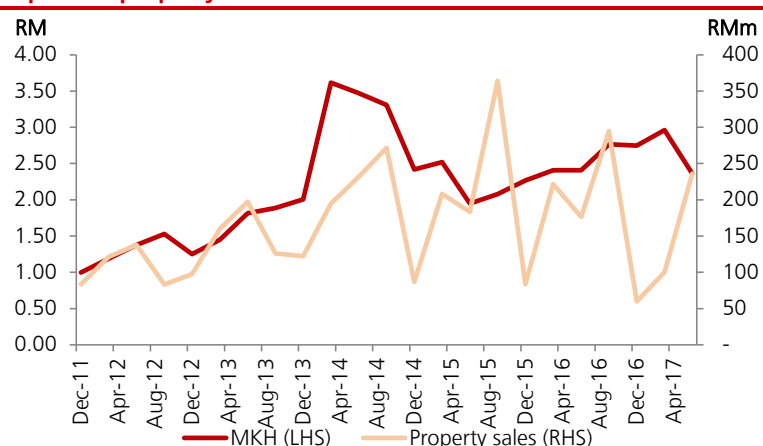
A – Share price surged to an all-time high as the market started to appreciate the exponential earnings growth potential from its booming property business in Kajang/Semenyih as well as the rapidly growing immature oil palms in Indonesia.

B – Sentiment turned sour as the Malaysia property market was affected by cooling measures while the CPO price outlook became bearish.

C – Solid earnings delivery during the period as the growth driver from both Plantation and Property materialised.

Source: Bloomberg L.P., AllianceDBS

Share price vs property sales



Remarks

The correlation between share price performance and property sales is not very strong, probably due to the seasonal trend of its sales which are typically much better in the second half of its financial year. MKH's property sales have been under pressure due to the challenging property market in Malaysia.

Source: Bloomberg L.P., AllianceDBS

MKH Bhd

Balance Sheet:

Gearing for expansion. MKH’s net gearing stood at 34% as at end-Sep 2017; ~35% of its borrowings are used for its Indonesian plantation business which started back in 2008. The estate is fully planted, and self-sustaining and contributing earnings, enabling the group to service borrowings.

Share Price Drivers:

Strong property sales. The weak sentiment towards the property market has dampened interest in MKH. Therefore, it is critical for MKH to deliver strong property sales to entrench its pole position in Kajang/Semenyih. Its focus on affordable homes will help the group to attract more buyers.

CPO price recovery. Given rising contribution from the plantation business, a sustained recovery in CPO price remains a key catalyst for MKH. With the tighter supply due to El Nino phenomenon, CPO price strength may hold. It may be a blessing in disguise as the group’s maturing oil palms could reap the benefits of improving CPO prices when production peaks.

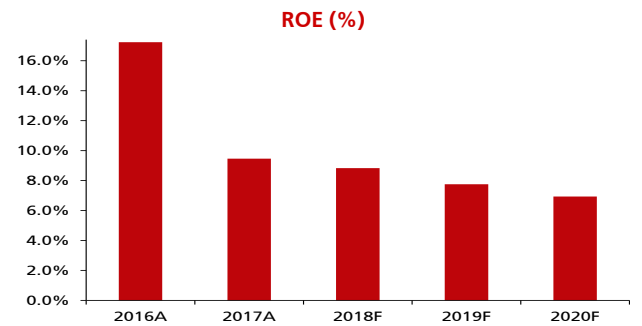
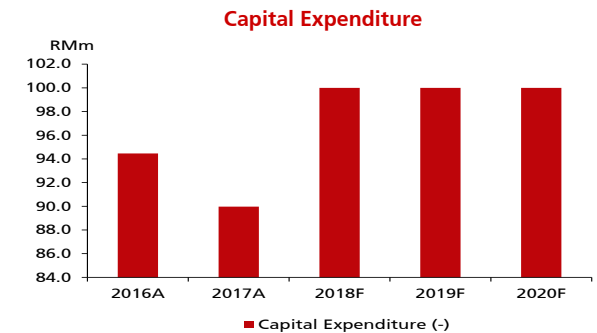
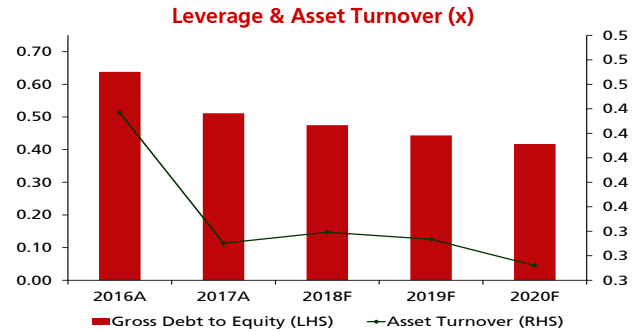
Key Risks:

Margin compression. Rising construction cost could erode profit margins for property projects. Exposure to fluctuations in CPO prices can increase earnings volatility.

Weaker property sales. Rising household debt and softer consumer sentiment may lead to lower property sales. The hurdles that potential buyers are facing in getting bank financing have also resulted in generally lower sales.

Company Background

MKH is an established township developer in Kajang/Semenyih and Greater Klang Valley with an uninterrupted 25-year profit track record. It also has a plantation business with 16k ha of oil palm estates in Indonesia, which has started to contribute significantly.



Source: Company, AllianceDBS

Key Assumptions

FY Sep	2016A	2017A	2018F	2019F	2020F
CPO ASP (RM/MT)	2,056	2,569	2,496	2,449	2,465
FFB production (MT)	370,697	417,563	418,730	428,997	431,810
property sales (RMm)	776	808	640	720	675
EBIT margin (%)	23.9	23.4	22.6	21.0	21.1

Segmental Breakdown

FY Sep	2016A	2017A	2018F	2019F	2020F
Revenues (RMm)					
Property development & Hotel & property	941	703	756	778	731
Trading	39.1	33.9	34.9	35.9	37.0
Plantation	71.8	59.3	61.1	62.9	64.8
Others	206	261	258	259	263
	16.1	11.1	11.1	11.1	11.1
Total	1,275	1,069	1,121	1,147	1,106

Affected by challenging property market

EBIT (RMm)					
Property development & Hotel & property	228	177	168	161	157
Trading	20.4	17.3	16.8	17.3	17.8
Plantation	5.35	4.53	4.27	4.40	4.53
Others	49.4	47.7	66.4	60.6	56.8
	(3.4)	(2.7)	(2.4)	(2.4)	(2.4)
Total	299	244	253	241	233

Driven by unbilled sales

EBIT Margins (%)					
Property development & Hotel & property	24.2	25.2	22.2	20.7	21.5
Trading	52.2	51.0	48.0	48.0	48.0
Plantation	7.4	7.6	7.0	7.0	7.0
Others	23.9	18.3	25.8	23.4	21.6
	(20.8)	(24.2)	(22.0)	(22.0)	(22.0)
Total	23.5	22.8	22.6	21.0	21.1

Income Statement (RMm)

FY Sep	2016A	2017A	2018F	2019F	2020F
Revenue	1,275	1,069	1,121	1,147	1,106
Cost of Goods Sold	(848)	(684)	(723)	(749)	(701)
Gross Profit	428	385	398	399	405
Other Opg (Exp)/Inc	(122)	(135)	(145)	(158)	(172)
Operating Profit	305	250	253	241	233
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(1.0)	(2.2)	(2.2)	(2.2)	(2.2)
Net Interest (Exp)/Inc	(51.9)	(47.5)	(48.9)	(48.9)	(48.9)
Exceptional Gain/(Loss)	55.7	(7.2)	0.0	0.0	0.0
Pre-tax Profit	308	193	202	189	182
Tax	(94.0)	(65.9)	(56.6)	(49.2)	(47.4)
Minority Interest	(9.0)	2.97	(10.1)	(13.3)	(14.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	205	130	135	127	120
Net Profit before Except.	149	138	135	127	120
EBITDA	337	285	292	284	281

Growth

Revenue Gth (%)	22.4	(16.2)	4.9	2.3	(3.6)
EBITDA Gth (%)	41.4	(15.3)	2.4	(2.9)	(0.9)
Opg Profit Gth (%)	42.9	(18.0)	1.2	(5.0)	(3.0)
Net Profit Gth (Pre-ex) (%)	31.0	(7.9)	(1.7)	(6.2)	(5.2)

Margins & Ratio

Gross Margins (%)	33.5	36.0	35.5	34.8	36.7
Opg Profit Margin (%)	23.9	23.4	22.6	21.0	21.1
Net Profit Margin (%)	16.1	12.2	12.1	11.1	10.9
ROAE (%)	17.2	9.5	8.8	7.8	6.9
ROA (%)	7.0	4.0	4.1	3.7	3.4
ROCE (%)	8.9	6.2	6.6	6.2	5.8
Div Payout Ratio (%)	14.3	22.5	18.6	19.8	20.9
Net Interest Cover (x)	5.9	5.3	5.2	4.9	4.8

Source: Company, AllianceDBS

Quarterly / Interim Income Statement (RMm)

FY Sep	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	404	261	278	269	261
Cost of Goods Sold	(278)	(165)	(170)	(169)	(181)
Gross Profit	126	96.3	108	100	80.0
Other Oper. (Exp)/Inc	(30.3)	(23.8)	(36.5)	(35.2)	(39.3)
Operating Profit	95.8	72.6	71.9	65.0	40.8
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.4)	(1.3)	(0.1)	(0.5)	(0.4)
Net Interest (Exp)/Inc	(22.8)	(9.8)	(12.1)	(9.4)	(16.2)
Exceptional Gain/(Loss)	7.43	(4.2)	9.23	(5.0)	(7.2)
Pre-tax Profit	80.0	57.3	69.0	50.1	17.0
Tax	(30.1)	(15.8)	(20.4)	(16.7)	(13.0)
Minority Interest	0.57	(0.7)	(0.7)	0.83	2.11
Net Profit	50.4	40.8	47.9	34.2	6.14
Net profit bef Except.	43.0	45.0	38.7	39.2	13.4
EBITDA	104	80.1	82.4	74.8	49.8

Dragged by plantation

Growth

Revenue Gth (%)	43.4	(35.5)	6.5	(3.4)	(2.9)
EBITDA Gth (%)	38.1	(23.1)	2.8	(9.2)	(33.4)
Opg Profit Gth (%)	39.5	(24.2)	(0.9)	(9.7)	(37.3)
Net Profit Gth (Pre-ex) (%)	31.1	4.6	(14.0)	1.2	(65.9)

Margins

Gross Margins (%)	31.2	36.9	39.0	37.3	30.7
Opg Profit Margins (%)	23.7	27.8	25.9	24.2	15.6
Net Profit Margins (%)	12.5	15.6	17.2	12.7	2.4

Balance Sheet (RMm)

FY Sep	2016A	2017A	2018F	2019F	2020F
Net Fixed Assets	218	210	269	324	374
Invt in Associates & JVs	14.0	13.9	11.7	9.48	7.27
Other LT Assets	1,739	1,657	1,676	1,695	1,712
Cash & ST Invt	301	263	604	633	692
Inventory	93.5	153	82.2	84.1	81.1
Debtors	223	269	196	201	193
Other Current Assets	656	662	541	554	531
Total Assets	3,245	3,229	3,381	3,500	3,590
ST Debt	264	328	328	328	328
Creditor	554	498	487	498	480
Other Current Liab	53.8	30.1	77.6	70.3	68.4
LT Debt	573	444	444	444	444
Other LT Liabilities	488	417	417	417	417
Shareholder's Equity	1,278	1,479	1,585	1,687	1,782
Minority Interests	34.2	31.2	41.3	54.6	69.1
Total Cap. & Liab.	3,245	3,229	3,381	3,500	3,590
Non-Cash Wkg. Capital	365	556	255	270	256
Net Cash/(Debt)	(536)	(509)	(168)	(139)	(81.0)
Debtors Turn (avg days)	62.0	83.9	75.7	63.1	65.0
Creditors Turn (avg days)	205.9	297.1	263.9	255.7	274.5
Inventory Turn (avg days)	36.4	69.6	63.0	43.2	46.3
Asset Turnover (x)	0.4	0.3	0.3	0.3	0.3
Current Ratio (x)	1.5	1.6	1.6	1.6	1.7
Quick Ratio (x)	0.6	0.6	0.9	0.9	1.0
Net Debt/Equity (X)	0.4	0.3	0.1	0.1	0.0
Net Debt/Equity ex MI (X)	0.4	0.3	0.1	0.1	0.0
Capex to Debt (%)	11.3	11.6	12.9	12.9	12.9
Z-Score (X)	1.5	1.6	1.6	1.7	1.7

Healthy balance sheet

Source: Company, AllianceDBS

Cash Flow Statement (RMm)

FY Sep	2016A	2017A	2018F	2019F	2020F
Pre-Tax Profit	308	193	202	189	182
Dep. & Amort.	32.6	37.5	41.2	45.3	49.9
Tax Paid	(78.6)	(103)	(9.0)	(56.6)	(49.2)
Assoc. & JV Inc/(loss)	1.00	2.21	2.21	2.21	2.21
Chg in Wkg.Cap.	(15.7)	(85.7)	253	(7.8)	15.8
Other Operating CF	(34.0)	11.9	0.0	0.0	0.0
Net Operating CF	213	56.5	490	173	201
Capital Exp.(net)	(94.5)	(90.0)	(100.0)	(100.0)	(100.0)
Other Invt.(net)	(4.6)	(3.8)	(19.3)	(18.4)	(17.4)
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(7.8)	(10.4)	0.0	0.0	0.0
Net Investing CF	(107)	(104)	(119)	(118)	(117)
Div Paid	(29.4)	(29.4)	(29.3)	(25.1)	(25.1)
Chg in Gross Debt	(25.9)	(59.6)	0.0	0.0	0.0
Capital Issues	0.0	107	0.0	0.0	0.0
Other Financing CF	(4.7)	(2.6)	0.0	0.0	0.0
Net Financing CF	(60.0)	15.5	(29.3)	(25.1)	(25.1)
Currency Adjustments	(13.8)	(5.9)	0.0	0.0	0.0
Chg in Cash	32.7	(38.1)	341	29.1	58.3
Opg CFPS (sen)	54.7	25.1	40.2	30.7	31.5
Free CFPS (sen)	28.4	(5.9)	66.3	12.3	17.2

Source: Company, AllianceDBS

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Nov 16	2.82	3.29	BUY
2:	07 Dec 16	2.79	3.29	BUY
3:	03 Jan 17	2.78	3.29	BUY
4:	28 Feb 17	2.84	3.58	BUY
5:	09 Mar 17	2.85	3.58	BUY
6:	31 May 17	2.49	3.00	BUY
7:	13 Jun 17	2.36	3.00	BUY
8:	28 Aug 17	2.13	2.60	BUY
9:	10 Oct 17	2.13	2.50	BUY

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

AllianceDBS recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 28 Nov 2017 22:25:46 (MYT)

Dissemination Date: 29 Nov 2017 08:37:54 (MYT)

Sources for all charts and tables are AllianceDBS unless otherwise specified.

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