



June 26, 2018

## Properties INITIATING COVERAGE

Price: RM2.10

Target Price: RM2.56

## ORIENTAL INTEREST BERHAD

### Focus on affordable properties

*Strictly for internal circulation and not for publication*

#### Experienced developer focused on affordable properties

Oriental Interest Berhad (OIB) has completed more than 25,000 development units valued in excess of RM2.6bn over the last 33 years. It is focused on quality, creative and functional properties at affordable prices.

#### Recent acquisitions add to large land bank and future GDV

Including recent acquisitions, OIB has over 365 acres of land held for future development, 999.2 acres of agricultural land, and over 310 acres of land under LDAs.

#### Overall market still challenging but OIB is focused on affordable segment

Overall market remains challenging with oversupply in office, retail and high-end condominium segments. Demand for residential properties with the affordable pricing and good location however remains steady to strong. OIB has lined up a list of projects with an estimated total GDV of RM1.2bn to be launched between now and end-2019.

#### Gearing higher but still reasonable and will decline, consistent dividend payout

Gearing has risen after recent acquisitions but remains reasonable and poised to decline as lands are developed and profits received. Dividend payment has been consistent.

#### Initiate converge with a target price of RM2.56 and BUY call

OIB's strength lies in its prudent management, strong focus on affordable residential properties, consistent profitability and dividend payout, sizeable own land bank and LDA lands, and healthy balance sheet. We initiate coverage on OIB with a **BUY** rating and target price of RM2.56 (10.8x CY2019F EPS and 29% discount to estimated RNAV).

#### EARNINGS SUMMARY

FYE 30 June (RM m)	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	233.1	247.9	257.0	267.0	285.0
EBITDA	70.3	69.6	63.7	70.0	75.5
Core Net Profit	38.1	40.4	31.6	34.8	38.7
Core EPS (sen)	26.3	27.9	20.4	22.5	25.0
Core EPS growth	25.7	6.0	(26.8)	10.2	11.0
Net DPS (sen)	8.0	7.0	7.0	7.0	7.0
Core PE (x)	8.0	7.5	10.3	9.3	8.4
Dividend yield (%)	3.8	3.3	3.3	3.3	3.3
ROE (%)	12.1	11.8	8.2	8.5	8.8
EV/EBITDA (x)	4.1	4.0	5.3	4.5	4.1
P/Book Value (x)	1.0	1.0	0.8	0.8	0.7

Source: Company, Mercury Securities

#### Company Description

OIB is principally in the business of property development. It is also involved in construction, property investment and oil palm cultivation.

#### Stock Return Information

KLCI	1,675.9
Expected Share Return (%)	21.9
Dividend Yield (%)	3.3
Total Return (%)	5.2

#### Share Information

Bloomberg Code	OIB MK
Stock Code	OIB
Listing	MAIN
Issued Shares (m)	154.9
Market Cap (RM m)	325.2
52W High/Low	2.59/2.04
Estimated Free Float (%)	26.5
Beta (X)	0.3
3-month Average Vol.	2,359

#### Top 3 Shareholders (%)

Jupiter Sunrise SB	54.9
Tan Chang Tok SB	7.6
LLSB 1980 Holdings SB	6.5



#### Price Performance

	1M	3M	12M
Absolute (%)	-4.5	-4.1	-13.1
Relative to Index (%)	1.5	4.8	-10.7

## HISTORY & SHAREHOLDERS

### Listed on Bursa Malaysia in October 1994

**Oriental Interest Berhad (OIB)** was incorporated on 3 August 1993 as a private limited company Oriental Interest Sdn Bhd and was converted into a public limited company on 22 December 1993. OIB was listed on the Main market of Bursa Malaysia on 18 October 1994. Its businesses then included property development, manufacturing and export of downstream rubberwood products, and oil palm cultivation.

### Low Ping Kun gained control in October 2013

Low Ping Kun gained control of OIB in October 2013 after the acquisition of 46.75m ordinary shares or 51.63% through **Jupiter Sunrise Sdn Bhd**, which was 50.00% owned by **Ripro Sdn Bhd** which was 84.62% owned by **Kemboja Jati Sdn Bhd** which in turn was 49.09% owned by **LLSB 1980 Holdings Sdn Bhd (LLSB)**. Jupiter Sunrise's stake in OIB rose to 80.31% following an unconditional take-over offer. After a placement to comply with the public shareholdings spread, Jupiter Sunrise's stake was reduced to 58.69% in June 2016. Issued share capital of OIB was enlarged from 90.55m shares to 144.87m shares in December 2015 following a 3-for-5 bonus issue.

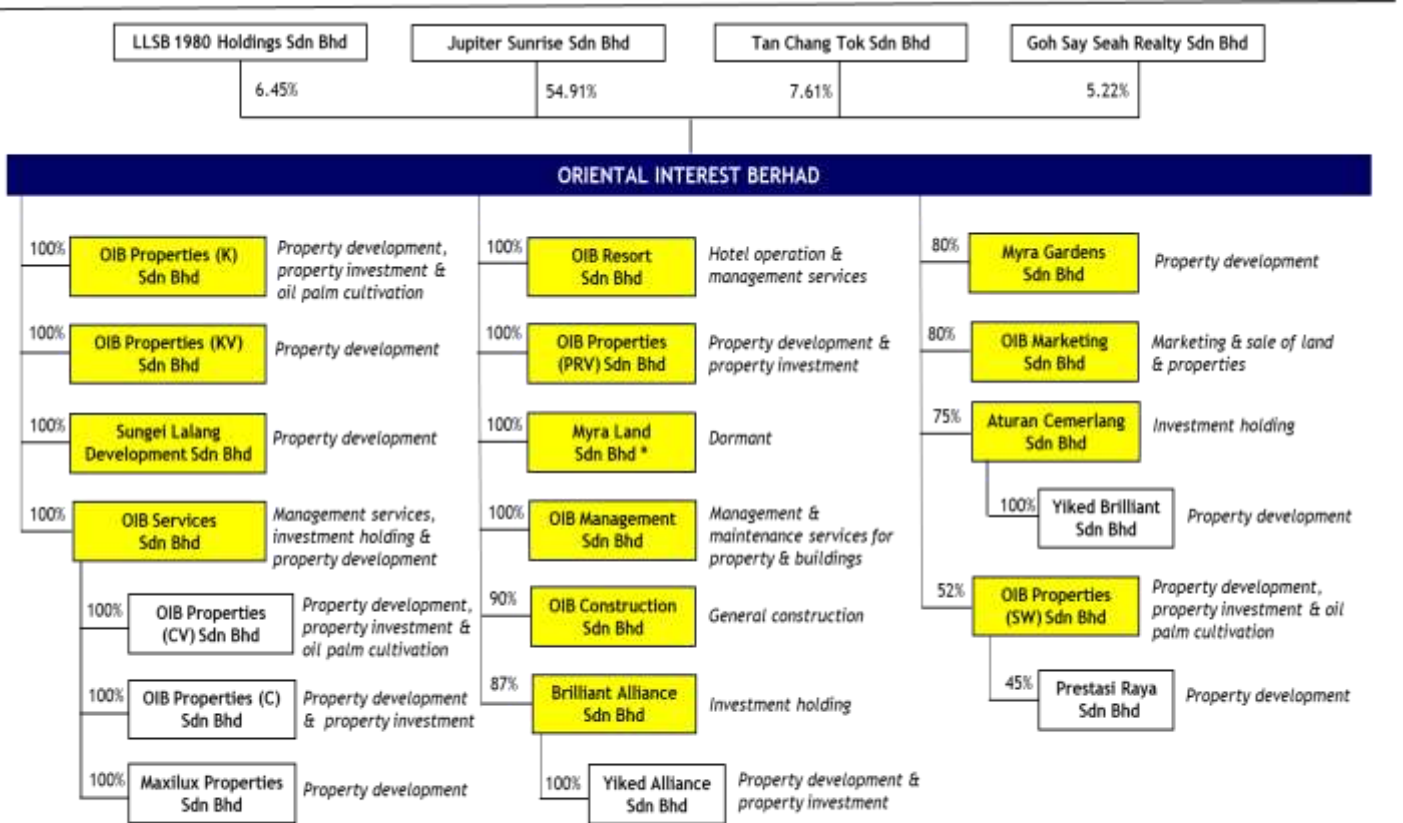
### Deemed interest rose further in Jan 2018

Low Ping Kun's deemed interest in OIB increased to 61.36% in January 2018 after LLSB was allotted 9.99m shares as part payment for the purchase of 11 parcels of adjoining freehold lands in Penang Island by **OIB Properties (K) Sdn Bhd**, a wholly-owned subsidiary of OIB.

# GROUP STRUCTURE & BUSINESSES

Through various subsidiaries, the OIB Group is principally in the business of property development and general construction. The group is also involved in oil palm cultivation on 826.3 acres of agriculture land through 100%-owned OIB Properties (K) Sdn Bhd and 52%-owned OIB Properties (SW) Sdn Bhd.

Fig 1: Group structure and substantial shareholders of Oriental Interest Berhad



# Low Ping Kun, an Executive Director of OIB, has a deemed interest of 61.36% in OIB through his shareholdings in LLSB 1980 Holdings Sdn Bhd and Jupiter Sunrise Sdn Bhd

\* Formerly known as OIB Properties (Meru) Sdn Bhd

Source: Company, Mercury Securities

## Property business in northern, central and southern regions

OIB is involved in the property development business in the northern, central and southern regions. Land banks held for property development are located in Kulim, Sungai Petani, Kuala Muda and Pulau Pinang in the northern region as well as Sepang, Bangi, Puchong, Putrajaya, Gombak, Kuala Lumpur, and Kuala Selangor in the central region.

## Over 365 acres held for property development

As at 31 March 2018, land areas held for property development amounted to approximately 303 acres in the northern region and 62 acres in the central region. These areas included the lands in Ijok (Kuala Selangor), Bandar Amanjaya (Kuala Muda), Sungai Petani and Barat Jaya (Pulau Pinang) recently acquired for a total RM129.2m - satisfied with RM56.4m cash, and the issue of 47.8m Redeemable Preference Shares (at RM1.00 each) (RPS) and 10.0m OIB shares (at RM2.50 each).

**Fig 2: Land held for future development**

Location	Land area (acre)	Land tenure	Description
<b><u>Sungai Petani / Kulim / Pulau Pinang</u></b>			
Bandar Sungai Petani / Amanjaya, Mukim of Kuala Muda, Kedah	216.37	Freehold	Development land approved for housing
Bandar Kulim, District of Kulim, Kedah	18.03	Freehold	Development land approved for housing
Bandar Kulim, District of Kulim, Kedah	27.96	Freehold	Vacant land for future development
Bandar Kulim, District of Kulim, Kedah	0.38	Freehold	Agriculture land for future development
Mukim Sidam Kanan, District of Kulim, Kedah	32.14	Freehold	Development land approved for housing
Mukim Pekan Pulai, District of Baling, Kedah	3.23	Freehold	Development land approved for housing
Mukim 12, District of Barat Daya, Pulau Pinang	5.03	Freehold	Vacant land for future development
	<b>303.14</b>		
<b><u>Selangor / Kuala Selangor</u></b>			
Mukim Dengkil, District of Sepang, Selangor	23.27	Freehold	Development land approved for housing
Mukim Dengkil, District of Sepang, Selangor	0.37	Leasehold	Vacant land for future development
Mukim Sepang, District of Sepang, Selangor	3.35	Freehold	Development land approved for housing
Mukim Ijok, District of Kuala Selangor, Selangor	35.35	Leasehold	Development land approved for housing
	<b>62.34</b>		

Source: Company

## Agriculture and LDA lands

In addition to the areas held for property development, OIB owns agriculture land for oil palm cultivation measuring 244.2 acres in Sungai Petani, 582.1 acres in Kulim and 172.9 acres in Seremban. OIB also has development rights over development land under landowner and developer agreements (LDAs) totaling 90.1 acres in Kuala Muda and Kota Setar as well as 228.7 acres in Sepang, Gombak, Melaka and Kuala Lumpur.

**Fig 3: Land held under Landowners and Developer Agreement**

Location	Land area (acre)	Land tenure
<b><u>Kedah</u></b>		
Bandar Sungai Petani, District of Kuala Muda, Kedah	86.75	Freehold
Bandar Alor Setar, District of Kota Setar, Kedah	3.35	Leasehold
	<b>90.1</b>	
<b><u>Selangor / Gombak / Melaka / Kuala Lumpur</u></b>		
Mukim Labu, District of Sepang, Selangor	6.51	Freehold
Mukim Dengkil, District of Sepang, Selangor	93.99	Leasehold
Mukim Dengkil, District of Sepang, Selangor	22.97	Freehold
Mukim Setapak, District of Gombak, Selangor	19.17	Leasehold
Pekan Pengkalan Kundang, District of Gombak, Selangor	78.75	Freehold
Mukim Bukit Katil, District of Melaka Tengah, Melaka	7.01	Leasehold
Mukim Ampang, District of Kuala Lumpur, Kuala Lumpur	0.29	Leasehold
	<b>228.69</b>	

Source: Company

## Mainly landed properties and affordable apartments

OIB has established a strong reputation as a developer of quality, creative and functional properties at affordable prices. Properties built and under construction by the group include terrace houses, semi-detached houses, bungalows, affordable apartments (under the Selangorku and PPA1M programmes) and condominiums. Over the last 33 years, the group has completed more than 25,000 development units valued in excess of RM2.6bn.

Fig 4: Completed property projects

Scheme	Residential units	Commercial units	Year of completion	GDV (RM m)
Prior to 2010 for OIB Group	19,837	1,400	-	1,669.42
<b>Central region</b>				
	180	-	2011	44.92
	201	-	2012	49.11
	218	29	2013	63.31
	66	-	2014	17.52
	282	-	2015	111.74
	169	-	2016	63.34
	366	-	2017	148.15
<b>Northern region</b>				
	22	26	2011	11.21
	17	-	2012	6.38
	333	169	2013	76.30
	210	-	2014	30.11
	377	-	2015	44.22
	423	-	2016	122.85
	486	-	2017	153.20
	192	-	2018	29.62
	<b>23,379</b>	<b>1,624</b>		<b>2,641.38</b>

Source: Company

Fig 5: Current property projects

Scheme	Residential units	Commercial units	Exp. year of completion	Exp. GDV (RM m)
<b>Central region</b>				
Seroja Hills	256	-	2019	88.05
Residensi 14	11	-	2018	16.97
Taman Belia Antarabangsa (P.2eii)	18	-	2018	21.09
Taman Seri Bestari	32	-	2018	15.68
Dahlia Impiana (Selangorku)	300	-	2020	47.33
Apartment Bestari (Selangorku)	65	-	2020	10.40
Myra Meranti (Phase 1)	31	-	2019	23.68
Myra Meranti (Phase 2)	53	-	2020	48.13
Myra Saujana (Phase 1)	63	-	2020	41.53
<b>Northern region</b>				
Taman Serai Wangi (PPA1M)	332	-	2020	78.49
Taman Sinar Intan (PPA1M)	332	-	2019	103.50
Taman Permaipura (PPA1M)	128	-	2018	36.68
SP Saujana Sapphire (Phase 6A)	101	-	2020	46.70
	<b>1,722</b>	<b>-</b>		<b>578.21</b>

Source: Company

## RM578m worth of on-going projects

On-going projects targeted for completion between this year and 2020 in the central and northern regions have an estimated total GDV of RM578m. The three PPA1M projects (single and double storey terraces) in the northern region (Padang Serai and Sungai Petani) have an average value of RM276,098 per unit while the two Selangorku affordable apartment projects have an average value of RM158,151 per unit. The other on-going projects (condominiums, 2 & 3 storey bungalows, and double storey terraces) have an average value of RM534,177 per unit. The current project portfolio reflects the focus of the group on properties in the mid-range and affordable segment of residential properties: the RM400,000 - RM700,000 segment in the Klang Valley, the RM100,000 - RM300,000 segment in the northern region and affordable public housing such as PPA1M and Selangorku projects.

**Fig 6: Residensi 14**



Source: Company

**Fig 7: Seroja Hills**



Source: Company

**Fig 8: Apartment Bestari (Selangorku)**



Source: Company

**Fig 9: Taman Serai Wangi (PPA1M)**



Source: Company

Fig 10: Taman Seri Bestari



Source: Company

Fig 11: Myra Meranti



Source: Company

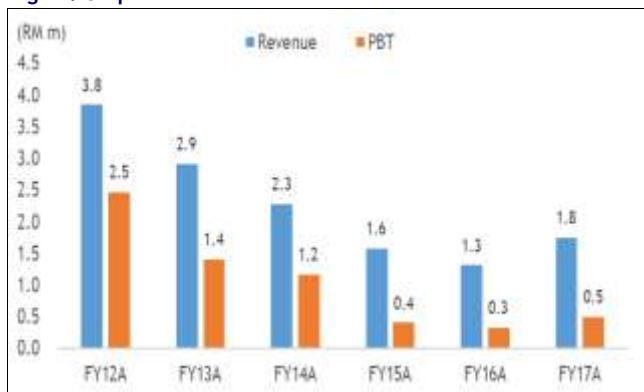
### Launching over RM1.2bn worth of projects by end-2019

Confident of demand for properties it builds in spite of the still challenging operating environment, the group has lined up a list of projects (including two PPA1M projects in the north) with an estimated total GDV of over RM1.2bn to be launched between now and the end of next year. These consist of 3,248 units of residential properties and 600 units of commercial properties. Timing of launches as well as final product mixes and pricing are being fine-tuned to take into account market conditions, demand, any changes in lending rules and new government development strategies.

### Oil palm cultivation and construction are relatively small

OIB's oil palm cultivation business on 826.3 acres is relatively small. Depending on Fresh Fruit Bunch (FFB) yields and prices of crude palm oil (CPO), pretax profit has fallen from a high of RM2.5m in FY12A to RM0.5m in FY17A and RM0.6m in 9MFY18. The general construction business for external customers have slowed, posting a PBT of RM1.4m in FY17A and RM0.4m in 9MFY18.

Fig 12: Oil palm cultivation revenue and PBT



Source: Company, Mercury Securities

Fig 13: General construction revenue and PBT



Source: Company, Mercury Securities

# FINANCIALS & FORECASTS

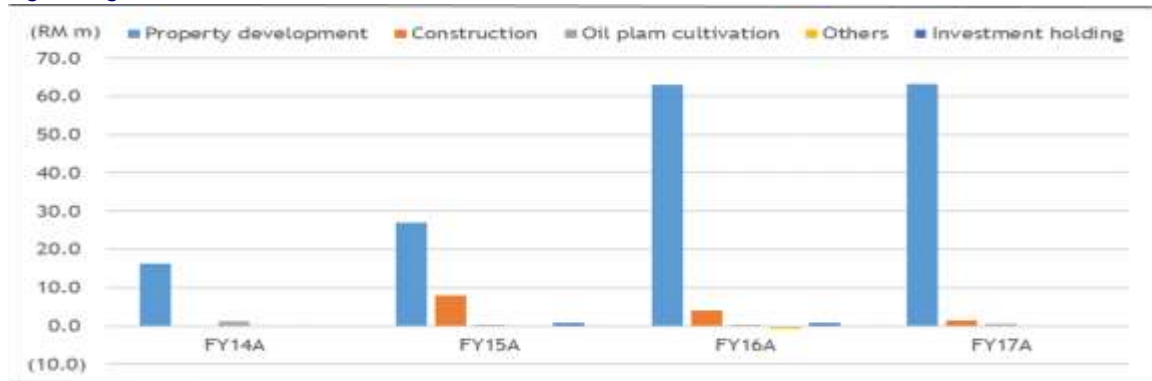
## FY14A: Revenue +16.7%, core net profit +82.6%

In FY14A, OIB recorded a 16.7% and 111.4% yoy increase in revenue and PBT respectively mainly due to higher revenue (+17.6% to RM94.3m) and profit (+101.7% to RM16.2m) contributions from the property development business. There was also a sale of land for RM12.7m with a net gain of RM2.3m. Contributions from the oil palm cultivation business declined mainly due to lower yields. Excluding the RM2.3m net gain and other exceptional items, core net profit is estimated to have increased by 82.6% yoy to RM6.8m.

## FY15A: Revenue +124.9%, net profit +117.0%

OIB's revenue and PBT increased by 124.9% and 111.4% yoy respectively in FY15A due to increases in operating activities and improved overall profit margin. Property development billings and PBT increased by 49% and 61% respectively while general construction, in its first full year of operation providing services to external customers, turned around from an operating loss in FY14A to a PBT of RM7.9m. Reported net profit increased by 117.0% to RM20.0m. Excluding the net gain from land sale in FY14A and other exceptional items, FY15A core net profit increased by 179.6% to RM19.0m.

Fig 14: Segmental PBT trend



Source: Company, Mercury Securities

## FY16A: Revenue +6.1%, core net profit +101.0%

FY16A revenue increased by 6.1% yoy as higher property development revenue was partially offset by lower general construction billings due to exceptional performance in 3QFY15A as well as lower revenue from oil palm cultivation due to lower yields. Higher property development revenue and overall margin contributed to a 101% yoy increase in group reported net profit and core net profit.



## FY17A: Revenue +6.4%, core net profit +6.0%

In FY17A, group revenue increased by 6.4% yoy, boosted by higher property revenue but capped by lower general construction billings. Group PBT however declined 3.7% yoy in spite of a very strong fourth quarter when group PBT was RM30.0m versus RM35.2m in 9MFY17A. Property development PBT was flat mainly due to additional expenses for marketing and promotional activities as well as higher administrative expense attributable to additional senior management personnel and headcount. General construction PBT declined due to reduced external works while oil palm cultivation PBT increased from RM0.3m to RM0.5m due to higher production and higher CPO prices. As a result, reported net profit declined by 4.1% yoy to RM38.5m. However, adjusted for exceptional items, core net profit increased by 6.0% yoy to RM40.4m.

## Over-supply and restrictive lending rules are concerns

Various surveys have highlighted the over-supply situation in the Malaysian property market, with some property surveyors and valuers expecting the glut to prevail throughout the year and even extending into 2019. But it should be noted that the glut is more serious in the office, retail and high-end condominium segments while demand for residential properties with the affordable pricing and good location remains steady to strong. Property development companies, including OIB, are also expected to rejig their product mix and pricing to attract buyers. Restrictive lending rules, unless relaxed by the new government, will remain an impediment for many property buyers.

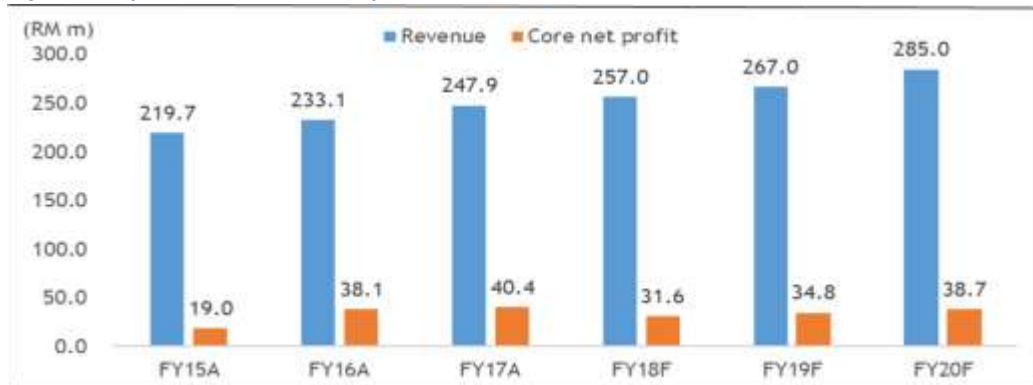
## Strong take-up rates for Myra series and PPA1M projects

For OIB, take-up rates as at end-May 2018 range from 58% to 100% for launches in 2017 and 36% to 97% for launches this year in the central region. Take-up rates for the Myra series are strong at 97%, 97% and 36% for launches in December 2017, March 2018 and April 2018 respectively. In the northern region, take-up rates for PPA1M projects range from 58% to 100% for launches in 2017 and 30% for the one project launched in March 2018. SP Saujana 6A launched in January 2018 has a take-up rate of 15%.

## Core net profit expected to decline yoy in FY18F

In 9MFY18, group net profit amounted to RM25.1m compared to RM19.2 in 9MFY17A. The property development business was again the star performer, recording higher billings and profit margins, which more than offset lower contributions from general construction and oil palm cultivation. However, given the especially strong 4QFY17A as well as the generally softer sentiment since 2H2017 and still restrictive lending rules, we forecast a 26.8% yoy decline in core net profit from RM40.4m in FY17A to RM31.6m in FY18F.

Fig 15: Group revenue and core net profit trend and forecasts



Source: Company, Mercury Securities

### Moderate growth to resume in FY19F and FY20F

With unbilled sales of around RM152m from on-going GDV of RM578m targeted for completion by 2020 and over RM1.2bn of GDV expected to be launched between now and the end of 2019, we forecast group revenue and core net profit of RM267.0m and RM34.8m in FY19F and RM285.0m and RM38.7m in FY20F. The forecast core net profit yoy growth of 10.2% and 11.0% has upside potential when sentiment improve and/or lending rules are relaxed.

### Healthy balance sheet with still low net gearing

Total debt of the group surged from RM80.3m as at end of FY17A to RM248.2m as at the end of 3QFY18, pushing net debt to equity ratio from 0.1x to 0.5x. The increase, including the issue of 47.8m RPS, is however mainly due to the land acquisitions completed earlier in the year. Still reasonable and manageable, we expect the net debt to equity ratio to decline to the 0.1x - 0.3x range as the group develops the lands acquired and profitability rise.

### Consistent dividend payout can be maintained

OIB has paid consistent dividends since FY13A, with dividend payout ratios at 0.49, 0.54, 0.29 and 0.26 in the last four financial years. We forecast dividend per share of 7.0 sen paid in FY17A to be maintained in FY18F, FY19F and FY20F - implying dividend yields of 3.3%.

**Fig 16: Key financials and ratios for Oriental Interest Berhad**

FYE 30 June	FY16A	FY17A	FY18F	FY19F	FY20F
Cash balance (RM m)	57.37	56.29	81.46	104.02	112.14
Total debt (RM m)	83.25	80.34	170.00	170.00	170.00
Net debt (RM m)	25.88	24.05	88.54	65.98	57.86
Shareholders' equity (RM m)	314.13	341.19	386.95	410.95	438.81
Enterprise value (RM m)	289.84	279.23	338.76	316.19	308.07
Cash per share (sen)	37.05	36.35	52.60	67.17	72.42
Total debt / equity (x)	0.27	0.24	0.44	0.41	0.39
Net debt / equity (x)	0.08	0.07	0.23	0.16	0.13
NTA per share (RM)	2.03	2.20	2.50	2.65	2.83
Price / NTA (x)	1.04	0.95	0.84	0.79	0.74
Revenue (RM m)	233.12	247.93	257.00	267.00	285.00
EBITDA (RM m)	70.35	69.58	63.74	69.96	75.49
EBIT (RM m)	68.50	67.25	60.88	66.80	72.03
Profit before tax (RM m)	67.66	65.15	58.18	63.80	68.93
Net profit (RM m)	40.15	38.51	31.63	34.85	38.69
Core net profit (RM m)	38.14	40.41	31.63	34.85	38.69
EBITDA margin (%)	30.2%	28.1%	24.8%	26.2%	26.5%
EBIT margin (%)	29.4%	27.1%	23.7%	25.0%	25.3%
Pretax margin (%)	29.0%	26.3%	22.6%	23.9%	24.2%
Net profit margin (%)	17.2%	15.5%	12.3%	13.1%	13.6%
Times interest earned (x)	80.78	32.01	22.55	22.27	23.23
Core earnings per share (sen)	26.32	27.89	20.43	22.50	24.99
EV/EBITDA (x)	4.12	4.01	5.32	4.52	4.08
Free cash flows per share (sen)	30.09	19.87	92.78	32.64	23.35

Source: Company, Mercury Securities

## VALUATION & RECOMMENDATION

### Market sentiment weak, OIB trades near 52-week low

With market sentiment being shaken by the prospects of rising US interest rates and a full-blown trade war between the US and China, OIB is trading near to the low of the 52-week price range of RM2.04-RM2.59. Based on our estimates, the stock at RM2.10 is now trading at an implied CY2019F PE of 9.3x, 0.77x CY2019F BV of RM2.74, CY2019F EV/EBITDA of 4.3x and 0.61x our estimated RNAV of RM3.63. The estimated RNAV is based on a revaluation of land held for future development, PP&E and investment properties and did not include potential profits from the development of LDA lands.

Fig 17: RNAV estimate for Oriental Interest Berhad

(RM m)	Carrying value	Est. market value	Surplus
Land held for property development	207.08	280.29	73.20
Property, plant & equipment	26.44	37.31	10.86
Investment properties	64.62	161.72	97.10
Shareholders' equity @ 31 March 2018			381.39
<b>Est Realisable Net Asset Value</b>			<b>562.56</b>
Issued share capital (m units)			154.86
<b>Est RNAV per share (RM)</b>			<b>3.63</b>

Source: Mercury Securities

### Target price for OIB set at RM2.56

Pegging OIB to the CY2019F market cap weighted average PE of 10.8x for four comparable property development peers and our CY2019F EPS forecast of 23.7 sen, we set a target price of RM2.56 for OIB. The TP implies CY2019F P/BV of 0.93x and EV/EBITDA of 5.3x, and a 29% discount to estimated RNAV. We believe OIB's implied P/BV is above peer average due to the low carrying values of some of properties of the group, including its agricultural lands (826.3 acres of oil palm plantation with a carrying value of RM32.4m and 172.9 acres in Seremban with a carrying value of RM10.4m).

Fig 18: Oriental Interest Berhad comparables

Company	Bloomberg code	Year end	Sh price (RM)	Issued cap (m units)	Mkt cap (RM m)	PER (x)			P/BV (x)			EV/EBITDA (x)		
						CY17F	CY18F	CY19F	CY17F	CY18F	CY19F	CY17F	CY18F	CY19F
Amvorton Bhd	AM MK	Dec	0.98	365.1	357.8	14.7	16.3	14.8	0.8	0.5	0.5	12.4	12.2	8.0
Glomac Bhd	GLMC MK	April	0.45	792.8	356.8	6.3	14.0	11.9	0.4	0.3	0.3	10.1	11.0	7.8
Tambun Indah Land Bhd	TILB MK	Dec	0.80	433.3	346.6	4.2	6.6	6.5	1.0	0.7	0.7	5.3	4.7	4.5
Sentoria Group Bhd	SNT MK	Sept	0.56	558.4	312.7	8.4	9.2	9.9	0.9	0.6	0.6	11.0	10.5	9.1
Market cap weighted average						8.4	11.6	10.8	0.8	0.6	0.5	9.7	9.6	7.3

Source: Bloomberg, Mercury Securities

## Initiate coverage with a BUY rating

While the operating environment is generally more challenging for property developers, OIB’s strength lies in its prudent management, strong focus on affordable residential properties, consistent profitability and dividend payment, sizeable own land bank and LDA lands, and a healthy balance sheet with rising cash reserves and low net gearing. We initiate coverage on OIB with **BUY** rating and target price of RM2.56 and BUY rating.

Fig 19: SWOT analysis for Oriental Interest Berhad

Strengths	Opportunities
<ul style="list-style-type: none"> <li>• Thirty three years experience with a strong reputation in the business</li> <li>• Sizeable land bank for future development, especially in the north</li> <li>• Strong focus on affordable residential properties</li> <li>• Healthy balance sheet and cash reserves</li> <li>• LDA lands minimise capital requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Demand remains relatively strong for mid-price and affordable residential properties</li> <li>• Healthy balance sheet for opportunistic land bank acquisitions</li> <li>• Economic growth remains stable</li> <li>• Excellent prospects of new government increasing focus on affordable public housing</li> </ul>
Weaknesses	Threats
<ul style="list-style-type: none"> <li>• Still restrictive lending rules</li> <li>• Higher debt level even though net gearing remains low</li> </ul>	<ul style="list-style-type: none"> <li>• Overall market may slow further if global and domestic uncertainties increase leading to unsold developed properties</li> <li>• Competition through product mix changes and pricing by competitors</li> </ul>

Source: Mercury Securities

## APPENDICES

### Appendix 1: Profit & Loss Statement

FYE 30 June (RM m)	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue	233.1	247.9	257.0	267.0	285.0
Cost of sales	(148.4)	(155.1)	(159.3)	(162.9)	(173.9)
<b>Gross profit</b>	<b>84.7</b>	<b>92.8</b>	<b>97.7</b>	<b>104.1</b>	<b>111.2</b>
Other income	4.8	4.2	3.0	4.0	5.0
Selling & distribution expenses	(3.7)	(4.9)	(5.1)	(5.3)	(5.7)
Administrative expenses	(14.4)	(18.1)	(24.4)	(25.4)	(27.1)
Other expenses	(2.9)	(6.8)	(10.3)	(10.7)	(11.4)
<b>Results from operating activities</b>	<b>68.5</b>	<b>67.2</b>	<b>60.8</b>	<b>66.7</b>	<b>72.0</b>
Finance costs	(0.8)	(2.1)	(2.7)	(3.0)	(3.1)
Share of results of associate	0.0	0.0	0.1	0.1	0.1
<b>Profit before tax</b>	<b>67.7</b>	<b>65.2</b>	<b>58.2</b>	<b>63.8</b>	<b>68.9</b>
Taxation	(16.0)	(15.6)	(14.5)	(15.9)	(17.2)
<b>Profit after tax</b>	<b>51.6</b>	<b>49.5</b>	<b>43.6</b>	<b>47.8</b>	<b>51.7</b>
Minority interests	(11.5)	(11.0)	(12.0)	(13.0)	(13.0)
<b>Net profit</b>	<b>40.2</b>	<b>38.5</b>	<b>31.6</b>	<b>34.8</b>	<b>38.7</b>
<b>Core net profit</b>	<b>38.1</b>	<b>40.4</b>	<b>31.6</b>	<b>34.8</b>	<b>38.7</b>

Source: Company Report, Mercury Securities

**Appendix 2: Balance Sheet**

FYE 30 June (RM m)	FY16A	FY17A	FY18F	FY19F	FY20F
Cash & bank balances	57.4	56.3	81.5	104.0	112.1
Debtors	102.6	141.9	154.2	146.9	156.8
Inventories	6.5	26.5	36.1	30.1	25.1
Other current assets	137.0	124.5	140.9	147.2	156.2
<b>Total current assets</b>	<b>303.5</b>	<b>349.3</b>	<b>412.7</b>	<b>428.2</b>	<b>450.2</b>
Property, plant & equipment	70.8	71.8	71.7	71.7	71.7
Land held for property development	96.3	94.9	170.2	180.0	190.0
Investment properties	28.2	26.4	26.3	26.3	26.3
Other non-current assets	11.3	11.9	14.2	14.2	14.2
<b>Total non-current assets</b>	<b>206.5</b>	<b>205.0</b>	<b>282.3</b>	<b>292.1</b>	<b>302.1</b>
<b>Total assets</b>	<b>510.0</b>	<b>554.3</b>	<b>695.0</b>	<b>720.3</b>	<b>752.4</b>
Short-term debt	52.9	56.4	60.0	60.0	60.0
Creditors	47.8	59.3	60.5	61.9	66.1
Other liabilities	3.0	2.9	2.0	2.0	2.0
<b>Total current liabilities</b>	<b>103.7</b>	<b>118.6</b>	<b>122.5</b>	<b>123.9</b>	<b>128.1</b>
Long-term debt	30.3	23.9	110.0	110.0	110.0
Other non-current liabilities	0.6	0.6	0.5	0.5	0.5
<b>Total non-current liabilities</b>	<b>30.9</b>	<b>24.5</b>	<b>110.5</b>	<b>110.5</b>	<b>110.5</b>
<b>Total liabilities</b>	<b>134.6</b>	<b>143.1</b>	<b>233.0</b>	<b>234.4</b>	<b>238.6</b>
Shareholders' equity	314.1	341.2	386.9	411.0	438.8
Minority interests	61.2	70.0	75.0	75.0	75.0
<b>Total equity</b>	<b>375.4</b>	<b>411.2</b>	<b>461.9</b>	<b>485.9</b>	<b>513.8</b>
<b>Total liabilities &amp; equity</b>	<b>510.0</b>	<b>554.3</b>	<b>695.0</b>	<b>720.3</b>	<b>752.4</b>

Source: Company Report, Mercury Securities

**Appendix 3: Cash Flows Statement**

FYE 30 June (RM m)	FY16A	FY17A	FY18F	FY19F	FY20F
<b>Pre-tax profit</b>	<b>67.7</b>	<b>65.2</b>	<b>58.2</b>	<b>63.8</b>	<b>68.9</b>
Depreciation & amortisation	1.8	2.3	2.8	3.1	3.4
Adjusted net interest expenses	(0.2)	0.1	0.5	0.6	0.6
Changes in working capital	(32.3)	(26.7)	(37.4)	8.4	(9.7)
Cash tax paid	(15.3)	(17.7)	(24.4)	(25.4)	(27.1)
Other operating cash flows	65.7	65.2	58.2	63.8	69.0
<b>Cash flow from operations</b>	<b>19.6</b>	<b>23.2</b>	<b>(0.3)</b>	<b>50.5</b>	<b>36.2</b>
Capital expenditure	(36.2)	(8.1)	(144.0)	0.0	0.0
Disposals of assets / subsidiaries	2.9	0.6	0.0	0.0	0.0
Other investing cash flows	7.3	1.9	2.2	2.4	2.5
<b>Cash flow from investing</b>	<b>(25.9)</b>	<b>(5.6)</b>	<b>(141.8)</b>	<b>2.4</b>	<b>2.5</b>
Debt raised / (purchased)	70.0	3.5	125.0	0.0	0.0
Proceeds from issue of shares	0.0	0.2	25.0	0.0	0.0
Dividend paid to ordinary	(10.9)	(11.6)	(10.8)	(10.8)	(10.8)
Other financing cash flows	(34.8)	(10.8)	(7.7)	(3.0)	(3.1)
<b>Cash flow from financing</b>	<b>24.4</b>	<b>(18.7)</b>	<b>131.5</b>	<b>(13.8)</b>	<b>(13.9)</b>
<b>Net cash flow</b>	<b>18.0</b>	<b>(1.1)</b>	<b>(10.7)</b>	<b>39.1</b>	<b>24.7</b>
Cash at beginning	39.3	57.4	56.3	45.6	84.7
<b>Cash at end</b>	<b>57.4</b>	<b>56.3</b>	<b>45.6</b>	<b>84.7</b>	<b>109.4</b>
<b>Free cash flow to firm</b>	<b>46.6</b>	<b>30.8</b>	<b>143.7</b>	<b>50.5</b>	<b>36.2</b>

Source: Company Report, Mercury Securities



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