

# Tambun Indah Land (TILB MK)

Property - Real Estate

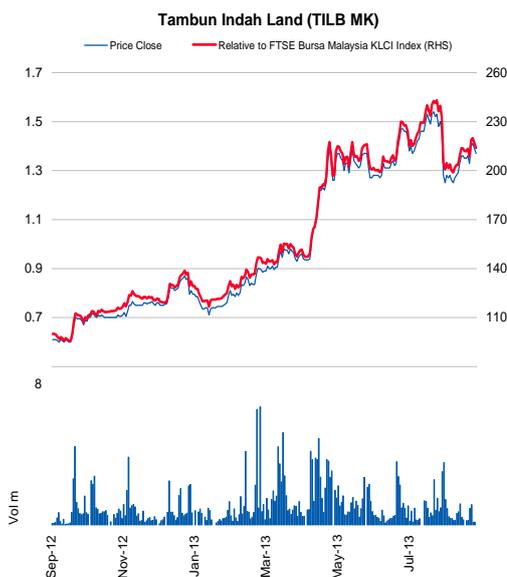
Market Cap: USD143m

**Buy** (Maintained)

Target Price: MYR2.00

Price: MYR1.37

## The More The Merrier

 Macro   
 Risks   
 Growth   
 Value 


Source: Bloomberg

Avg Turnover (MYR/USD)	1.18m/0.36m
Cons. Upside (%)	13.1
Upside (%)	46.0
52-wk Price low/high (MYR)	0.60 - 1.54
Free float (%)	53

Shareholders (%)	
Ir. Teh Kiak Seng	47.0

Shariah compliant

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We raise our FV on TILB to MYR2.00 as we lift our GDV estimate for Pearl City by 39%. Land and properties on Penang's mainland will soon see a re-pricing as EcoWorld has debuted in Seberang Perai Selatan. Armed with only 60 acres but with an ambitious management team, EcoWorld's participation in state-owned Batu Kawan is a wild card. If this turned out to be true, its impact may transform the mainland.

◆ **A major wave.** Following IJM Land (IJMLD MK, BUY, FV: MYR3.70)'s acquisition of 70 acres of land near the Jawi toll gate at MYR18.50 psf two months ago, media reports have mentioned that EcoWorld, said to be the next SP Setia (SPSB MK, NEUTRAL, FV: MYR3.52), also bought about 60 acres in Seberang Perai Selatan (at over MYR30 psf, based on our ground checks). We strongly believe that this area will see a new pricing benchmark very soon, and Tambun Indah Land (TILB) will be the key beneficiary given its 550-acre Pearl City. The positive effects can be seen from our observation of the Kajang/Semenyih and Kota Kemuning markets when SP Setia, EcoWorld, IJMLD and Mah Sing (MSGB MK, NEUTRAL, FV: MYR2.42), announced their respective township plans. As a result, land and properties in the surrounding areas shot up by 30-50% almost immediately, thereby significantly benefiting small developers with exposure in related areas such as MKH (MKH MK, NR) and LBS (LBS MK, NR).

◆ **Potentially not only that for EcoWorld.** SPSB's former general manager for the northern region, Dato' S. Rajoo, is now the COO of EcoWorld. Considering its large land parcels in the Klang Valley and Iskandar on top of Dato' Rajoo's immense experience, track record and connections in Penang, we believe that EcoWorld is likely to further expand its exposure in Penang from the present 70 acres. As land on the island is scarce, its participation in the state-owned Batu Kawan is a wild card. If our expectations materialise, this will certainly have a transformational impact on the mainland.

◆ **Maintain BUY.** As management has been too conservative in its GDV guidance, we raise our GDV estimate for Pearl City by 39% to better reflect its value. Pricing for the new launches has also surpassed management's assumption while more upside may be boosted by news of more acquisitions. As a result of the higher RNAV, we raise FV to MYR2.00 (from MYR1.82), based on a 15% discount to RNAV.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12	Dec-13F	Dec-14F
Total turnover (MYRm)	40	192	297	376	489
Reported net profit (MYRm)	25.2	23.4	40.8	54.9	90.3
Recurring net profit (MYRm)	25.2	23.4	40.8	54.9	90.3
Recurring net profit growth (%)	0.0	(7.3)	74.6	34.5	64.5
EPS (MYR)	0.27	0.11	0.13	0.16	0.23
DPS (MYR)	0.00	0.05	0.05	0.06	0.08
Dividend Yield (%)	0.0	3.9	3.4	4.2	5.9
Return on average assets (%)	0.0	8.7	10.7	11.7	16.1
Return on average equity (%)	0.0	17.0	21.6	23.4	31.0
P/E (x)	5.1	13.0	10.4	8.4	6.1
P/B (x)	1.08	1.95	1.91	1.86	1.62
Net debt to equity (%)	(3.1)	20.6	(4.6)	14.9	1.1

Source: Company data. RHB estimates

## The More The Merrier

### EcoWorld: A name that carries a premium

**A serious player that raises the game.** The media recently gave substantial coverage to EcoWorld, which is touted as the next SPSB. We saw many familiar faces in its team, which mostly comprises SPSB's former key personnel. The announcement of EcoWorld acquiring 65% of Focal Aims Holdings (FAH MK, NR) has caused a stir in the market, resulting in the stock hitting limit up for two consecutive days last week. According to some press reports, EcoWorld will have a landbank of 3,000 acres with a GDV of MYR30bn in its portfolio. This puts the company's GDV just behind UEM Sunrise (UEMS MK, NEUTRAL, FV: MYR2.73)'s MYR81bn, SPSB's MYR99bn, Sunway (SWB MK, BUY, FV: MYR3.55)'s MYR56bn and IJMLD's MYR40bn, although it will be ahead of MSGB's MYR24bn. If rumours prove true, ie EcoWorld is linked to SPSB's CEO Tan Sri Liew Kee Sin, it is certainly poised to expand and take its place among the top three developers in Malaysia.

**Initial impact on Penang mainland to benefit TILB.** Following IJMLD's acquisition of 70 acres of land at MYR18.50 psf near the Jawi toll gate two months ago, it was reported that EcoWorld also bought about 60 acres in Seberang Perai Selatan. Based on our industry checks, EcoWorld was likely to have paid more than MYR30 psf for the land, which is said to be located at the junction of Jalan Paboi and the old Simpang Ampat federal route, and we estimate it could be worth a GDV of MYR450-500m. The site is at a similar or slightly shorter distance to the Penang Second Bridge compared with TILB's *Pearl City*. We strongly believe that Seberang Perai Selatan will see a new pricing benchmark very soon. TILB is the key beneficiary given its 550-acre land size, more than eight times the size of EcoWorld's land. The positive effect can be visualised based on our observation of the Kajang/Semenyih and Kota Kemuning markets, after the big boys – SPSB, EcoWorld, IJMLD and MSGB respectively announced their major plans for townships. Note that both SPSB and EcoWorld have their *Ecohill* and *EcoGardens* townships in Semenyih, on 1,684 and 1,070 acres respectively, while MSGB has 425 acres at *Southville City* in Bangi, and IJMLD has 1,878 acres at *Bandar Rimbayu* in Kota Kemuning. This spillover resulted in land and properties in surrounding areas being repriced upward by 30-50% almost immediately. This significantly benefited the small developers that have exposure in the related areas, such as MKH (*Kajang 2, Pelangi Semenyih*) and LBS (*Bandar Saujana Putra*). We expect TILB to similarly benefit from this.

Figure 1: Location of Pearl City and EcoWorld's land



Source: Google maps, RHB

**Second wave of impact likely.** Dato' Rajoo, SPSB's general manager in the northern region, is now the COO of EcoWorld. Considering EcoWorld's sizeable landbank in the Klang Valley (1,080 acres) and Iskandar (1,913 acres), and given Dato' Rajoo's immense experience, strong links with the Penang state government and track record in developing the 113-acre *Setia Pearl Island*, we believe that EcoWorld will look at expanding its exposure in Penang further from its 70 acres currently. As land is scarce on the island, its participation in the state-owned Batu Kawan development is a wild card, or could also buy a larger tract of land on the mainland. If our expectations materialise, this will certainly have a profound effect on the mainland.

Our presumption is not far-fetched, based on SPSB's track record. During Dato' Rajoo's tenure in Penang, SP Setia successfully won the MYR300m project to build and operate the subterranean Penang international convention and exhibition centre (sPICE) from the state government. The company was also one of the frontrunners in bidding for the 102.6-acre land parcel at Bayan Mutiara, which was eventually won by Ivory Properties (IVORY MK, NR). Hence, the 6,326-acre Batu Kawan development under the Penang Development Corp (PDC) could provide plenty of opportunities for EcoWorld. The entire Batu Kawan area has been zoned for industrial park, residential and commercial developments. Over the last few months, PDC called for a request for proposal (RFP) for a premium outlet, international theme park and golf resort. Although the residential and commercial components will be undertaken by Global Oriental (GOB MK, NR) and Malton (MALT MK, NR), it is still possible that EcoWorld may strike a deal with PDC and participate in other components.

Meanwhile, buying a large tract of land on the mainland – say, above 100 acres – is still possible albeit no mean feat, as land is becoming more expensive. Apart from TILB and other key landbank owners such as Asas Dunia (ASAS MK, NR) (1,159 acres) which the latter's management recently tried to privatise, Wing Tai (WING MK, NR) (172.3 acres), Hunza (HPB MK, NR) (486 acres), many land parcels are held by private individuals. EcoWorld and, probably, other big developers, will have the necessary financial muscle to purchase outright landbank from individual owners, or even potentially take over a company to gain direct access to their landbank.

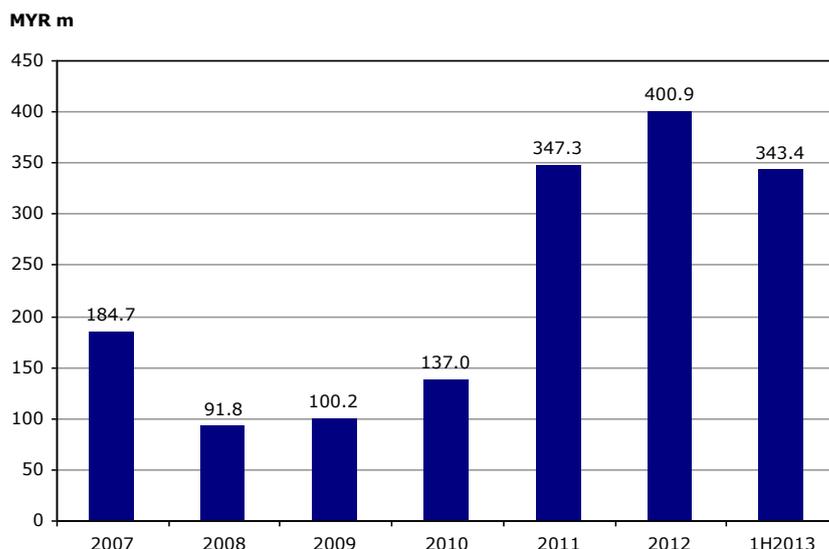
**TILB will stay competitive.** While investors may be concerned over TILB's market position given the greater competition ahead, we think otherwise. The company's cheap land cost (or book cost) of MYR14-15 psf and 550 acres in *Pearl City* are the two key reasons why we think it will stay competitive. Given its land cost, to achieve a normal 20-25% margin, new terraces launched by EcoWorld will have to be priced at above MYR500k per unit. As a result, TILB will not only be able to raise its selling prices (from MYR400k currently), but also wield enough bargaining power to price its properties a tad lower in order to remain competitive. In addition, given the size of the land, the full facilities and amenities provided within the township, including a clubhouse, schools, a medical centre and shopping complex, are still key attractions for young families. A township developed on a smaller scale, however, may not be able to offer some of these features.

### Underestimated GDV

**Management guidance too conservative.** We are of the view that management's estimated MYR2bn GDV for TILB's remaining undeveloped landbank of 449 acres in *Pearl City* is too conservative. The prices of about MYR400k/unit for the new terraces that were recently launched have already surpassed management's assumption of MYR350k/unit in deriving its GDV estimate. To better reflect the upside in pricing, we adjust TILB's GDV estimate upwards by 39%. This implies a selling price of MYR488k for a terrace house, which we deem reasonable and achievable. Note that TILB is already seeing a 10-12% increase in ASP per year over the last three years.

**TILB – a developer with highest earnings growth.** Due to the higher GDV estimate, we raise our FY14 earnings slightly by 5.6%. More material impact on earnings growth and margin will be seen over a longer term, particularly when EcoWorld starts launching its project. Our revised forecasts represent a massive net profit growth of 65% for FY14, largely attributed to the impact of the acquisition of minority stake in *Pearl City* from Nadayu Properties (NPB MK, NR). Progress billings from *Straits Garden* will also come in stronger after it has passed its piling stage. Our estimated EPS growth is 38%, the highest among the property stocks under our coverage. New sales are expected to spike upon the opening of the Penang Second Bridge in early 2014. 1H13 property sales already amounted to MYR343m, which is 86% of the MYR401m in total sales achieved last year.

**Figure 2: TILB's historical sales performance**



Source: Company

## Valuations

**Fair value raised to MYR2.00.** As a result of the higher RNAV, we raise our fair value to MYR2.00 (from MYR1.82), based on an unchanged 15% discount to RNAV. We find the FY14 P/E on which our fair value is based – at 9x (vs the sector average P/E of 11-12x) – still undemanding given the number of catalysts in sight: i) the opening of the Penang Second Bridge in early 2014, ii) a re-rating of land and properties spurred by EcoWorld and IJMLD, and iii) potential transformational impact if EcoWorld increases its exposure/landbank significantly.

Figure 3: TILB's RNAV

New projects	Total GDV (MYR m)	Land size (acres)	Equity stake	NPV @ 9.5%
<u>Ongoing projects</u>				
Dahlia Park	46.3		100%	8.1
Tanjung Heights	57.8		100%	10.1
Pearl Villas	145.3		100%	25.5
Juru Industrial Park	37.1		100%	6.8
Capri Park	51.6		100%	9.5
Pearl Square	73.1		100%	13.4
Pearl Indah	176.5		100%	31.0
Carissa Villa	54.6	4.4	100%	10.0
BM Residence	56.9	5.2	100%	10.4
Pearl Residence 1	219.7	39.7	100%	40.4
Pearl Impian	88.3	15.6	100%	16.2
Straits Garden	237.2	4.2	100%	41.6
<u>Remaining projects</u>				
Taman Bukit Residence	63.7	8.0	100%	11.7
Camellia Park	41.0	3.3	100%	6.9
Seri Permai	24.2	3.9	50%	2.1
Pearl Avenue - Ph. 1&2	148.9	17.6	100%	31.1
Pearl Harmoni	122.4	21.1	100%	23.5
Pearl Tropika	89.0	16.6	100%	17.1
Rain Tree Park 1	142.1	25.4	100%	28.5
Other phases - Pearl City	2,207.8	377.4	100%	389.8
<b>Total</b>				<b>733.69</b>
Shareholders' fund				214.72
Warrants proceed				26.52
Placement proceed (@ MYR1.30/share)				19.50
Total RNAV				994.43
Shares base incl. warrants & placement (m)				423.60
FD RNAV per share (MYR)				2.35
Discount				15%
Fair value per share				2.00

Source: RHB estimates

## Financial Exhibits

<b>Profit &amp; Loss (MYRm)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
Total turnover	40	192	297	376	489
Cost of sales	(28)	(131)	(193)	(248)	(320)
<b>Gross profit</b>	<b>12</b>	<b>61</b>	<b>104</b>	<b>129</b>	<b>169</b>
Gen & admin expenses	(1)	(15)	(24)	(31)	(41)
Other operating costs	17	1	2	2	2
<b>Operating profit</b>	<b>28</b>	<b>47</b>	<b>81</b>	<b>99</b>	<b>130</b>
Operating EBITDA	28	47	81	100	131
Depreciation of fixed assets	(0)	(0)	(1)	(1)	(1)
<b>Operating EBIT</b>	<b>28</b>	<b>47</b>	<b>81</b>	<b>99</b>	<b>130</b>
Net income from investments	-	(0)	1	-	-
Interest income	0	1	-	-	-
Interest expense	-	(1)	(2)	(4)	(4)
<b>Pre-tax profit</b>	<b>28</b>	<b>47</b>	<b>79</b>	<b>95</b>	<b>126</b>
Taxation	(2)	(13)	(22)	(26)	(35)
Minority interests	(1)	(10)	(16)	(14)	(1)
<b>Profit after tax &amp; minorities</b>	<b>25</b>	<b>23</b>	<b>41</b>	<b>55</b>	<b>90</b>
<b>Reported net profit</b>	<b>25</b>	<b>23</b>	<b>41</b>	<b>55</b>	<b>90</b>
<b>Recurring net profit</b>	<b>25</b>	<b>23</b>	<b>41</b>	<b>55</b>	<b>90</b>

Source: Company data, RHB estimates

<b>Cash flow (MYRm)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
<b>Operating profit</b>	<b>28</b>	<b>47</b>	<b>81</b>	<b>99</b>	<b>130</b>
<b>Depreciation &amp; amortisation</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Change in working capital</b>		<b>(61)</b>	<b>24</b>	<b>(23)</b>	<b>(39)</b>
Other operating cash flow	(39)	(18)	3	(406)	0
<b>Operating cash flow</b>	<b>(11)</b>	<b>(32)</b>	<b>108</b>	<b>(328)</b>	<b>92</b>
Interest received	0	1	-	-	-
Interest paid	-	(1)	(2)	(4)	(4)
Tax paid		(13)	(22)	(26)	(35)
<b>Cash flow from operations</b>	<b>(10)</b>	<b>(45)</b>	<b>84</b>	<b>(359)</b>	<b>53</b>
Capex	(49)	(34)	(45)	(20)	(20)
Other investing cash flow	88	28	(8)	-	-
<b>Cash flow from investing activities</b>	<b>39</b>	<b>(6)</b>	<b>(53)</b>	<b>(20)</b>	<b>(20)</b>
Dividends paid		-	(12)	(14)	(19)
Proceeds from issue of shares		24	42	-	-
Increase in debt	-	55	6	-	-
Other financing cash flow	(45)	(16)	(10)	373	20
<b>Cash flow from financing activities</b>	<b>(45)</b>	<b>63</b>	<b>26</b>	<b>359</b>	<b>1</b>
Cash at beginning of period	43	27	39	96	76
<b>Total cash generated</b>	<b>(16)</b>	<b>12</b>	<b>57</b>	<b>(20)</b>	<b>34</b>
<b>Implied cash at end of period</b>	<b>27</b>	<b>39</b>	<b>96</b>	<b>76</b>	<b>110</b>

Source: Company data, RHB estimates

## Financial Exhibits

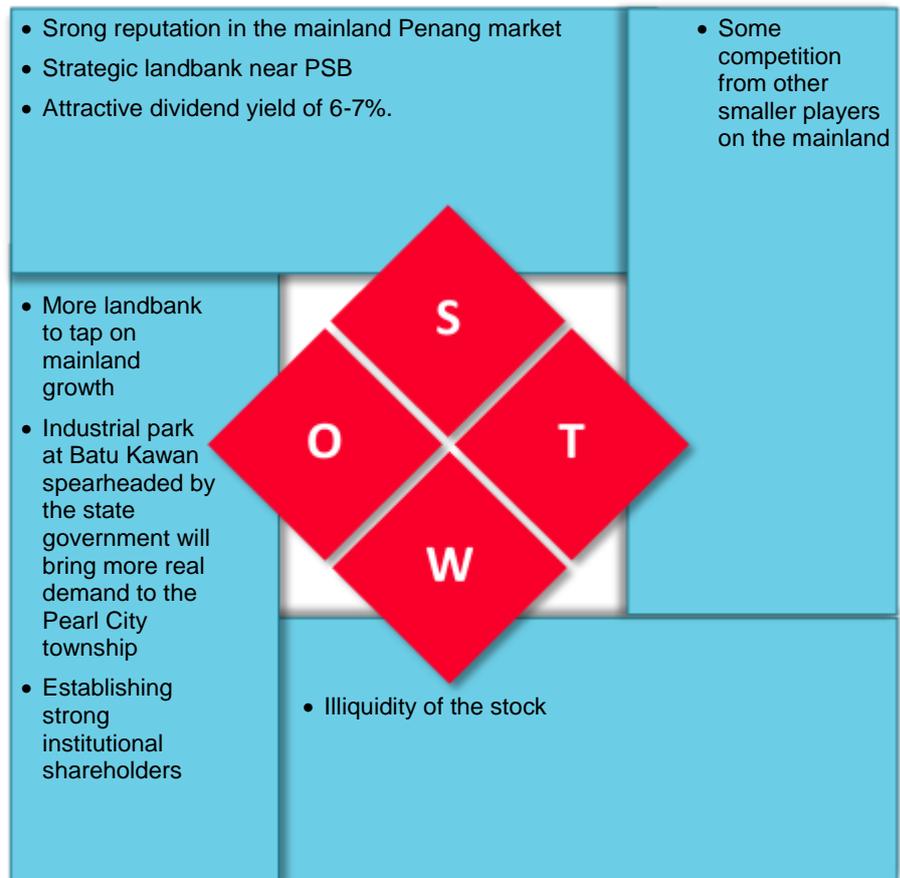
<b>Balance Sheet (MYRm)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
Total cash and equivalents	27	39	96	76	110
Inventories	65	116	129	164	213
Accounts receivable	58	65	71	89	116
Other current assets	2	1	1	1	1
<b>Total current assets</b>	<b>153</b>	<b>222</b>	<b>297</b>	<b>331</b>	<b>441</b>
Total investments	-	2	5	5	5
Tangible fixed assets	62	96	140	159	179
Intangible assets	0	2	-	-	-
Total other assets	-	1	1	1	1
Total non-current assets	62	100	146	166	185
<b>Total assets</b>	<b>215</b>	<b>322</b>	<b>444</b>	<b>497</b>	<b>626</b>
Short-term debt	18	6	7	17	17
Accounts payable	55	50	93	124	161
Other current liabilities	2	4	3	3	3
<b>Total current liabilities</b>	<b>76</b>	<b>60</b>	<b>103</b>	<b>144</b>	<b>181</b>
Total long-term debt	5	72	77	97	97
Other liabilities	1	3	2	2	2
<b>Total non-current liabilities</b>	<b>6</b>	<b>75</b>	<b>79</b>	<b>99</b>	<b>99</b>
<b>Total liabilities</b>	<b>82</b>	<b>135</b>	<b>182</b>	<b>243</b>	<b>280</b>
Share capital	95	111	155	167	200
Retained earnings reserve	25	38	60	15	74
Other reserves	-	6	8	64	64
<b>Shareholders' equity</b>	<b>120</b>	<b>155</b>	<b>223</b>	<b>246</b>	<b>337</b>
Minority interests	14	32	39	8	9
Other equity	-	-	-	0	-
<b>Total equity</b>	<b>134</b>	<b>187</b>	<b>262</b>	<b>254</b>	<b>346</b>
<b>Total liabilities &amp; equity</b>	<b>215</b>	<b>322</b>	<b>444</b>	<b>497</b>	<b>626</b>

Source: Company data, RHB estimates

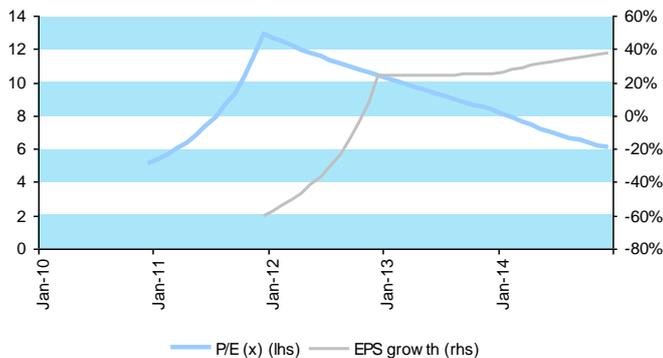
<b>Key Ratios (MYR)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
Revenue growth (%)	0.0	384.4	54.8	26.8	30.0
Operating profit growth (%)	0.0	65.0	72.6	23.1	30.9
Net profit growth (%)	0.0	(7.3)	74.6	34.5	64.5
EPS growth (%)	0.0	(60.4)	24.1	24.9	37.9
Bv per share growth (%)	0.0	(44.5)	2.2	2.3	15.0
Operating margin (%)	71.5	24.4	27.2	26.4	26.6
Net profit margin (%)	63.7	12.2	13.7	14.6	18.5
Return on average assets (%)	0.0	8.7	10.7	11.7	16.1
Return on average equity (%)	0.0	17.0	21.6	23.4	31.0
Net debt to equity (%)	(3.1)	20.6	(4.6)	14.9	1.1
DPS	0.00	0.05	0.05	0.06	0.08
Recurrent cash flow per share	(0.11)	(0.20)	0.27	(1.07)	0.13

Source: Company data, RHB estimates

## SWOT Analysis

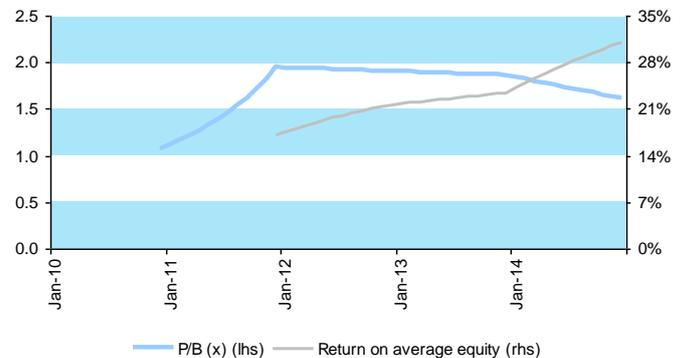


P/E (x) vs EPS growth



Source: Company data, RHB estimates

P/BV (x) vs ROAE

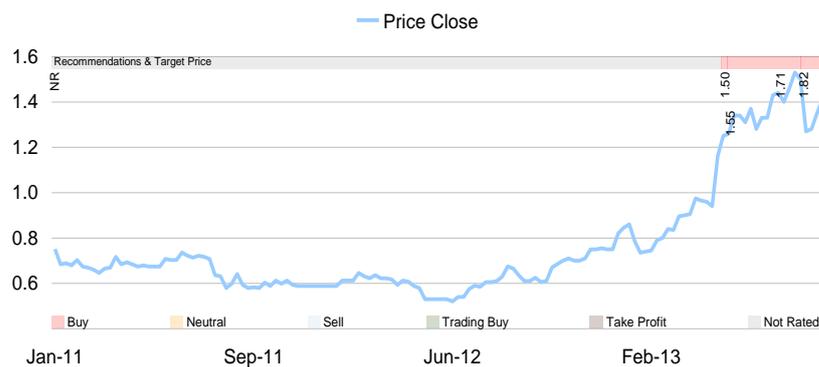


Source: Company data, RHB estimates

## Company Profile

Tambun Indah Land is a developer based in Penang's mainland. Its flagship township, Pearl City, is located at Simpang Ampat, 15 minutes away from the Penang Second Bridge.

## Recommendation Chart



Source: RHB estimates, Bloomberg

Date	Recommendation	Target Price	Price
2013-08-20	Buy	1.82	1.52
2013-07-22	Buy	1.71	1.47
2013-06-07	Buy	1.55	1.34
2013-05-20	Buy	1.55	1.35
2013-05-13	Buy	1.50	1.22

Source : RHB estimates, Bloomberg

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- Buy:** Share price may exceed 10% over the next 12 months  
**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain  
**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months  
**Take Profit:** Target price has been attained. Look to accumulate at lower levels  
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