



Tambun Indah Land Berhad

Compelling Dividend Play

TP: RM1.05 (+50%)

Main Market

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Tambun Indah is a premier property developer based in Mainland Penang. Founded in 1994, the company has accumulated more than 16 years experience in the property market. Tambun Indah is planning to raise RM22.4mn via an IPO at an issue price of RM0.70 per IPO Share. We derived a fair value of RM1.05 based on our target PER of 8x for small-cap property companies. With a potential upside of more than 50%, we recommend investors to subscribe to Tambun Indah's IPO.

Background

Tambun Indah has completed >2,800 units of residential property with a total value of >RM800mn. It recorded a record high RM130mn sales over 11 months ended November 2010, bringing the unbilled amount to an estimated RM130mn, which would keep the company busy over the next one year. Looking forward, Tambun Indah has lined up 6 new projects in Mainland Penang (refer to Table 1) with a combined GDV of RM211.56mn.

Table 1: Project timeline

New projects	GDV	Targeted commencement and completion					
		2010	2011	2012	2013	2014	2015
Dahlia Park	42.09	←————→					
Impian Residence	40.82	←————→					
<u>Pearl Garden</u>		←————→					
- Pearl Villa Phase 1	60.6	←————→					
- Pearl Villa Phase 2	59.55	←————→					
- Pearl Residence 1	188.36	←————→					
- Pearl Residence 2	107.02	←————→					
- Pearl Residence 3	366.95	←————→					
Capri Park	36.07	←————→					
Tanjung Heights	52.16	←————→					
BM Residence	39.25	←————→					
Tmn Bukit Residence	24.3	←————→					
Total GDV	1017.17						

Source: Tambun Indah Land

IPO

Tambun Indah's IPO comprises a public issue of 32mn new shares at an issue price of RM0.70, available for application by the Malaysian Public (11.05mn), eligible directors, employees and business associates (11.05mn), and identified investors via private placement (9.9mn). It also comprises an offer for sale of 22.1mn to MITI-approved bumiputra investors.

Post IPO, Ir. Teh Kiak Seng, the founder and managing director of Tambun Indah, will be the single largest shareholder with an interest of 40.38% in the company. He is currently a member of the Institute of Engineers, Malaysia and a registered professional engineer with the Board of Engineers Malaysia. He holds the position of Honorary Secretary of the REHDA in Penang.

SHARE INFO

Bloomberg Code	na
Bursa Name	na
Stock Code	na
Listing	Main Market
Share Cap (m)	221.0
Market Cap @ RM0.70 (RMm)	154.7
Par Value (RM)	0.50
52-wk Hi/Lo (RM)	na
12-mth Avg Daily Vol (000' shrs)	na
Estimated Free Float (%)	43
Beta	na
Major Shareholders (%)	
	Ir. Teh Kiak Seng- 42.6
	Tsai Yung Chuan - 10.4
	Dato' Hong Yeam Wah - 8.98

RATIO & ANALYSIS

NTA Per Share (Post IPO)	RM0.57
Price to NTA (x)	1.2
Proforma ROE (%)	21.0
Proforma ROA (%)	14.8
Proforma Net Gearing (%)	Net Cash
Proforma Current Ratio (x)	4.4

INDICATIVE TIMETABLE

Opening	29-Dec-10
Closing	6-Jan-11
Balloting of Applications	10-Jan-11
Allotment of Shares	17-Jan-11
Listing	18-Jan-11

UTILISATION OF PROCEEDS

	RMmn	%
Working capital	12.7	56.7
Repayment of loan	7.1	31.7

Utilisation of listing proceeds

The listing proceeds of RM22.4mn will be utilized in the following manners:

Propose of utilisation	Est. time frame for utiliation	RMmn
Working capital	Within 12 months	12.7
Repayment of bank borrowings	Within 12 months	7.1
Est. listing expense	Within 3 months	2.6
Total gross proceeds		22.4

Source: Prospectus

Investment Merits

- 1) Niche player focusing on asset-light strategy;
- 2) Benefiting from housing incentives;
- 3) Attractive dividend yield.

Niche player focusing on asset-light strategy

As at Jun-10, Tambun Indah's non-current asset amounted to only RM22.7mn or 12% of the group's total assets. This asset-light strategy is viable for a company like Tambun Indah which focuses on fast turnaround approach that helps to minimize holding costs and provides necessary funding for the group if landbanking opportunities arise.

The key to the success of Tambun Indah's fast turnaround strategy lies with its massive undeveloped GDV of RM1bn. Assuming Tambun Indah were to launch RM300mn worth of properties per year, it would take 3 years for the company to launch all the projects. For FY11, 6 projects, namely Dahlia Park, Impian Residence, Pearl Villa Phase 1 and 2, Tanjung Heights and BM Residence, worth RM211.6mn are targeted for launch.

Note that the key earnings driver would be the development of Pearl Garden, a gated and guarded community in Simpang Ampat, with a GDV of RM780mn. This township is 5-minutes drive away from the North-South Expressway and 15-minutes drive away from the 1st and 2nd Penang bridge. The land size is approximately 254 acres and the development is expected to be completed by 2016. As a key earnings driver, we expect it to contribute RM80-90mn sales to the company for FY11-12.

Benefiting from housing incentives

Generally, the products offered by Tambun Indah can be categorized into 3 groups: 1) affordable 2-storey terrace and condominium which priced in the range between RM250k-300k/unit; 2) up-market semi-detached and bungalows priced at RM400-600k/unit; and 3) commercial shop offices at RM650k-900k/unit. We expect the demand for the affordable range to rise, thanks to the 50% waiver on stamp duty on instrument of transfer and loan agreement proposed by the government in 2011 budget, which would bode well for Tambun Indah.

Attractive dividend yield

Tambun Indah has a dividend policy of paying 40-60% of the group's net profit to shareholders. At an IPO price of RM0.70/share, the dividend yield works out to 7-8.6% based on 40-48% of our estimated FY10-12 earnings, which is the highest among the property stocks under our coverage.

Table 2: Dividend yield

Company	Price	Market Cap (RM'mil)	Dividend yield (%)		
			FY10	FY11	FY12
SP Setia	6.30	6406.4	3.2	3.2	3.5
Mah Sing	1.90	1580.0	3.7	3.9	4.7
Glomac	1.69	502.2	5.0	5.3	5.3
KSL	1.83	714.7	2.7	3.3	3.8
Encorp	0.94	209.0	5.3	5.3	5.3
Tambun Indah	0.70	154.7	7.1	8.6	8.6

Risks

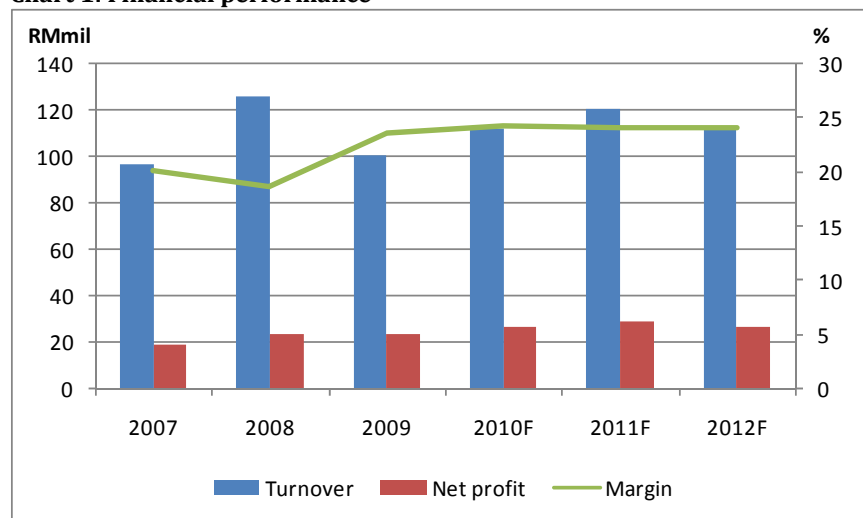
We are aware of the risks attached to the company’s fast turnaround strategy given the need to replenish its landbank even though at high cost. The drop in demand will adversely impact the group and affect the operating margin. Having said that, we surmise the risk is low given that the group has an undeveloped GDV of RM1bn for future launch.

Financial Highlights

Tambun Indah posted 16.5% YoY growth in earnings for 6M10, underpinned by: 1) 5% growth in revenue; and 2) 3.9%-pts increase in net margin. Post IPO, the group’s total net cash will increase by 74% to RM46.5mn. According to management, the excess cash position is earmarked for land acquisitions, targeting Penang, Kajang and/or Shah Alam.

Looking forward, we project 2H10 net profit to grow sequentially on the back of higher progress billing and improved margins. For FY11-12, we project sales of RM133-166mn to be derived mainly from Pearl Garden. We expect the PBT margin to remain stable at 32.2-32.3% largely due to favourable product mix.

Chart 1: Financial performance



Valuation

We make a direct comparison with Ivory Properties given the similar attributes, i.e.: 1) these companies are Penang-based developers which focus purely in Penang; 2) small earnings base and market capitalization; and 3) both companies offer mid- to high-end residential properties. The benchmark against Ivory Properties would allow us to assess the current market sentiment on Penang-based developers' IPOs as Ivory Properties was recently listed on the Main Market of Bursa Malaysia.

As shown in table 3, Tambun Indah scores for higher earnings growth (for FY11), dividend yield and its net cash position vs. Ivory Properties. However, Tambun Indah's FY11 PE is lower than Ivory Properties. Based on Ivory Properties' current FY11 PE of 6.35x, Tambun Indah should theoretically trade above RM0.84 on the listing day.

We value Tambun Indah at RM1.05 based on our target PER of 8x for small cap property sector. At RM1.05, Tambun Indah offers potential capital appreciation of 50% with a projected dividend yield of 4.8%. As such, we recommend investors to subscribe to Tambun Indah's IPO.

Table 2: Direct peer comparison

	Price	Market cap (RM'mil)	Net profit growth (%)		PE (x)		Dividend yield (%)		Net gearing (x)
			FY11	FY12	FY11	FY12	FY11	FY12	
Tambun Indah Land	0.70	154.70	7.24	-7.04	5.29	5.69	8.57	8.57	Net cash
Ivory Properties	1.08	200.88	2.16	28.98	6.35	4.91	2.78	2.78	0.40

Earnings Summary

FYE Dec 31 (RMmil)	2008	2009	2010E	2011F	2012F
Revenue	126.0	100.9	112.3	121.0	112.7
EBITDA	34.7	30.8	36.4	39.1	36.3
EBITDA margin (%)	27.5	30.5	32.4	32.3	32.2
PBT	34.5	30.0	36.4	39.0	36.2
Taxation	(11.0)	(6.3)	(9.1)	(9.7)	(9.1)
PAT	23.5	23.9	27.3	29.2	27.2
Enlarged Shares	221.0	221.0	221.0	221.0	221.0
Net EPS (sen)	10.6	10.8	12.3	13.2	12.3
GDPS (sen)	0	0	5	6	6
PE (x)	6.6	6.5	5.7	5.3	5.7
Dividend yield (%)	0.0	0.0	7.1	8.6	8.6

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