

Tambun Indah (HOLD ↓, EPS ↔)

 INDUSTRY: NEUTRAL
 EARNINGS EVALUATION

April 29, 2014

Price Target: RM1.96 (↔)

Share price: RM1.98

Healthy results; target price met

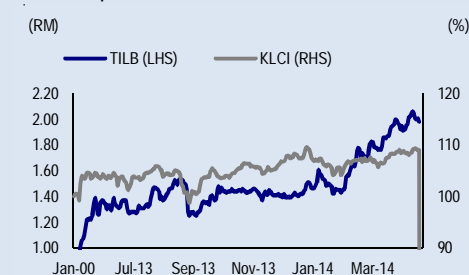
Results	<ul style="list-style-type: none"> 1Q14 core PAT rose 115.7% yoy to RM25.3m, making up 27% of both HLIB and consensus estimates.
Deviations	<ul style="list-style-type: none"> Slightly ahead of HLIB and consensus due to strong 1Q topline growth (+43% yoy) coupled with lower marketing expenses (-40% yoy).
Dividends	<ul style="list-style-type: none"> None, as expected for 1Q.
Highlights	<ul style="list-style-type: none"> Healthy topline growth. 1Q14 revenue rose 43% yoy to RM112m, driven by increased progress billings, higher take-up rates of the on-going projects as well as introduction of new development projects in 1Q14. We note that 1Q14 revenue was stronger than all quarters in FY13, with the exception of 4Q13. As expected, Pearl City @ Pearl City remains the flagship, and contributed circa 67.0% of the total segment revenue in 1Q14. Margin expansion. Operating profit margin saw +1.0ppts yoy increase to 32%, due to lower sales and marketing expenses. We understand that the current phases of Pearl City, namely Pearl Indah 1-3, which were launched in 2012-13, absorbed the stamp duty for buyers, but starting this year, TILB only absorbs the legal fees, which are significantly lower. Remains very much a Penang pure play, as highlighted in our initiation report dated March 7th 2014, with its ongoing property development projects concentrated in Bukit Mertajam and Pearl City, in addition to Straits Garden in Penang Island.
Risks	<ul style="list-style-type: none"> Slowdown in mainland Penang property market (unlikely), as it is 100% concentrated in Penang.
Forecasts	<ul style="list-style-type: none"> Maintained.
Rating	<ul style="list-style-type: none"> HOLD (↓) Positives: (1) Strong beneficiary of rising land prices in Penang mainland; (2) Pearl City Flagship will provide the main earnings driver; (3) Undemanding valuations – still trading at 6.4x FY15E P/E. (4) Attractive 6.2% DY (FY15E). Negatives: High project concentration in Penang.
Valuation	<ul style="list-style-type: none"> Ever since we initiated coverage, share price has risen 8.2% and our RM1.96 TP has been exceeded (based on 10% discount to RNAV). With strong activity and interest in Penang mainland, particularly with the Eco World's acquisition of 76 acres of land in nearby Bukit Tambun (RM920m GDV), we foresee more long term catalysts ahead to benefit Pearl City and TILB. While we remain long-term positive, we believe share price could consolidate in the near term, thus, downgrade to Hold. We maintain our TP, pending a meeting with management.

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KLCI	1855.7
Expected share price return	-1.1%
Expected dividend return	6.2%
Expected total return	5.1%

Share price

Information

Bloomberg Ticker	TILB MK
Bursa Code	5191
Issued Shares (m)	396
Market cap (RMm)	783
3-mth avg volume ('000)	859

Price Performance	1M	3M	12M
Absolute %	2.1	38.5	106.3
Relative %	1.8	32.9	90.2

Major shareholders

Ir. Teh Kiak Seng	38.4%
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Summary Earnings Table

FYE 31 Dec (RM m)	2013A	2014E	2015E	2016E
Revenue	376.4	433.5	513.1	522.9
Reported net profit	65.0	93.4	121.3	131.7
Norm. net profit	65.0	93.4	121.3	131.7
Norm. EPS (sen)	19.8	23.7	30.8	33.4
EPS growth (%)	50.6	19.9	29.9	8.5
Norm. PER (x)	10.0	8.4	6.4	5.9
FD PER (x)	10.0	8.4	6.4	5.9
Net DPS (sen)	10.7	9.5	12.3	13.4
Dividend yield (%)	5.4	4.8	6.2	6.7
BVPS (RM)	0.9	0.9	1.1	1.3
P/B (x)	2.1	2.1	1.8	1.5

HLIB

Figure #1 Quarterly results comparison

FYE 31 DEC	1Q13	4Q13	1Q14	QoQ (%)	YoY (%)	Remarks
Revenue	78.3	118.4	112.0	-5.4	43.0	The yoy increase in revenue was mainly attributed to stronger progress billings as well as higher takeup rates of the on-going projects. The main contributor was Pearl City, Simpang Ampat (67% of the quarter's revenue).
Cost of Sales	-49.1	-78.0	-72.1	-7.5	46.8	
Gross profit	29.2	40.4	39.9	-1.3	36.6	
Other income	1.3	1.0	0.6	-36.3	-51.9	
Selling and marketing expenses	-3.5	-4.2	-2.1	-49.9	-39.7	We understand from management that FY13 sales expenses were higher as TILB absorbed the stamp duty for Pearl Indah 1-3. However, for FY14, TILB now only absorbs the legal fees for Phase 2 of Pearl Indah 3.
Administrative expenses	-2.7	-1.9	-2.7	42.9	-1.7	
Operating Profit	24.3	35.3	35.7	1.1	47.1	
Finance costs	-0.7	-0.2	-1.3	489.4	94.1	
Associates	0.3	1.1	0.8	-26.6	143.7	
Profit before taxation	24.0	36.3	35.3	-2.7	47.2	Flow down from revenue.
Income tax expense	-7.1	-8.0	-9.9	23.1	39.8	
Net profit	16.9	28.2	25.4	-10.0	50.2	
PATAMI	11.7	22.1	25.3	14.6	115.7	
Minority interest	5.2	6.2	0.1	-98.1	-97.7	Flow-down from PBT.
EPS (sen)	3.8	6.1	6.4	4.4	70.0	
DPS (sen)	0.0	4.6	0.0	-100.0	#DIV/0!	

Source: Bloomberg, HLIB

Figure #2 Cumulative results comparison

	FY13	FY14	YoY (%)	HLIB	% HLIB	Remarks
Revenue	78.3	112.0	43.0	433.5	25.8	In-line
Cost of Sales	-49.1	-72.1	46.8			
Gross profit	29.2	39.9	36.6			
Other income	1.3	0.6	-51.9			
Selling and marketing expenses	-3.5	-2.1	-39.7			
Administrative expenses	-2.7	-2.7	-1.7			
Operating Profit	24.3	35.7	47.1			
Finance costs	-0.7	-1.3	94.1			
Associates	0.3	0.8	143.7			
Profit before taxation	24.0	35.3	47.2	128.0	27.6	Ahead due to lower marketing expenses.
Income tax expense	-7.1	-9.9	39.8			
Net profit	16.9	25.4	50.2			
PATAMI	11.7	25.3	115.7	93.4	27.1	Flow-down from PBT.
Minority interest	5.2	0.1	-97.7			
EPS (sen)	3.8	6.4	70.0			
DPS (sen)	0.0	0.0	#DIV/0!			

Source: Bloomberg, HLIB

Figure #3 HLIB vs. consensus

RMm	2014E			2015E		
	HLIB	Consensus	%	HLIB	Consensus	%
Net Profit	93.4	92.6	0.9	121.3	116.8	3.9
EPS (sen)	23.7	24.0	-1.3	30.8	30.0	2.6

Source: Bloomberg, HLIB

Figure #4 RNAV table

Project profits - DCF	RMm
Ongoing projects	
Dahlia Park	2.09
Tanjung Heights	3.30
Pearl Villas	5.38
Juru Industrial Park	1.97
Capri Park	3.53
Pearl Square	3.41
Pearl Indah 1	3.42
Pearl Indah 2	1.05
Pearl Indah 3	8.53
Carissa Villa	5.31
BM Residence	7.04
Pearl Residence 1	30.86
Pearl Impian	13.60
Straits Garden	34.58
Pearl Avenue 1	11.34
Future projects	
Taman Bukit Residence	9.25
Camellia Park	6.43
Permai Residence	3.78
Pearl Avenue 2	10.91
Other phases - Pearl City	310.85
Unbilled Sales	67.51
Total Surplus	544.13
Total Equity	313.59
Total RNAV	857.71
Shares outstanding (m)	394.23
RNAV per share (RM)	2.18
Discount to RNAV	10.0%
Target Price (RM)	1.96

Source: Company, HLIB

Financial Projections

Income statement

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Revenue	296.9	376.4	433.5	513.1	522.9
COGS	-193.4	-239.7	-282.1	-328.8	-329.8
Gross profit	103.5	136.7	151.4	184.3	193.1
Other income	1.7	3.7	3.7	3.7	3.8
Sales and marketing exp	-13.5	-12.1	-11.5	-11.0	-10.5
Administrative expenses	-11.0	-10.0	-9.6	-9.3	-8.9
Finance costs	-2.2	-2.8	-5.9	-1.5	3.0
Associates	0.5	2.3	0.0	0.0	0.0
Pretax profit	79.0	117.7	128.0	166.2	180.4
Taxation	-21.9	-30.0	-34.6	-44.9	-48.7
Minorities	-16.2	-22.8	0.0	0.0	0.0
Net profit	40.8	65.0	93.4	121.3	131.7
Basic shares (m)	310.8	328.7	394.2	394.2	394.2
Basic EPS (sen)	13.1	19.8	23.7	30.8	33.4

Balance sheet

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Inventories	0.3	0.3	0.4	0.4	0.4
Trade & other receivable	70.6	86.6	103.0	121.9	124.3
Cash	96.0	125.9	213.4	286.3	362.5
Current Assets	297.4	339.8	443.7	535.5	614.1
PPE	3.6	3.4	3.9	4.4	4.9
Investment properties	58.6	64.2	64.2	64.2	64.2
Dev. Land	78.0	78.5	78.5	78.5	78.5
Total assets	443.9	496.9	601.4	693.7	772.8
Shr Holder funds	155.4	197.1	197.1	197.1	197.1
Total Equity	261.9	313.6	369.6	442.4	521.5
Long-term borrowings	77.1	73.3	77.1	77.1	77.1
Short-term borrowings	6.7	24.8	6.7	6.7	6.7

Assumption metrics

FYE 31 Dec (RM m)	2014E	2015E	2016E
Gross margin	34.9	35.9	36.9
PBT margin	29.5	32.4	34.5
Net margin	21.6	23.6	25.2

Source: Company, HLIB

Valuation ratios

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
Reported basic EPS (sen)	13.1	19.8	23.7	30.8	33.4
Norm. basic EPS (sen)	13.1	19.8	23.7	30.8	33.4
Norm. FD EPS (sen)	13.1	19.8	23.7	30.8	33.4
Price	2.0	2.0	2.0	2.0	2.0
PER (x)	15.1	10.0	8.4	6.4	5.9
Net DPS (sen)	9.1	10.7	9.5	12.3	13.4
Net DY (%)	4.6	5.4	4.8	6.2	6.7
NTA/ share (sen)	83.9	94.2	92.8	111.2	131.3
P/NTA (x)	2.4	2.1	2.1	1.8	1.5
Enterprise value	603.3	623.1	651.0	578.1	501.9
EV/ EBITDA (x)	7.4	5.2	4.8	3.4	2.8
ROE (%)	15.6	20.7	25.3	27.4	25.3
Net gearing (x)	0.0	-0.1	-0.4	-0.5	-0.5
BVPS (RM)	0.8	0.9	0.9	1.1	1.3

Cashflow

FYE 31 Dec (RM m)	2012A	2013A	2014E	2015E	2016E
PAT	57.0	87.8	93.4	121.3	131.7
Depreciation	0.5	0.5	0.5	0.5	0.5
Amortisation	0.0	0.0	0.0	0.0	0.0
Working cap & others	24.0	24.0	32.0	0.6	-2.2
Operating cashflow	83.7	83.7	125.9	122.4	129.9
Capex	-50.1	-50.1	-1.0	-1.0	-1.0
Investing Cashflow	-52.7	-52.7	-1.0	-1.0	-1.0
Issue of shares	45.0	45.0	0.0	0.0	0.0
Dividends	-11.8	-11.8	37.4	48.5	52.7
Others	-12.4	-12.4	0.0	0.0	0.0
Financing cashflow	20.8	20.8	-37.4	-48.5	-52.7
Net cash flow	51.9	51.9	87.5	72.8	76.2

Quarterly financial summary

FYE 31 Dec (RM m)	1Q13	2Q13	3Q13	4Q13	1Q14
Revenue	78.3	82.6	97.1	118.4	112.0
Cost of sales	-49.1	-52.1	-60.5	-78.0	-72.1
Gross profit	29.2	30.5	36.6	40.4	39.9
Selling and marketing exp	-3.5	-1.8	-2.7	-4.2	-2.1
Administrative expenses	-2.7	-2.8	-2.6	-1.9	-2.7
Operating Profit	24.3	26.6	32.0	35.3	35.7
Pretax profit	24.0	26.3	31.2	36.3	35.3
Net profit	11.7	14.0	17.2	22.1	25.3
Basic shares (m)	311.3	313.7	329.5	359.2	394.8
Basic EPS (sen)	3.8	4.5	5.2	6.1	6.4
DPS (sen)	0.0	0.0	2.0	4.6	0.0
FCF/ share (sen)	-15.9	5.2	9.1	2.4	-14.0
Net cash/ share (sen)	-2.9	3.2	14.7	7.7	-2.2

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