

Corporate Highlights



**RHB Research
Institute Sdn Bhd**
A member of the
RHB Banking Group
Company No: 233327 -M

Visit Note

11 October 2012

Tambun Indah Land Berhad

Share Price : RM0.60

Not Rated

The 2nd Penang Bridge To Narrow Property Price Gap

Table 1 : Investment Statistics (TAMBUN; Code: 5191)

Bloomberg: TILB MK

FYE	Turnover (RMm)	Net #					Net				
		profit (RMm)	EPS (sen)	Growth (%)	PER (x)	C.EPS* (sen)	P/CF (x)	P/NTA (x)	ROE (%)	Gearing (%)	NDY (%)
2011	191.8	23.4	8.8	-	6.8	-	(3.6)	1.0	17.0	Net Cash	6.3
2012F	296.4	38.8	14.6	66.0	4.1	-	0.8	0.7	20.6	Net Cash	11.0
2013F	370.0	48.4	15.2	3.9	3.9	-	(0.3)	0.8	20.8	Net Cash	12.5
2014F	456.6	59.7	18.2	20.0	3.3	-	6.7	0.7	22.9	Net Cash	15.0

Main Market Listing /Non-Trustee Stock

Normalised

* Consensus Based On IBES Estimates

- ◆ **Penang mainland – an area which has been underestimated.** As attention has always been focusing on the Penang island, the prospect of the property market in the mainland has been underestimated. Given the completion of the 2nd Penang Bridge, which connects Batu Maung and Batu Kawan, in Sept 2013 and more industrial parks will be set up on the mainland, population and business activities on the mainland will increase, driving the property buying interest in these areas. Spillover will also come from the island, given the stubbornly high property prices there and hence more attractive price gaps. Tambun Indah (TI) has about 660 acres of land on the mainland to tap on the strong growth potential. The % of Penang island buyers for TI's key residential project Pearl Garden/Villa has also risen to 41% in 2011 from 28% in 2009.
- ◆ **Property sales accelerating.** One year ahead of the completion of the 2nd Penang Bridge, demand for properties on the mainland is already gaining momentum. This is reflected on the pricing trend of TI's properties with an appreciation of 10-20% between 2010 and 2011. Moreover, TI's sales of RM347m in 2011 were more than doubled from RM137m in 2010. Given the right pricing, location, quality products, design and landscaping, we expect TI's sales to hit RM400m this year. 1H's property sales already amounted to RM212m and RM600m GDV worth of projects will be released in 2H. Some projects such as the Straits Garden (GDV RM236m) have already achieved take-up rate of 80% and 50% for the first two blocks.
- ◆ **Dividend stands out, anchored by solid balance sheet and earnings growth.** TI is professionally managed. The company's balance sheet is currently in net cash, giving it ample war chest for landbanking. Given the low land cost of RM11 psf for the 650-acre Pearl City (vs. current market value of >RM20 psf), GP margin of 30-35% is not only sustainable but also comparable to some of the top peers in the industry. The steady earnings growth will underpin its dividend payout of 40-60%. Based on the current share price, our DPS estimates suggest a fairly attractive dividend net yield of 11%, possibly the highest in the sector.
- ◆ **Key risks.** 1) stock illiquidity; and (2) global macroeconomic risk.
- ◆ **Forecasts.** We estimate a massive earnings growth of 66%, 25% and 23% for FY12-14. Unbilled sales as at 1H12 stand at RM262.7m.
- ◆ **58% upside and 11% net yield.** TI is a good Penang mainland property play. There is no research house covering TI currently, which probably explains the company's relatively undemanding valuations of about 4x PE. TI's growth and dividend angle have been substantially under-appreciated by the market. We value TI at RM0.95, based on a 40% discount to RNAV. Share price is now slightly below its adjusted IPO price of RM0.64.

Issued Capital (m shares)	310.4
Market Cap (RMm)	186.3
Daily Trading Vol (m shs)	0.1
52wk Price Range (RM)	0.505 – 0.68
Major Shareholders:	(%)
Ir. Teh Kiak Seng	46.7
LTAT	2.1
Felda	1.6

FYE Dec	FY12	FY13	FY14
EPS chg (%)	-	-	-
Var to Cons (%)	-	-	-

PE Band Chart



Relative Performance To FBM KLCI



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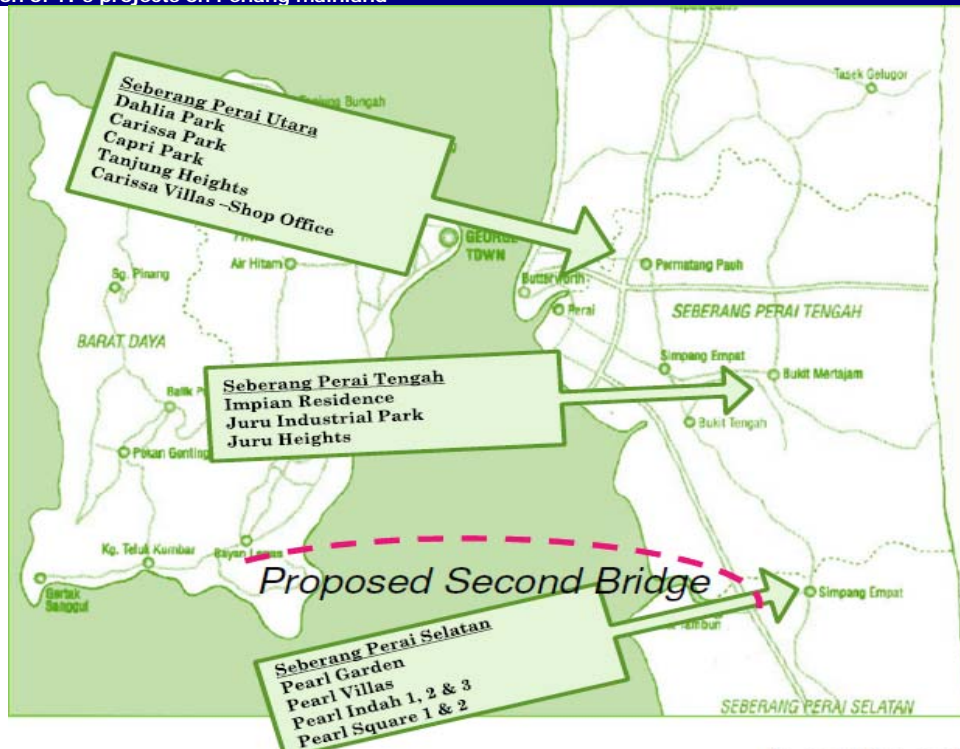
Please read important disclosures at the end of this report.

Key Highlights

- ◆ **Penang mainland.** We recently visited Penang, mainly focusing on the mainland. The soon-to-be-completed 2nd Penang Bridge has spurred more property development at both Batu Maung area on the Penang Island, and Batu Kawan/Simpang Empat on the mainland. In fact, a few new projects have and will be launched at Teluk Kumbar area, which is at the southern tip of the Penang Island. One of which is The Qbees by SP Setia. These projects are currently priced at RM500-700 psf (depending on whether the units are furnished), comparable to the current market prices of some projects at the Jelutong areas. Given the stubbornly high property prices and hence big 100-200% price differentials, the land and property prices on Penang mainland appear relatively attractive. The Penang state has a total population of about 1.6m, and out of which, the population on the mainland makes up 54-55%. The impact of the record high FDIs of RM14bn for the Penang state has gradually translated to the establishment of industrial parks. On the mainland, Simpang Empat, Tambun and Batu Kawan areas already have about 10-12 industrial parks, housing thousands of factories. This includes the state government-led new Batu Kawan Industrial Park which is as big as 1,500 acres. Robert Borsh Solar, Boon Siew Honda and VAT are among the key players who have announced and will set up their plants in the industrial park.

The property price on the mainland will play a catch up. The first wave of spill over will be on the surrounding areas which the 2nd Penang Bridge will link to on the mainland. Tambun Indah (TI) has about 660 acres of land, spanning over Butterworth, Bukit Mertajam, and Simpang Empat i.e. Seberang Perai North, Central and South, it is well-positioned to tap on the strong growth potential ahead. Indeed, the percentage of Penang Island buyers for TI's Pearl Garden has already increased to 41% in 2011 from 28% in 2009. More will come. Property sales from Seberang Perai South currently make up 68% of the total in 1H12, followed by 30% from SP North and 2% from SP Central. Unlike the Penang Island, the buyers' profile on the mainland and hence TI is also healthier as the main purpose of home purchasers is for occupancy. Speculative buying is very minimal.

Fig 1: Location of TI's projects on Penang mainland



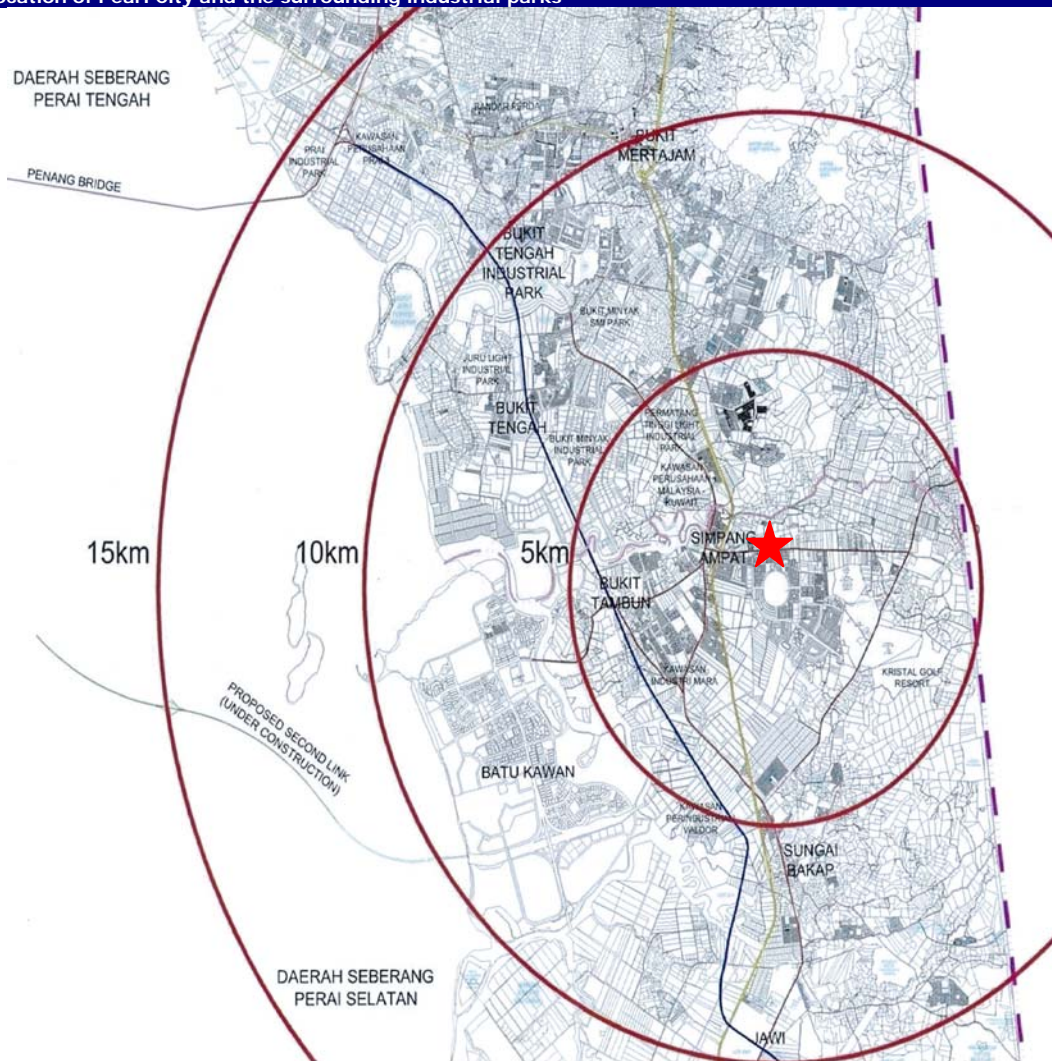
Source: Company

- ◆ **Pearl City – the key project.** TI's current key project is Pearl City located at Simpang Empat. It is a gated and guarded township (mixed development) JV project with Nadayu. The project was started from 2009, and is expected to be fully developed by 2020. Thus far, a total of 4,600 housing units have been completed and the township is left with around 650 acres of remaining undeveloped landbank. The land value of Pearl City has

already doubled from its book cost of RM11 psf. Pearl City is about 5-min drive off North-South Highway, 15-20min drive from the 1st and 2nd Penang Bridges. It is surrounded by 12 industrial parks within a 15km radius, including Kawasan Industri MARA, Science Park, Batu Kawan Industrial Park, Juru Light Industrial Park etc. Given the number of industrial parks in the vicinity as well as the state government's initiatives in pulling in FDIs, we expect the expanding working population and business activities to drive the demand for properties in Pearl City.

Upon completion, Pearl City will be a self-contained township. Given the current estimated number of residents of about 15-20k, the 107-acre Business Park is ready to be taken off. It will include a hypermarket, a lifestyle mall/shopping precinct and medical centre. Negotiations with some key players are already ongoing. Some deals are expected to be closed by end 2012. The Straits International School has recently signed an MOU to set up a school in the Pearl City, offering Cambridge international curricula for primary and secondary students. Once operational in Jan 2014, the campus has the capacity to handle a student population of 800 to 1,200.

Fig 2: Location of Pearl City and the surrounding industrial parks



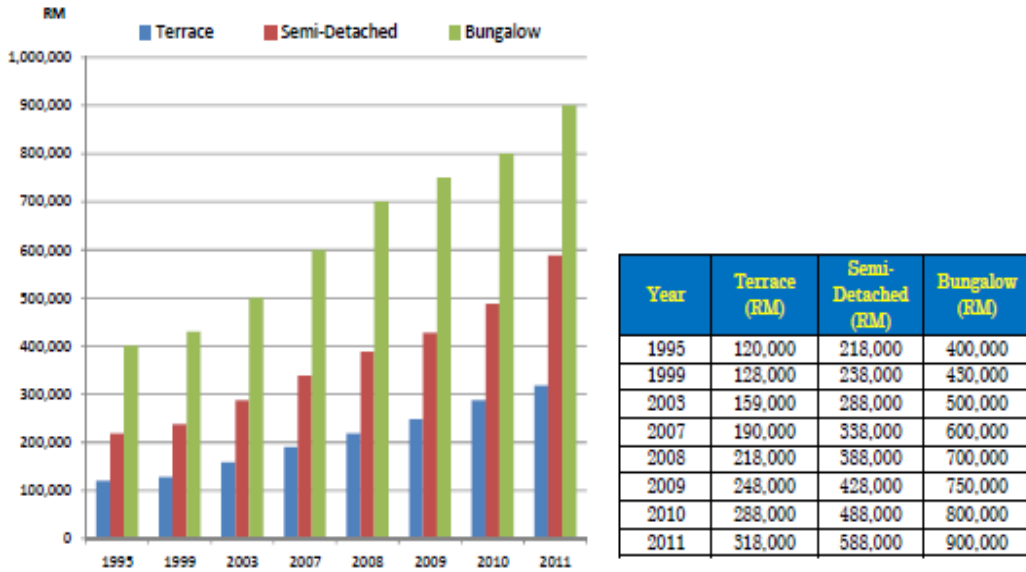
Source: Company

- ◆ **Accelerating property sales.** The construction progress of the 2nd Penang Bridge gives a good visibility on future prospects of the mainland, as reflected on the evident acceleration of property sales. TI's property sales of RM347m achieved in 2011 were more than double from RM137m in 2010. The selling prices of the terrace houses, semi-ds and bungalows experienced an appreciation of 10-20% in 2011. The current average selling price of about RM300-350k, RM600-700k and RM800-900k for TI's terraces, semi-ds and bungalows is still rather decent in our view, and comparable to IJM Land's Taman Idaman nearby. Based on our observation during the

site visit, TI's design, quality and landscaping are professionally and efficiently done, not at the expense of profit margins.

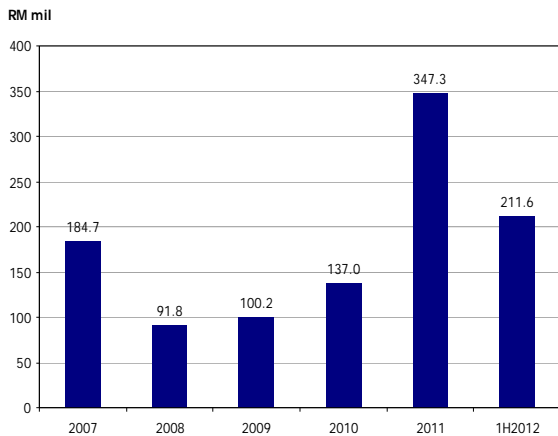
We expect TI to achieve a record RM400m sales this year. 1H's property sales already amounted to RM212m, mainly contributed by Pearl Villas, Pearl Garden, Tanjung Heights at SP North and Impian Residence at SP Central. In the pipeline, a total of RM600m GDV worth of projects will be progressively rolled out in 2H and should carry forward into 1H2013. The key projects are Pearl Residence 1 (RM204m), Pearl Impian (RM74m) on the mainland, and Straits Garden (RM236m) on the island. The Straits Garden is currently already 80% and 50% sold for the first two blocks.

Fig 3: Pricing trend of Tambun Indah's products in Seberang Perai South



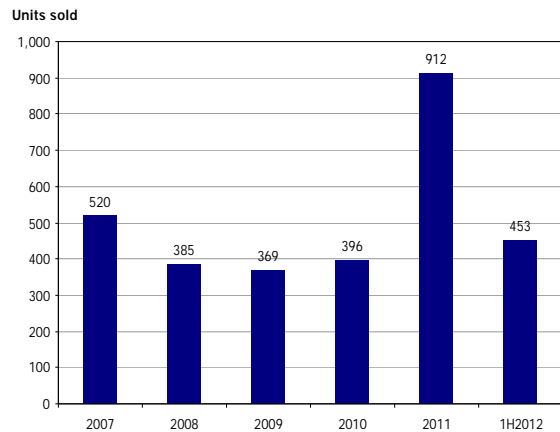
Source: Company

Fig 4: Historical property sales of TI



Source: Company

Fig 5: Historical number of units sold of TI



Source: Company

Fig 6: Villa Mutiara in Pearl Garden



Source: RHBRI

Fig 7: Entrance at the guard house



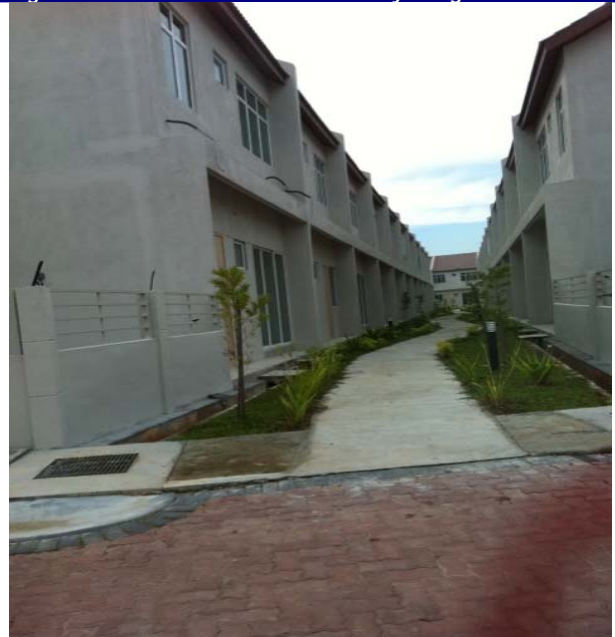
Source: RHBRI

Fig 8: Interlocking concrete pavers are used instead of tar road



Source: RHBRI

Fig 9: Back lane of the terraces is nicely designed



Source: RHBRI

Table 2: Ongoing and pipeline projects of Tambun Indah

Projects	Types	Est. GDV (RM mil)	Take-up rate
Pearl Garden	Residences	137.8	96%
Dahlia Park	Condo and shop offices	46.0	77-86%
Impian Residence	Residences	44.8	87%
Tanjung Heights	Condo and shop offices	56.9	72-87%
Pearl Villas	Residences	144.1	74%
Juru Industrial Park	Industrial	36.9	83%
Capri Park	Apartments and shop offices	50.7	74-81%
Pearl Square	Shop offices	73.1	71%
Pearl Indah	Residences	171.3	49%
Carissa Park	Apartments and shop offices	28.8	99%
Carissa Villa	Shop offices	22.6	66%
Subtotal		813.0	

Pipeline projects in 2012	Types	Est. GDV (RM mil)	Acres
BM Residence	Residences	51.1	5.15
Pearl Residence 1	Residences	204.3	39.66
Carissa Villas	Residences	32.6	4.42
Pearl Impian	Residences	73.5	15.59
Straits Garden	Commercial suites and condo	236.1	4.19
Subtotal		597.6	69.0

Future projects			
Taman Bukit Residence		55.8	8.0
Perquest JV		37.5	3.3
Villa Permai		18.6	3.9
Pearl Residence 2		201.0	44.3
Pearl Residence 3		367.0	101.8
Pearl City Business Park		642.0	107.1
Other phases - Pearl City		1,022.0	291.1
Subtotal		2,343.8	559.6

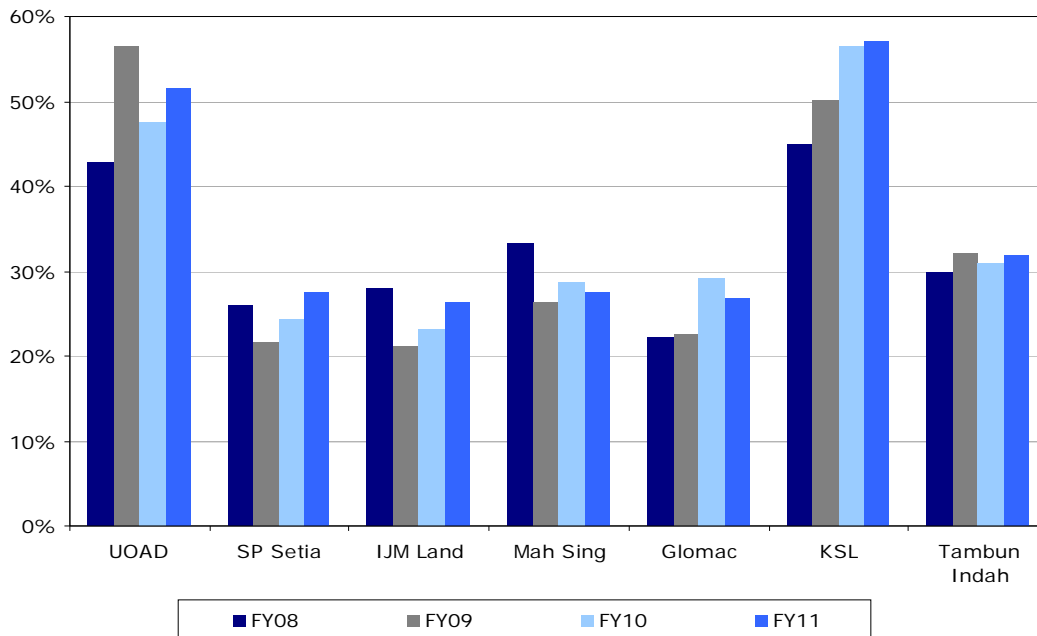
Source: Company

- ◆ **The capable management team.** TI is well-managed by a group of architects, engineers and finance professionals. Ir. Teh Kiak Seng, with a shareholding of 47%, is the founder and currently the Managing Director of the company. Mr. Teh is a civil engineer, and has more than 30 years of experience in the housing industry. He was previously significantly involved in the design and completion of factories. Subsequently, Mr Teh started his own engineering consultancy firm in Penang and later ventured into property development. Besides his prominent background in the engineering sector, Mr Teh is also the Honorary Secretary of Real Estate and Housing Developers' Association (REHDA) Penang. On business operations, Mr Thaw Yeng Cheong (Executive Director) is also very hands on. Mr. Thaw is an architect since 1985. Throughout his career, he was deeply involved in property design, budgeting and building process. He has a diversified range of experience, such as the residential, commercial, industrial, healthcare and even leisure/resorts developments. His past clients include IJM Corp, DNP Land, Lion Properties, Sunway City (PG), Oriental Interest etc. The financial side of TI is under the management of Ms Teh Theng Theng (Executive Director), who is the sister of Mr. Teh. Ms Teh oversees the overall administration, financial control, corporate planning and business development. She has 19 years of experience in accounting for the property industry. She previously worked for IJM Corp for three years since 1991.

- ◆ **Strong balance sheet and steady earnings growth anchor dividend payout.** The prudent management lays the solid foundation of the company. Fundamentally, TI has a strong balance sheet, with a net cash of RM28.5m as at 1H2012, giving it ample war chest for landbanking. If necessary, the company could gear up to 50% (net), which is the internal cap set by the management. This gives a debt headroom of nearly RM200m. Mr. Teh has also indicated his intention to enter the Klang Valley mid-end township market if strategic opportunities arise, either via a JV or direct landbank acquisition. On the back of strong property sales and unbilled sales of RM263m, we expect earnings to grow at 66% and 25% for FY12-13. Gross margin is likely to hover at 30-35%, given the mix of products rolling out this and next year. This strong margin is comparable to some of the top peers in the industry.

Due to the strong cash flow, the company has decided to pay dividend twice a year (interim + final) from FY12 onwards. On the back of the robust earnings momentum, based on the company’s payout policy of 40-60%, we estimate a DPS of 6.6 sen and 7.5 sen for FY12-13. At the current share price, this implies a net yield of 11%, probably the highest in the property sector. Dividend track record has been consistent. Over the past two years, TI has paid 3.29 sen and 3.8 sen single-tier DPS (adjusted for rights issue), which represent 40-50% payout rate.

Fig 10: TI’s gross profit margins are comparable to some of the top peers



Source: Company

Risks

- ◆ **Risks to our view.** The risks include: 1) stock illiquidity; and (ii) downside in GDP growth, dampening demand for properties.

Valuations and Recommendations

- ◆ **Valuations.** TI is a good proxy for Penang mainland property play. The company is under-researched, which probably explains its cheap valuations. Given the robust growth and yield angle, we believe the stock should be re-rated. TI is likely to be a new rising small-cap developer that will experience fast track of growth going forward. To reiterate, we like TI’s strategic landbank that will anchor long-term earnings, capable management team, consistent earnings track record and attractive dividend yield. We value TI at RM0.95, based on 40% discount to RNAV. The stock is currently trading at undemanding valuations of 4x PE. Current share price is slightly below its IPO price of RM0.64 (adjusted for rights and warrants issue in June 2012).

Table 3: RNAV estimate for TIL

New projects	Total GDV (RM mil)	Land size (acres)	Equity stake	NPV @ 9.7%
<u>Ongoing projects</u>				
Dahlia Park	46.0		100%	6.4
Tanjung Heights	56.9		100%	7.9
Pearl Villas	144.1		70%	13.5
Juru Industrial Park	36.9		100%	5.8
Capri Park	50.7		100%	7.1
Pearl Square	73.1		60%	6.1
Pearl Indah	171.3		60%	13.7
Carissa Villa	55.1	4.4	100%	7.7
BM Residence	51.1	5.2	100%	7.3
Pearl Residence 1	204.3	39.7	70%	19.4
Pearl Impian	73.5	15.6	60%	6.5
Straits Garden	236.1	4.2	100%	35.4
<u>Remaining projects</u>				
Taman Bukit Residence	55.8	8.0	100%	7.8
Perquest JV	37.5	3.3	100%	5.0
Villa Permai	18.6	3.9	50%	1.3
Pearl Residence 2	201.0	44.3	70%	19.4
Pearl Residence 3	367.0	101.8	60%	32.1
Pearl City Business Park	642.0	107.1	60%	55.3
Other phases - Pearl City	1,022.0	291.1	60%	71.9
Total				329.70
Shareholders' fund				206.49
Warrants proceed				26.52
Total RNAV				562.71
Shares base incl. warrants (mil)				353.60
FD RNAV per share (RM)				1.59
Discount				40%
Fair value per share				0.95

Source: Company, RHBRI

Table 4. Earnings Forecasts

FYE Dec (RMm)	FY11	FY12F	FY13F	FY14F
Revenue	191.8	296.4	370.0	456.6
Gross Profit	61.2	93.6	117.3	144.2
EBIT	46.7	75.7	93.4	114.5
Interest income	0.8	0.9	0.9	1.0
Finance costs	(0.8)	(3.4)	(3.1)	(2.8)
PBT	46.8	73.2	91.3	112.6
Exceptional item	0.0	0.0	0.0	0.0
Tax + minority interest	(23.4)	(34.4)	(42.9)	(52.9)
Normalised net profit	23.4	38.8	48.4	59.7
Normalised EPS	8.8	14.6	15.2	18.2
Gross DPS	3.8	6.6	7.5	9.0
Dividend payout	50.5	45.1	49.3	49.3

Source: Company data, RHBRI estimates

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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