

Tambun Indah Land(TILB MK)
Buy (Maintained)

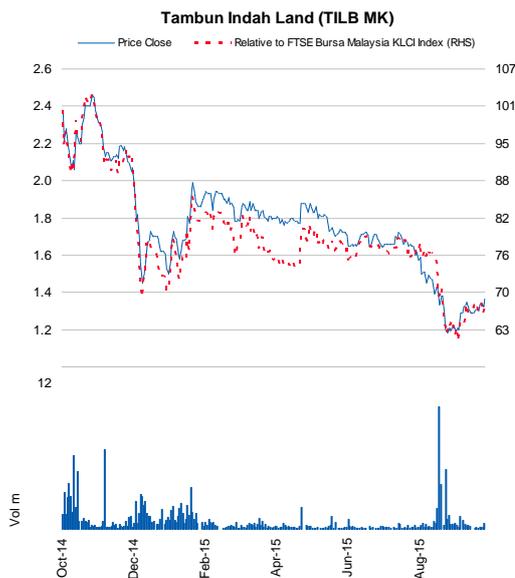
Property- Real Estate

Target Price: MYR1.81

Market Cap: USD133m

Price: MYR1.37

GEMS In Pearl City

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (MYR/USD)	0.75m/0.18m
Cons. Upside (%)	66.4
Upside (%)	32.1
52-wk Price low/high (MYR)	1.18 - 2.46
Free float (%)	50
Share outstanding (m)	424
Shareholders (%)	
Ir. Teh Kiak Seng	39.0

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.4)	13.2	(18.9)	(23.5)	(44.5)
Relative	(9.8)	8.6	(15.7)	(13.7)	(34.8)

Shariah compliant

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The new international school should add value to Tambun's Pearl City township. Maintain BUY and MYR1.81 TP (32% upside). In line with most of the industry players, Tambun is also having difficulties in obtaining APDL for new launches. Unlike Iskandar, which is facing a supply glut, the Penang mainland market is experiencing a supply shortage and healthy demand. This should provide some comfort to investors.

- ◆ **GEMS has opened.** Last week, we attended the opening ceremony of GEMS International School, located in Tambun Indah Land's (Tambun) township, Pearl City. It is Dubai-based GEMS Education's first school in Malaysia. We think the campus is impressive and important to enhance the overall value and quality of the township. Since the first intake in September, about 250 students have enrolled vs 1,500 student capacity. With school fees of MYR20,000-30,000 p.a. for Year 1-6, we think the school will be able to attract more students from the local population as parents emphasise more on education standards, as well as expatriates who work in electrical and electronic (E&E)/industrial sectors in Penang.
- ◆ **Business park is taking shape.** More new developments are taking place at the 107-acre business park compared to a year ago when we last visited. Apart from GEMS which has opened, the Pearl Avenue (Phase 1) shops are almost completed, while the construction of the shopping mall is ongoing and expected to be completed in 1Q16.
- ◆ **No APDL no launches.** While we are upbeat that the business components are taking shape nicely within the township, it is unfortunate that Tambun is still waiting for the advertising permits and developer licences (APDL) from the Ministry of Urban Wellbeing, Housing and Local Government to launch its Raintree Park 2 and Avenue Garden. According to our ground checks, this delay also happens to most of the other developers with projects in Penang. As a result, Tambun's 2015 new sales could be at risk, given that 1H only amounted to MYR171m, vs total sales of MYR429m in 2014. Also, the company may soon run out of available projects for sale as the average take-up rate for all its existing projects has already hit 89.2%. Nevertheless, we believe new sales and earnings will kick in quickly once the approval is obtained, as the construction for these two projects has already started.
- ◆ **Maintain BUY.** We have previously partly factored in the impact of further delays on FY15F-17F earnings. Our TP is kept at MYR1.81, based on a 30% discount to RNAV.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (MYRm)	376	467	453	476	507
Reported net profit (MYRm)	65	102	98	105	110
Recurring net profit (MYRm)	65	102	98	105	110
Recurring net profit growth (%)	59.2	57.2	(3.9)	7.4	4.1
Recurring EPS (MYR)	0.16	0.24	0.23	0.25	0.26
DPS (MYR)	0.06	0.08	0.08	0.08	0.09
Recurring P/E (x)	8.31	5.64	5.91	5.51	5.29
P/B (x)	1.74	1.45	1.27	1.12	1.00
Dividend Yield (%)	4.4	5.8	5.6	6.0	6.2
Return on average equity (%)	24.4	28.9	23.0	21.6	20.0
Return on average assets (%)	13.8	17.6	14.0	13.6	12.8
Net debt to equity (%)	(8.9)	3.7	0.5	(1.5)	(3.0)
Our vs consensus EPS (adjusted) (%)			(17.3)	(17.9)	(21.5)

The new GEMS provides a new income stream

We were pleasantly surprised with the speed of developments within the business park in Pearl City as the components are now taking shape. This is a big contrast compared to our last visit a year ago, when most of the construction works were still at their preliminary stage. During our campus tour, we saw a combination of local and foreign teaching staff and students, and we understand that there are 28 teachers at the moment. The school's management estimates the staff number to reach 150 upon full capacity over the next few years. Classroom facilities and amenities are well-equipped. The intake for Year 1-6 has commenced since September and Year 7-12 will start next year. We believe GEMS will be able to grow its student numbers very soon over the next one year as it is the only international school in the vicinity, apart from a few Chinese schools around.

The school will make about four months' rental contribution to Tambun's FY15 earnings. Recall that when the set-up of the school was announced in end-2013, the rental for the first eight years is fixed at 8% of construction cost plus 4% of land value. From the ninth year onwards, there will be a step-up of 2% per annum. Hence, this translates into an annual rental of about MYR3.5m, representing a yield of 8%.

Where is the APDL?

While impact from rental income from the school (of only 2-3%) to the bottomline is minimal for now, it could potentially grow larger to about 5-6% (on a full-year basis) when the shopping mall is opened next year. This should help to partly mitigate earnings risk due to the expected decline in unbilled sales, which currently stand at MYR408m. During our visit, we found out that many developers, including the bigger boys, have not been able to launch any new property projects in Penang as the Ministry has not granted APDL since last year. As a result, Tambun is not able to roll out its Raintree Park 2 and Avenue Garden projects that were initially slated for 1H this year. Demand for these two projects should be strong, as Raintree Park 1 has achieved about 70% take-up since its launch in 1Q, which is considered fast amidst the current challenging market conditions, while Avenue Garden (mid-range serviced apartment) is strategically located next to the school and near the shopping mall and commercial shops.

Although this could possibly affect Tambun's new sales for this year, we think the Penang mainland market is still relatively healthier compared to Penang Island, the Klang Valley and Iskandar. While the Iskandar region is suffering from an oversupply issue, Penang mainland is seeing a supply shortage and resilient demand. Moreover, given that the catalytic investments at Batu Kawan such as the IKEA outlet and Design Village premium outlet are still moving ahead, we believe that the fundamentals and real estate prices in Penang mainland should be stronger and may hold up better.

Valuations

We maintain our BUY rating and MYR1.81 TP on Tambun. In our previous results note, we have already partly factored in the potential impact on earnings from further delays in approvals. Given the bottleneck in regulatory approvals, the company's fundamental values should now be underpinned by its landbank, balance sheet and management track record. To reiterate, the implied value for Tambun's land based on its current market cap is only MYR26 psf, compared with current market price of MYR35-40 psf for land parcels in the surrounding area. In addition, the availability of strategic and sizeable landbank that is close enough to Batu Kawan is fairly limited.

Figure 1: Tambun's RNAV

New projects	Total GDV (MYR m)	Land size (acres)	Equity stake	NPV @ 9%
Ongoing projects				
BM Residence	57.4		100%	10.1
Straits Garden	237.8		100%	46.0
Pearl Residence	223.5		100%	39.6
Pearl Impian	90.0		100%	16.6
Pearl Avenue (Ph. 1)	82.6		100%	27.6
Remaining projects				
Taman Bukit Residence	63.7	8.0	100%	11.8
Camellia Park	50.0	3.3	100%	8.9
Permai Residence	24.2	3.9	50%	2.1
Pearl Avenue (Ph. 2)	39.2	4.1	100%	12.6
Pearl Harmoni	122.4	21.6	100%	22.7
Rain Tree Park 1	164.0	25.1	100%	31.8
Rain Tree Park 2	199.4	30.1	100%	34.0
Avenue Garden @ Pearl City	90.0	n.a.	100%	13.9
Central Avenue @ Pearl City	77.5	n.a.	100%	15.6
Pearl Tropika	125.0	20.3	100%	24.3
Alma	90.0	n.a.	100%	16.0
Pearl City - other phases	2,326.3	385.1	100%	309.3
New land in Bukit Mertajam	200.0	18.8	100%	27.3
Total				670.22
Shareholders' funds				397.01
Warrants proceeds				26.52
Total RNAV				1,093.75
Shares base incl. warrants & placement (m)				423.60
FD RNAV per share (MYR)				2.58
Discount				30%
Target price (MYR)				1.81

Source: RHB

Figure 2: The façade of GEMS International School



Source: RHB

Figure 3: VIPs and guests in school hall during the opening ceremony



Source: RHB

Figure 4: Indoor play area



Source: RHB

Figure 5: Outdoor play area



Source: RHB

Figure 6: Classroom example



Source: RHB

Figure 7: Teaching staff and students



Source: RHB

Figure 8: Clinic in school



Source: RHB

Figure 9: Futsal court



Source: RHB

Figure 10: Construction of shopping mall is still ongoing



Source: RHB

Figure 11: Pearl Avenue (Phase 1) shop lots are almost completed



Source: RHB

Financial Exhibits

Profit & Loss (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	376	467	453	476	507
Cost of sales	(240)	(306)	(298)	(312)	(336)
Gross profit	137	161	155	164	171
Gen & admin expenses	(21)	(23)	(22)	(22)	(23)
Other operating costs	3	5	5	5	5
Operating profit	118	143	139	148	154
Operating EBITDA	119	144	140	149	155
Depreciation of fixed assets	(1)	(1)	(1)	(1)	(1)
Operating EBIT	118	143	139	148	154
Net income from investments	2	1	-	-	-
Interest expense	(3)	(6)	(6)	(7)	(7)
Pre-tax profit	118	138	132	141	146
Taxation	(30)	(35)	(33)	(35)	(37)
Minority interests	(23)	(1)	(1)	(0)	-
Profit after tax & minorities	65	102	98	105	110
Reported net profit	65	102	98	105	110
Recurring net profit	65	102	98	105	110

Source: Company data, RHB

Cash flow (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	118	143	139	148	154
Depreciation & amortisation	1	1	1	1	1
Change in working capital	(24)	36	1	(2)	(3)
Other operating cash flow	(4)	(18)	(10)	(9)	(8)
Operating cash flow	91	162	131	138	144
Interest paid	(3)	(6)	(6)	(7)	(7)
Tax paid	(30)	(35)	(33)	(35)	(37)
Cash flow from operations	58	121	91	96	100
Capex	(7)	(153)	(50)	(50)	(50)
Other investing cash flow	(15)	3	-	-	1
Cash flow from investing activities	(21)	(150)	(50)	(50)	(49)
Dividends paid	(14)	(24)	(34)	(32)	(35)
Proceeds from issue of shares	46	18	-	-	-
Increase in debt	14	55	-	-	-
Other financing cash flow	(58)	12	10	11	12
Cash flow from financing activities	(12)	62	(24)	(22)	(23)
Cash at beginning of period	96	126	138	171	191
Total cash generated	24	33	17	24	28
Forex effects	6				
Implied cash at end of period	126	159	155	195	219

Source: Company data, RHB

Financial Exhibits

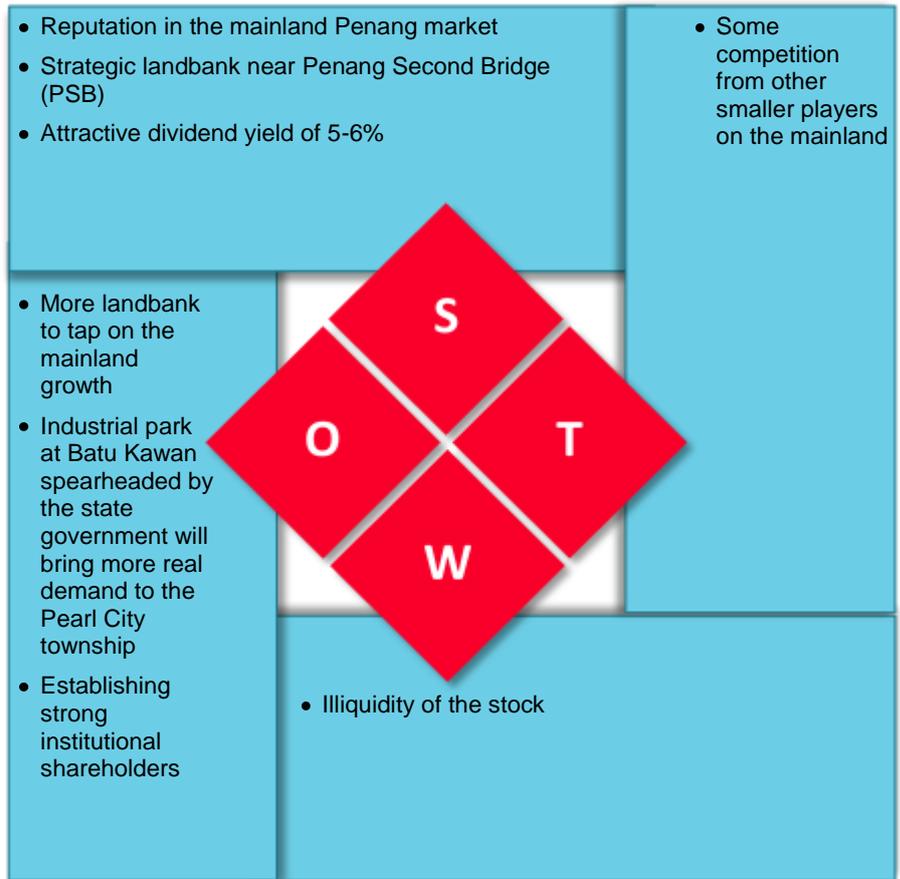
Balance Sheet (MYRm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	126	138	171	191	211
Inventories	125	75	73	76	81
Accounts receivable	87	118	115	120	128
Other current assets	2	5	5	5	5
Total current assets	340	336	363	393	425
Total investments	7	4	4	4	4
Tangible fixed assets	146	298	347	396	445
Total other assets	4	23	23	23	23
Total non-current assets	157	325	374	423	472
Total assets	497	662	738	816	897
Short-term debt	25	35	35	35	35
Accounts payable	81	104	99	107	117
Other current liabilities	4	1	1	1	1
Total current liabilities	110	140	136	143	154
Total long-term debt	73	118	138	148	158
Other liabilities	0	4	4	4	4
Total non-current liabilities	74	122	142	152	162
Total liabilities	183	262	278	295	316
Share capital	197	210	212	212	212
Retained earnings reserve	48	118	176	237	298
Other reserves	65	68	68	68	68
Shareholders' equity	310	397	456	517	578
Minority interests	4	2	3	4	4
Other equity	(0)	(0)	(0)	0	0
Total equity	314	399	460	521	582
Total liabilities & equity	497	662	738	816	897

Source: Company data, RHB

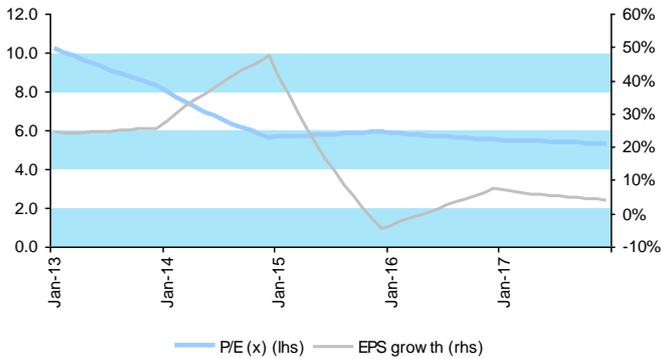
Key Ratios (MYR)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	26.8	24.0	(2.9)	5.0	6.6
Operating profit growth (%)	46.6	20.7	(2.9)	6.5	4.1
Net profit growth (%)	59.2	57.2	(3.9)	7.4	4.1
EPS growth (%)	25.6	47.2	(4.6)	7.4	4.1
BVPS growth (%)	9.5	20.0	14.2	13.3	11.8
Operating margin (%)	31.4	30.6	30.6	31.0	30.3
Net profit margin (%)	17.3	21.9	21.7	22.1	21.6
Return on average assets (%)	13.8	17.6	14.0	13.6	12.8
Return on average equity (%)	24.4	28.9	23.0	21.6	20.0
Net debt to equity (%)	(8.9)	3.7	0.5	(1.5)	(3.0)
DPS	0.06	0.08	0.08	0.08	0.09
Recurrent cash flow per share	0.15	0.29	0.22	0.23	0.24

Source: Company data, RHB

SWOT Analysis

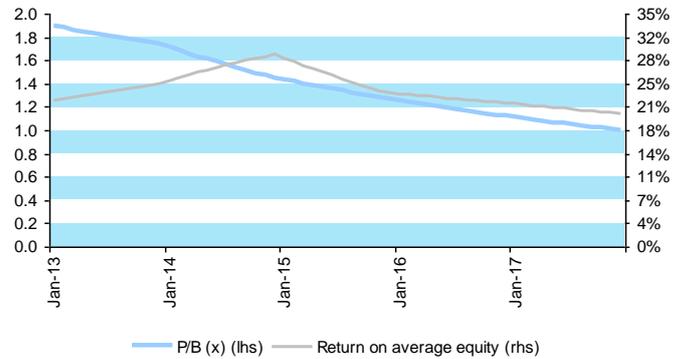


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Tambun Indah Land Bhd (Tambun) is a developer based in Penang mainland. Its flagship township Pearl City is located at Simpang Ampat, a 15-minute drive away from Penang Second Bridge.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-26	Buy	1.81	1.43
2015-04-30	Buy	2.28	1.88
2015-02-12	Buy	2.25	1.84
2014-12-16	Buy	2.00	1.51
2014-11-19	Buy	2.50	2.13
2014-11-12	Buy	2.50	2.13
2014-08-20	Buy	3.00	2.45
2014-07-13	Buy	3.00	2.37
2014-06-05	Buy	3.00	2.06
2014-04-15	Buy	2.50	1.96

Source : RHB, Bloomberg

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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

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