

18 November 2016

Property | Real Estate

Tambun Indah Land

Buy (Maintained)

Dividend Payout Supported By Solid Balance Sheet

We believe Tambun's valuations should be supported by >6% dividend yields, sustained by its strong balance sheet and consistent operating cash flows. We maintain our BUY call with unchanged TP of MYR1.66 (14% upside). Its property sales momentum remained slow in 3Q16, on weak market sentiment and credit tightening. The company's FY16 new sales may miss its target of MYR300m due to weak 9M16 new sales.

Maintain BUY rating on Tambun Indah Land (Tambun), with unchanged TP of MYR1.66, based on an unchanged 35% discount to RNAV. Although its sales outlook is unexciting, we like its net cash position, attractive dividend yields in excess of 6%, which should be sustainable in our view.

Small launches in 4Q16. Despite the cautious market sentiment, Tambun will launch its Pearl 28 project (GDV: MYR23m) this weekend. The project comprises 28 units of semi-detached units, priced at c.MYR700,000 per unit, and two units of bungalows. Meanwhile, Pearl Saujana 1 is only likely to roll out in 1Q17. The project has a GDV of c.MYR100m.

Sales momentum remained slow in 3Q16, as new sales were only MYR32.96m vs MYR62.66m in 2Q16. 9M16 new sales amounted to MYR211.36m. The weak 3Q16 sales were in line with its historical seasonal trend due to the hungry ghost month during the quarter. Coupled with continued tightening of mortgage lending by banks, take-up rates for the three new launches this year – Raintree Park 2, Avenue Garden and Pearl Tropika – have improved only marginally from 2Q16. Due to weak 9M16 new sales, it could be a challenge for the company to meet its full-year sales target of MYR300m.

Forecasts. Given weak 9M16 sales as well as declining unbilled sales (MYR259.6m from MYR311.11m as at 2Q16), we lower our FY17-18 earnings forecasts slightly by 4-5%.

3Q16 earnings – Within expectations

| (MYRm) | 3Q16 | 2Q16 | QoQ | 3Q15 | YoY | Comments |
|----------|-------|-------|--------|-------|-------|----------------------------|
| Revenue | 85 | 104 | -18.1% | 86 | -0.9% | Higher progress billings |
| EBIT | 33 | 45 | -27.0% | 33 | -0.4% | |
| EBIT (%) | 38.8% | 43.5% | | 38.6% | | Lower cost of construction |
| Core NI | 25 | 29 | -11.7% | 24 | 6.1% | |
| NI (%) | 29.5% | 27.4% | | 27.6% | | |

Source: Company data, RHB

3Q16 results within expectations. Earnings continued to be driven by progress billings from ongoing projects. YTD 9M16 EBIT margin expanded to 40% vs 36% last year, as billings were mainly from Pearl City, where land cost was lower, and construction is more efficient. Same as last year, a 3 sen single-tier interim dividend was declared.

| Forecasts and Valuations | Dec-14 | Dec-15 | Dec-16F | Dec-17F | Dec-18F |
|-------------------------------------|--------|--------|---------|---------|---------|
| Total turnover (MYRm) | 467 | 368 | 382 | 385 | 400 |
| Reported net profit (MYRm) | 102 | 101 | 101 | 99 | 112 |
| Recurring net profit (MYRm) | 102 | 94 | 101 | 99 | 112 |
| Recurring net profit growth (%) | 57.2 | (7.5) | 6.5 | (2.0) | 13.5 |
| Recurring EPS (MYR) | 0.24 | 0.22 | 0.23 | 0.23 | 0.25 |
| DPS (MYR) | 0.10 | 0.10 | 0.09 | 0.09 | 0.10 |
| Recurring P/E (x) | 6.01 | 6.56 | 6.29 | 6.48 | 5.76 |
| P/B (x) | 1.55 | 1.35 | 1.20 | 1.09 | 0.98 |
| Dividend Yield (%) | 6.7 | 6.7 | 6.5 | 6.3 | 7.1 |
| Return on average equity (%) | 28.9 | 23.6 | 20.4 | 17.7 | 18.0 |
| Return on average assets (%) | 17.6 | 14.1 | 12.3 | 11.0 | 11.5 |
| Net debt to equity (%) | 3.7 | 1.0 | (1.7) | (3.5) | (5.7) |
| Our vs consensus EPS (adjusted) (%) | | | (2.4) | (11.6) | (2.6) |

Source: Company data, RHB

| | |
|-------------------|---------|
| Target Price: | MYR1.66 |
| Price: | MYR1.46 |
| Market Cap: | USD142m |
| Bloomberg Ticker: | TILB MK |

Share Data

| | |
|------------------------------|-------------|
| Avg Daily Turnover (MYR/USD) | 0.34m/0.08m |
| 52-wk Price low/high (MYR) | 1.26 - 1.55 |
| Free Float (%) | 50 |
| Shares outstanding (m) | 410 |
| Estimated Return | 14% |

Shareholders (%)

| | |
|------------------------------|------|
| Ir. Teh Kiak Seng | 39.0 |
| Employees Provident Fund | 5.4 |
| Retirement Fund Incorporated | 5.2 |

Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------|-----|-------|-------|-----|-----|
| Absolute | 3.5 | (2.7) | (3.3) | 5.8 | 4.3 |
| Relative | 7.4 | (1.1) | 0.7 | 6.2 | 6.4 |

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on: 2016-11-17.

| | | | | | | |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Asia | Financial summary | Dec-14 | Dec-15 | Dec-16F | Dec-17F | Dec-18F |
| Malaysia | Recurring EPS (MYR) | 0.24 | 0.22 | 0.23 | 0.23 | 0.25 |
| Property | EPS (MYR) | 0.24 | 0.24 | 0.23 | 0.23 | 0.25 |
| Tambun Indah Land | DPS (MYR) | 0.10 | 0.10 | 0.09 | 0.09 | 0.10 |
| Bloomberg TILB MK | BVPS (MYR) | 0.94 | 1.08 | 1.21 | 1.34 | 1.49 |
| Buy | Weighted avg adjusted shares (m) | 421 | 424 | 433 | 437 | 442 |
| Valuation basis | Valuation metrics | Dec-14 | Dec-15 | Dec-16F | Dec-17F | Dec-18F |
| 35% discount to RNAV | Recurring P/E (x) | 6.01 | 6.56 | 6.29 | 6.48 | 5.76 |
| Key drivers | P/E (x) | 6.01 | 6.12 | 6.29 | 6.48 | 5.76 |
| New property sales, strategic landbank acquisitions | P/B (x) | 1.55 | 1.35 | 1.20 | 1.09 | 0.98 |
| Key risks | FCF Yield (%) | (5.2) | 8.4 | 6.2 | 6.4 | 8.1 |
| Weaker-than-expected market conditions | Dividend Yield (%) | 6.7 | 6.7 | 6.5 | 6.3 | 7.1 |
| | EV/EBITDA (x) | 4.34 | 4.49 | 4.25 | 4.39 | 3.82 |
| | EV/EBIT (x) | 4.38 | 4.52 | 4.28 | 4.43 | 3.85 |
| Company Profile | Income statement (MYRm) | Dec-14 | Dec-15 | Dec-16F | Dec-17F | Dec-18F |
| Tambun Indah Land Bhd (Tambun) is a developer based in Penang mainland. Its flagship township Pearl City is located at Simpang Ampat, 15-min away from the Penang Second Bridge | Total turnover | 467 | 368 | 382 | 385 | 400 |
| | Gross profit | 161 | 151 | 163 | 156 | 175 |
| | EBITDA | 144 | 138 | 146 | 140 | 158 |
| | Depreciation and amortisation | (1) | (1) | (1) | (1) | (1) |
| | Operating profit | 143 | 137 | 145 | 139 | 157 |
| | Net interest | (6) | (5) | (7) | (8) | (8) |
| | Income from associates & JVs | 1 | 4 | 0 | 0 | 0 |
| | Pre-tax profit | 138 | 136 | 138 | 131 | 149 |
| | Taxation | (35) | (34) | (37) | (33) | (37) |
| | Minority interests | (1) | (1) | (0) | 0 | 0 |
| | Recurring net profit | 102 | 94 | 101 | 99 | 112 |
| | Cash flow (MYRm) | Dec-14 | Dec-15 | Dec-16F | Dec-17F | Dec-18F |
| | Change in working capital | 36 | (10) | (4) | (1) | (4) |
| | Cash flow from operations | 121 | 79 | 89 | 91 | 102 |
| | Capex | (153) | (27) | (50) | (50) | (50) |
| | Cash flow from investing activities | (150) | (27) | (50) | (49) | (48) |
| | Proceeds from issue of shares | 26 | 3 | 0 | 0 | 0 |
| | Dividends paid | (24) | (41) | (41) | (41) | (40) |
| | Cash flow from financing activities | 69 | 7 | (31) | (30) | (28) |
| | Cash at beginning of period | 126 | 138 | 184 | 207 | 229 |
| | Net change in cash | 40 | 59 | 8 | 12 | 27 |
| | Ending balance cash | 166 | 197 | 192 | 220 | 256 |
| | Balance sheet (MYRm) | Dec-14 | Dec-15 | Dec-16F | Dec-17F | Dec-18F |
| | Total cash and equivalents | 138 | 184 | 207 | 229 | 256 |
| | Tangible fixed assets | 298 | 324 | 373 | 422 | 471 |
| | Total investments | 4 | 4 | 4 | 4 | 4 |
| | Total other assets | 23 | 36 | 36 | 36 | 36 |
| | Total assets | 662 | 776 | 856 | 929 | 1,014 |
| | Short-term debt | 35 | 49 | 49 | 49 | 49 |
| | Total long-term debt | 118 | 139 | 149 | 159 | 169 |
| | Other liabilities | 4 | 1 | 1 | 1 | 1 |
| | Total liabilities | 262 | 313 | 328 | 339 | 354 |
| | Shareholders' equity | 397 | 460 | 526 | 587 | 657 |
| | Minority interests | 2 | 3 | 3 | 3 | 3 |
| | Total equity | 399 | 463 | 529 | 590 | 660 |
| | Net debt | 15 | 4 | (9) | (21) | (38) |
| | Total liabilities & equity | 662 | 776 | 856 | 929 | 1,014 |
| | Key metrics | Dec-14 | Dec-15 | Dec-16F | Dec-17F | Dec-18F |
| | Revenue growth (%) | 24.0 | (21.2) | 3.8 | 0.9 | 3.9 |
| | Recurrent EPS growth (%) | 47.2 | (8.3) | 4.3 | (2.9) | 12.4 |
| | Gross margin (%) | 34.4 | 41.2 | 42.7 | 40.6 | 43.7 |
| | Operating EBITDA margin (%) | 30.8 | 37.6 | 38.3 | 36.4 | 39.6 |
| | Net profit margin (%) | 21.9 | 27.5 | 26.4 | 25.6 | 28.0 |
| | Dividend payout ratio (%) | 40.0 | 40.8 | 40.8 | 40.8 | 40.8 |
| | Capex/sales (%) | 32.8 | 7.4 | 13.1 | 13.0 | 12.5 |
| | Interest cover (x) | 24.8 | 26.7 | 20.3 | 18.5 | 19.9 |

Source: Company data, RHB

Figure 1: Tambun's quarterly results

| FYE Dec (MYRm) | 3Q15 | 2Q16 | 3Q16 | QoQ (%) | YoY (%) | 9M15 | 9M16 | YoY (%) | Comments |
|---------------------|-------|--------|-------|---------|---------|--------|--------|---------|---|
| Turnover | 86.2 | 104.3 | 85.4 | (18.1) | (0.9) | 276.6 | 279.1 | 0.9 | Driven by billings from Camellia Park, Permai Residence, and different phases at Pearl City |
| EBIT | 33.3 | 45.4 | 33.1 | (27.0) | (0.4) | 98.9 | 112.1 | 13.4 | |
| EBIT margin (%) | 38.6 | 43.5 | 38.8 | | | 35.7 | 40.2 | | |
| Net interest | (1.0) | (1.4) | (1.2) | (19.8) | 10.6 | (3.8) | (4.1) | 8.4 | |
| Pretax profit | 32.9 | 44.2 | 32.2 | (27.2) | (2.2) | 96.4 | 108.4 | 12.4 | |
| Pretax margin (%) | 38.2 | 42.4 | 37.7 | | | 34.9 | 38.8 | | |
| Taxation | (9.0) | (15.4) | (6.7) | (56.9) | (26.4) | (24.9) | (30.3) | 21.9 | |
| Tax rate (%) | 27.5 | 34.9 | 20.7 | | | 25.8 | 28.0 | | |
| Minority interest | (0.1) | (0.2) | (0.3) | 56.5 | 209.6 | (0.8) | (0.7) | (12.8) | |
| Net profit | 23.8 | 28.6 | 25.2 | (11.7) | 6.1 | 70.8 | 77.4 | 9.4 | |
| Core net profit | 23.8 | 28.6 | 25.2 | (11.7) | 6.1 | 70.8 | 77.4 | 9.4 | Within expectations |
| Core net margin (%) | 27.6 | 27.4 | 29.5 | | | 25.6 | 27.7 | | |
| EPS (sen) | 5.6 | 6.7 | 5.9 | (11.9) | 5.5 | 16.8 | 18.2 | 8.7 | |
| Gross DPS (sen) | 3.0 | 0.0 | 3.0 | | | 3.0 | 3.0 | | |
| NTA/share (MYR) | 1.0 | 1.2 | 1.2 | | | 1.0 | 1.2 | | |
| | | | | (18.1) | (0.9) | | | | |

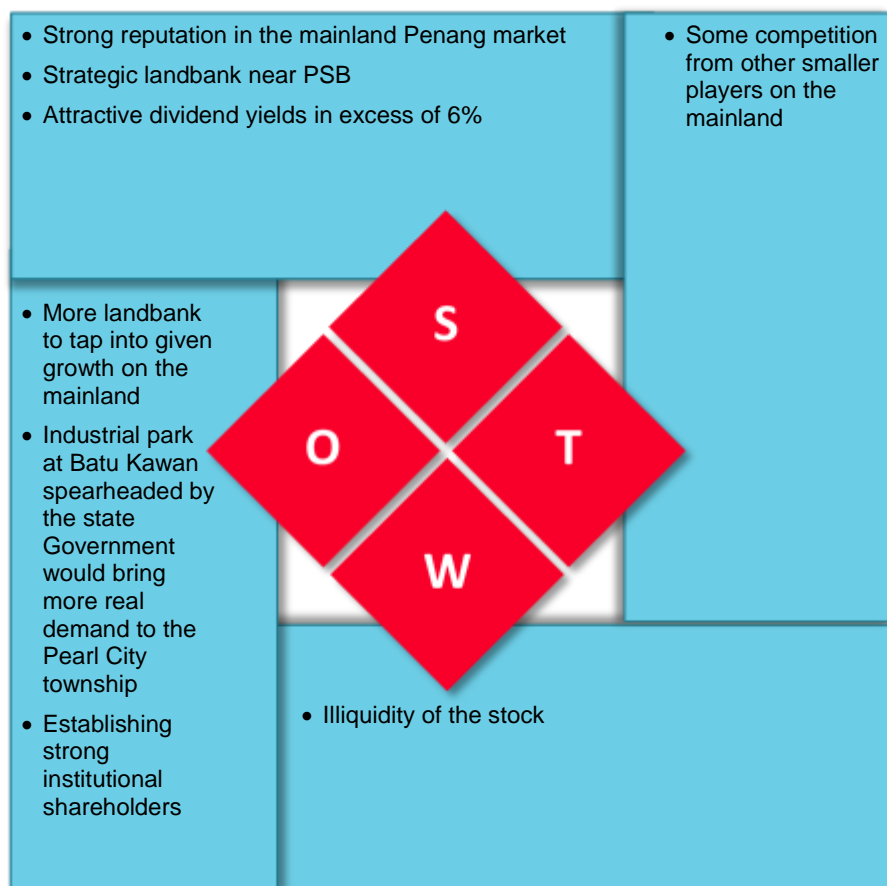
Source: RHB

Figure 2: Tambun's RNAV estimate

| New projects | Total GDV (MYR m) | Land size (acres) | Equity stake | NPV @ 10% |
|-----------------------------|-------------------|-------------------|--------------|---------------|
| <u>Ongoing projects</u> | | | | |
| Straits Garden | 237.8 | n.a. | 100% | 45.6 |
| Taman Bukit Residence | 72.1 | 8.0 | 100% | 13.2 |
| Pearl Avenue (Ph. 2) | 40.1 | 4.1 | 100% | 12.7 |
| Pearl Harmoni | 151.2 | 21.6 | 100% | 27.7 |
| Rain Tree Park 1 | 170.3 | 25.1 | 100% | 32.7 |
| Avenue Garden @ Pearl City | 95.0 | n.a. | 100% | 15.8 |
| Pearl Tropika | 146.0 | 20.3 | 100% | 28.0 |
| <u>Remaining projects</u> | | | | |
| Rain Tree Park 2 | 211.8 | 30.1 | 100% | 35.4 |
| Central Avenue @ Pearl City | 82.1 | n.a. | 100% | 16.3 |
| Pearl Saujana - Phase 1 | 102.7 | n.a. | 100% | 16.3 |
| Pearl Saujana - Phase 2 | 87.5 | n.a. | 100% | 12.7 |
| Pearl 28 | 20.0 | n.a. | 100% | 3.5 |
| Camellia Park - Commercial | 4.0 | n.a. | 100% | 0.6 |
| Alma | 48.0 | n.a. | 100% | 8.4 |
| Pearl City - other phases | 2,643.9 | 385.1 | 100% | 337.8 |
| Kota Permai | 200.0 | 18.8 | 100% | 26.5 |
| Total | | | | 633.32 |
| Shareholders' fund | | | | 459.77 |
| Total RNAV | | | | 1,093.09 |
| Shares base | | | | 428.66 |
| FD RNAV per share (MYR) | | | | 2.55 |
| Discount | | | | 35% |
| Target price (MYR) | | | | 1.66 |

Source: RHB

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2016-08-11 | Buy | 1.66 | 1.47 |
| 2016-05-18 | Buy | 1.66 | 1.38 |
| 2016-03-01 | Buy | 1.66 | 1.37 |
| 2015-12-07 | Buy | 1.81 | 1.39 |
| 2015-11-20 | Buy | 1.81 | 1.40 |
| 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 |

Source: RHB, Bloomberg

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