

19 May 2017

Property | Real Estate

## Tambun Indah Land

**Neutral** (from Buy)

### Sales Hit By Rising Competition Amidst a Weak Market

**We downgrade Tambun to NEUTRAL (from Buy) with an unchanged TP of MYR1.66 (8% upside). We think the market has priced in the company's solid fundamentals. However, as mortgage lending remains restrictive and given the rising competition from developers nearby, Tambun's property sales are unlikely to recover significantly over the near term. As a result, we lower our FY17F-19F earnings by 4-14%.**

**Within expectations.** Tambun Indah Land's (Tambun) 1Q17 earnings were within our and market expectations. PBT was higher in the previous quarter, due to a fair value gain of MYR7m arising from a few investment properties.

**MYR36.2m new sales in 1Q17.** New property sales in 1Q17 achieved only MYR36.2m vs management's full-year sales target of MYR180m. While buyer sentiment has revived after the Chinese New Year, management expects more bookings to be converted to sales in 2Q17F due to the slow loan approval process. As such, the take-up rates for a few projects have only improved marginally in 1Q17, with Rain Tree Park 2 reaching 61% from 56% in 4Q16, Avenue Garden at 65% from 62% and Pearl Tropika at 46% from 41%.

**Rising competition amidst a weak market.** While the property market remained soft and banks continue to tighten mortgage lending, competition from developers within the vicinity is also rising. We understand that some developers have undercut prices aggressively in order to move sales. There are also more developers launching their products in Batu Kawan. Tambun, on the other hand, remained firm on its pricing so that its margins can be maintained. Although this could affect property sales, its cash flow would not be negatively affected given its low land cost and strong balance sheet.

**Forecasts.** Unbilled sales declined to MYR153.8m from MYR196.9m as at 4Q16. In view of the weaker sales, we lower our FY17F-19F earnings by 4-14%. We think the impact on slow sales would be more visible in the coming quarters as most projects are nearing completion and the take-up for newer projects is still slow. Depending on market conditions, Tambun may roll out Palm Garden (GDV: MYR116m) and Pearl Saujana 2 (GDV: MYR90m) in late 2017. The company still has MYR250m worth of unsold stocks that can be realised, if sold. Meanwhile, we make no changes to our DPS forecasts, as the payout is still within the company's 40-60% dividend policy.

**Downgrade to NEUTRAL.** In tandem with the broad equity market, Tambun's share price has recovered YTD. We think the solid fundamentals of the company are now priced in. Given the potential downside in earnings, we downgrade the stock with an unchanged TP of MYR1.66, based on 35% discount to RNAV.

Target Price:	MYR1.66
Price:	MYR1.54
Market Cap:	USD153m
Bloomberg Ticker:	TILB MK

#### Share Data

Avg Daily Turnover (MYR/USD)	0.43m/0.10m
52-wk Price low/high (MYR)	1.34 - 1.54
Free Float (%)	50
Shares outstanding (m)	410
Estimated Return	8%

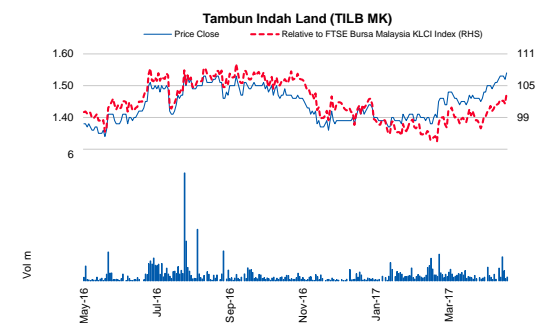
#### Shareholders (%)

Ir. Teh Kiak Seng	39.0
Employees Provident Fund	5.4
Kumpulan Wang Persaraan	5.2

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.8	5.5	9.2	4.8	11.6
Relative	3.2	4.0	5.7	(4.0)	3.6

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-15	Dec-16	Dec-17F	Dec-18F	Dec-19F
Total turnover (MYRm)	368	361	306	284	313
Reported net profit (MYRm)	101	112	95	92	101
Recurring net profit (MYRm)	94	112	95	92	101
Recurring net profit growth (%)	(7.5)	18.8	(15.0)	(3.4)	9.8
Recurring EPS (MYR)	0.22	0.26	0.22	0.21	0.23
DPS (MYR)	0.09	0.10	0.10	0.10	0.11
Recurring P/E (x)	6.92	5.87	6.97	7.28	6.70
P/B (x)	1.42	1.23	1.13	1.05	0.97
Dividend Yield (%)	5.8	6.5	6.5	6.5	7.1
Return on average equity (%)	23.6	22.5	16.9	15.0	15.1
Return on average assets (%)	14.1	14.7	12.2	11.0	11.2
Net debt to equity (%)	1.0	3.2	(5.2)	(7.4)	(2.7)
Our vs consensus EPS (adjusted) (%)			(1.7)	(6.4)	(11.5)

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on : 2017-05-18.

Asia	<b>Financial summary</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
Malaysia	Recurring EPS (MYR)	0.22	0.26	0.22	0.21	0.23
Property	EPS (MYR)	0.24	0.26	0.22	0.21	0.23
<b>Tambun Indah Land</b>	DPS (MYR)	0.09	0.10	0.10	0.10	0.11
Bloomberg TILB MK	BVPS (MYR)	1.08	1.26	1.37	1.47	1.58
<b>Neutral</b>	Weighted avg adjusted shares (m)	424	427	432	436	440
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
35% discount to RNAV	Recurring P/E (x)	6.92	5.87	6.97	7.28	6.70
<b>Key drivers</b>	P/E (x)	6.46	5.87	6.97	7.28	6.70
New property sales;	P/B (x)	1.42	1.23	1.13	1.05	0.97
Strategic landbank acquisitions	FCF Yield (%)	8.0	(3.1)	12.2	7.7	1.7
<b>Key risks</b>	Dividend Yield (%)	5.8	6.5	6.5	6.5	7.1
Weaker-than-expected market conditions	EV/EBITDA (x)	4.73	4.39	4.69	4.74	4.57
	EV/EBIT (x)	4.77	4.46	4.78	4.85	4.67
<b>Company Profile</b>	<b>Income statement (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
Tambun Indah Land (Tambun) is a developer based in Penang mainland. Its flagship township Pearl City is located at Simpang Ampat, 15 minutes away from the Penang Second Bridge	Total turnover	368	361	306	284	313
	Gross profit	151	164	144	141	153
	EBITDA	138	153	135	131	144
	Depreciation and amortisation	(1)	(2)	(2)	(3)	(3)
	Operating profit	137	151	132	128	141
	Net interest	(5)	(5)	(5)	(5)	(6)
	Income from associates & JVs	4	3	0	0	0
	Pre-tax profit	136	149	127	123	135
	Taxation	(34)	(36)	(32)	(31)	(34)
	Minority interests	(1)	(1)	0	0	0
	Recurring net profit	94	112	95	92	101
	<b>Cash flow (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Change in working capital	(10)	(124)	41	13	(37)
	Cash flow from operations	79	(20)	131	102	61
	Capex	(27)	0	(50)	(50)	(50)
	Cash flow from investing activities	(27)	43	(49)	(48)	(47)
	Proceeds from issue of shares	3	10	0	0	0
	Dividends paid	(41)	(41)	(46)	(39)	(37)
	Cash flow from financing activities	7	(71)	(34)	(26)	(24)
	Cash at beginning of period	138	184	121	179	206
	Net change in cash	59	(48)	48	27	(9)
	Ending balance cash	197	136	169	206	197
	<b>Balance sheet (MYRm)</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Total cash and equivalents	184	121	179	206	187
	Tangible fixed assets	324	279	327	374	421
	Total investments	4	4	4	4	4
	Total other assets	36	46	46	46	46
	Total assets	776	749	810	866	937
	Short-term debt	49	41	41	41	41
	Total long-term debt	139	97	107	117	127
	Other liabilities	1	0	0	0	0
	Total liabilities	313	210	217	222	238
	Shareholders' equity	460	536	591	642	697
	Minority interests	3	3	3	3	3
	Total equity	463	539	593	644	699
	Net debt	4	17	(31)	(48)	(19)
	Total liabilities & equity	776	749	810	866	937
	<b>Key metrics</b>	<b>Dec-15</b>	<b>Dec-16</b>	<b>Dec-17F</b>	<b>Dec-18F</b>	<b>Dec-19F</b>
	Revenue growth (%)	(21.2)	(1.9)	(15.1)	(7.3)	10.1
	Recurrent EPS growth (%)	(8.3)	17.9	(15.8)	(4.3)	8.7
	Gross margin (%)	41.2	45.4	47.1	49.7	49.0
	Operating EBITDA margin (%)	37.6	42.5	44.0	46.2	46.1
	Net profit margin (%)	27.5	31.1	31.2	32.5	32.4
	Dividend payout ratio (%)	40.8	40.6	40.6	40.6	40.6
	Capex/sales (%)	7.4	0.0	16.3	17.6	16.0
	Interest cover (x)	26.7	31.7	26.4	23.9	24.6

Source: Company data, RHB

Figure 1: Tambun's quarterly results

FYE Dec (MYRm)	1Q16	4Q16	1Q17	QoQ (%)	YoY (%)	Comments
<b>Turnover</b>	<b>89.3</b>	<b>81.8</b>	<b>80.5</b>	<b>(1.6)</b>	<b>(9.9)</b>	Mainly due to slower property sales
EBIT	33.5	38.9	32.5	(16.4)	(3.0)	
EBIT margin (%)	37.5	47.6	40.4			
Net interest	(1.5)	(0.7)	(1.0)	49.6	(34.4)	
<b>Pretax profit</b>	<b>32.1</b>	<b>40.3</b>	<b>31.8</b>	<b>(21.3)</b>	<b>(0.9)</b>	PBT was higher in 4Q16, due to a MYR7m fair value gain on investment properties.
Pretax margin (%)	35.9	49.4	39.5			
Taxation	(8.2)	(5.2)	(7.8)	48.4	(5.4)	
Tax rate (%)	25.6	13.0	24.4			
Minority interest	(0.2)	(0.3)	(0.0)	(99.4)	(99.1)	
<b>Net profit</b>	<b>23.6</b>	<b>34.8</b>	<b>24.0</b>	<b>(31.0)</b>	<b>1.6</b>	
<b>Core net profit</b>	<b>23.6</b>	<b>27.8</b>	<b>24.0</b>	<b>(13.7)</b>	<b>1.6</b>	Within expectations.
Core net margin (%)	26.4	34.0	29.8			
EPS (sen)	5.6	8.2	5.6	(31.2)	0.7	
Gross DPS (sen)	0.0	7.0	0.0			
NTA/share (MYR)	1.1	1.3	1.3			

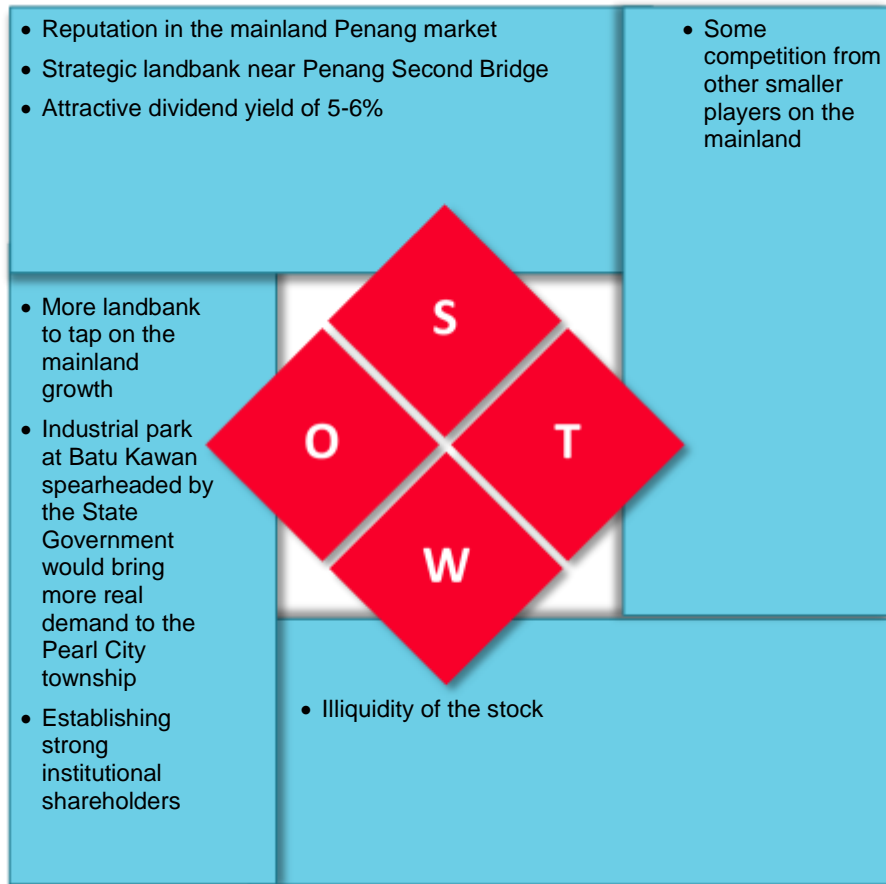
Source: RHB

Figure 2: 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%	41.3
Pearl Avenue (Ph. 2)	40.1	4.1	100%	9.3
Pearl Harmoni	151.2	21.6	100%	25.1
Rain Tree Park 1	170.3	25.1	100%	28.2
Avenue Garden @ Pearl City	95.0	n.a.	100%	15.8
Pearl Tropika	146.0	20.3	100%	24.2
<u>Remaining projects</u>				
Rain Tree Park 2	211.8	30.1	100%	33.5
Central Avenue @ Pearl City	82.1	n.a.	100%	14.2
Pearl Saujana - Phase 1	102.7	n.a.	100%	16.2
Pearl Saujana - Phase 2	87.5	n.a.	100%	12.6
Pearl 28	20.0	n.a.	100%	3.2
Camellia Park - Commercial	4.0	n.a.	100%	0.6
Alma	48.0	n.a.	100%	7.6
Palm Garden @ Pearl City	105.7	n.a.	100%	16.7
Pearl City - other phases	2,512.1	385.1	100%	286.5
Kota Permai	200.0	18.8	100%	26.2
<b>Total</b>				<b>561.09</b>
Shareholders' fund				536.42
Total RNAV				1,097.52
Shares base				428.66
FD RNAV per share (MYR)				2.56
Discount				35%
Target price (MYR)				1.66

Source: RHB

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-02-23	Buy	1.66	1.41
2016-11-17	Buy	1.66	1.46
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

Source: RHB, Bloomberg

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**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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