

12 November 2012 | Small-cap highlights

LBS Bina Group

Transformed developer

Target Price: RM1.02

Not rated

INVESTMENT HIGHLIGHTS

- **Transformed entity, more high-margin products (medium-high end residential)**
- **Sales exceeding forecasts, targeting close to RM1.0b sales in 2013**
- **Proposed disposal of China operation will improve gearing, cash flow visibility. Better positioned to acquire strategic land.**
- **Asset value understated. Reported NAV was RM1.30 at end Dec 2011, but RNAV is estimated at >RM3.**
- **Target price of RM1.02, based on P/NAV of 0.7, which is +1 standard deviation above 5-year average of P/NAV of 0.5x.**

We met management of LBS Bina Group (LBS) recently and toured its project sites – D’Island and Bandar Saujana Putra (BSP).

Vast experience in property industry. Listed on Bursa’s Main Market in 2002, LBS has been in property industry for more than 30 years. It has total landbank of 2,283 acres of which 42% is in Selangor, 25% in Johor, 18% in Perak, 8% in China and 7% in Pahang. This works out to be RM12.53b of gross development value (GDV) that could last the next 10 years.

Transformation phase completed. LBS used to be a low-cost developer prior to 2009. Due to low margin, LBS decided to revamp its business strategy by focusing higher margin products (i.e. medium-high end properties). Throughout the transformation period, it managed to “plug the loopholes” and it is now holding up well with quality products in its portfolio such as D’Island and Bandar Saujana Putra.

Well-organized. Prior to 2009, LBS did not have a dedicated main contractor. Now, it is fitted with its own in-house construction arm. This is essential for LBS to increase efficiency and reduce operating expenses. It also has rebranded its company and products via marketing for a more refreshing look. As for now, LBS continues to put efforts to reinvent its strategic cost and pricing for all of its products.

Sales exceeded target, more for next year. Year-to-date, LBS has managed to register RM804m new sales. This exceeded its initial target sales for FY12 of RM800m. Increasing sales was driven by its key projects in Puchong namely D’Island and BSP. D’Island and BSP alone make up about 90% of its total unbilled sales of RM742m as at October 2012. We expect LBS to meet its target of close to RM1.0b sales in 2013, again driven by its D’Island and BSP projects, with some contribution from Batu Pahat. The remaining GDV for D’Island and BSP is estimated at RM3.3b and RM4.18b respectively. Assuming the projects’ average pre-tax margin is 11% (which is LBS’s average for 2010-11), the 2 projects could contribute a combined PBT of RM82m p.a for the next 10 years.

RETURN STATS	
Price (9 th Nov 2012)	RM0.86
Target Price	RM1.02
Expected Share Price Return	+18.6%
Expected Dividend Yield	+3.5%
Expected Total Return	+22.1%

STOCK INFO	
KLCI	1641.08
Bursa / Bloomberg	5789 / LBS MK
Board / Sector	Main/ Property
Syariah Compliant	YES
Issued shares (mil)	386.6
Par Value (RM)	1.00
Market cap. (RM'm)	332.4
Price over NA	0.75
52-wk price Range (sen)	71.5 – 93.5
Beta (against KLCI)	1.42
3-mth Avg Daily Vol	1.25m
3-mth Avg Daily Value	RM1.08m
Major Shareholders	
Intelrich S/B	49.82%
Lim Sin Kheng	3.21%
Oh Kim Sum	1.84%

INVESTMENT STATISTICS

FYE Dec (RM '000)	2009	2010	2011	2012E	2013F
Revenue	198,476	340,912	449,565	478,840	526,724
Gross Profit	53,993	97,817	152,960	150,992	172,652
GPM	27%	29%	34%	32%	33%
Pre-tax Profit	-6,558	27,001	62,777	67,956	79,009
Pre-tax margin	-3%	8%	14%	14%	15%
Net Profit	-17,182	16,512	34,300	38,994	47,405
Net margin	-8.7%	4.8%	7.6%	8.1%	9.0%
Earnings Per Share (EPS)	-4.45	4.27	8.87	10.12	12.14
Price Earnings Ratio (PER)	-19.4	20.3	9.8	8.5	7.1
Price to Book Ratio (PB)	0.64	0.63	0.66	0.63	0.60
Return on Equity (ROE)	-3.3%	3.1%	6.8%	7.3%	8.4%
Return on Asset (ROA)	-1.4%	1.3%	2.3%	2.6%	3.0%
Dividend Per Share (DPS)	0	0	2.50	3.0	3.5
Dividend Yield			2.9%	3.5%	4.0%

Source: Company, Bloomberg, MIDF Research estimates
*Annualised 1HFY12

Bandar Saujana Putra and D'Island – The key earnings driver.

D'Island (High-end residential)

Although D'Island is the first move by LBS into high-end residential, sales so far has been encouraging. In fact, D'Island is the second largest contributor of its RM804m total sales in 2012 after BSP. The D'Island project is surrounded by large lake (see map below). It is strategically located next to South Klang Valley Expressway (SKVE). According to management, D'Island has a remaining GDV of RM3.3b which would last 6 – 8 more years. The project has various high-end residential products consisting 122 units of 3-storey superlink Apicalia, 3 storeys semi-detached Balvia, and bungalow lots. Management indicated that all 3-storey superlink home units priced from RM920k – RM1.92m with average built-up area of 3500 sq ft are fully sold. Meanwhile, the 3-storey semi-detached home units are also 43% taken up.

Bandar Saujana Putra

Strategically located along the Elite Highway which is linked to other expressways such as KESAS, NKVE, and LDP, BSP is a self-integrated township. The township is also linked to the South-Klang Valley Expressway (SKVE).

BSP is targeting middle-income group as it consists of affordable residential homes such as double-storey terrace house, double-storey semi-detached, single storey link, double storey townhouse, and 2 -3 storey shop office. The price of BSP's residential products' range from RM300k – RM750k per unit with gross built-up from 970 sq ft to 2250 sq ft. Interestingly, 95% of all the products have been taken up .

The next launch will be in December 2012, which is the “BSP Skypark”, a 689-unit service apartment and 32 shops with total GDV of RM320m. BSP Skypark's unit (apartment) is indicatively priced at RM380k – RM505k per unit. According to management, the remaining acres in BSP of 200 acres with estimated total GDV of RM4.2b would last 6 – 8 years.

FINANCIAL PERFORMANCE

Revenue and net profit. We expect LBS' revenue to climb by 7% and 10% in FY12 and FY13 respectively. Meanwhile, we expect its net profit to rise by 14% and 22% in FY12 and FY13 respectively. Earnings growth will be driven by 1) strong unbilled sales of RM742m and 2) decent pre-tax margin of 15%. LBS is also expected to launch the BSP Skypark and continue selling the D'Island's semi-detached, superlink and bungalow lots next year which we believe will continue to contribute to its bottomline.

Highly geared.... LBS's net debt-to-equity stood at 0.67x as at June 2012. This is relatively high as compared to its peers' average of 0.3x – 0.5x. About 80% of the loan is for project financing which will self-liquidate.

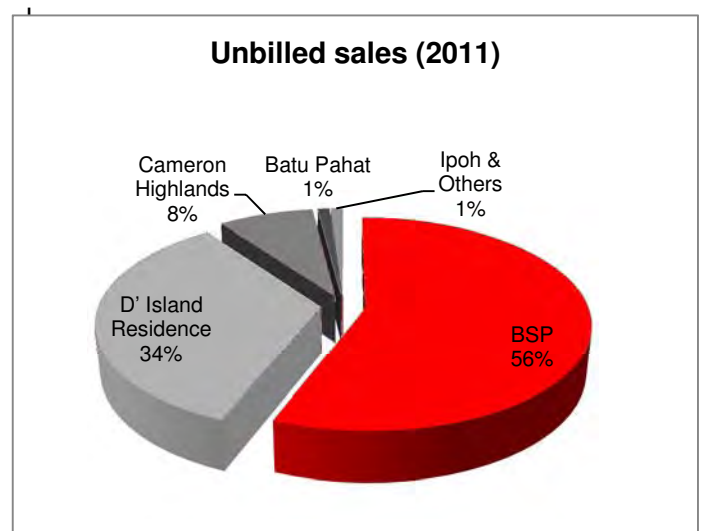
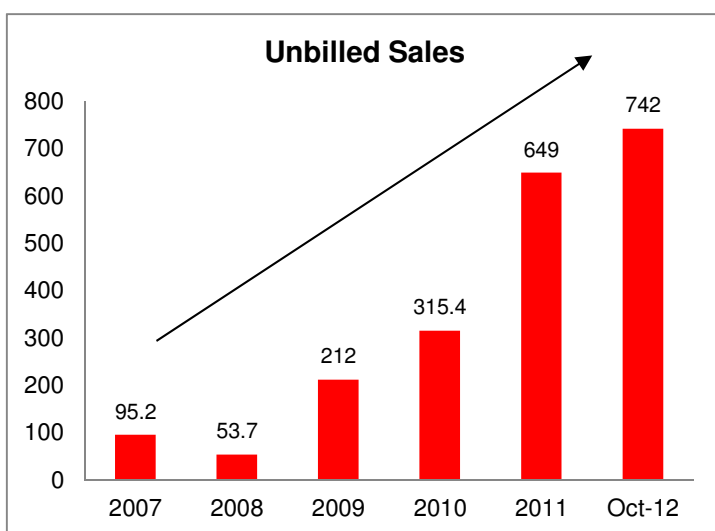
...but will be improved after the proposed disposal of China operation. Nonetheless, on 18th April 2012, LBS signed a memorandum of understanding (MoU) with Jiuzhou Development Company Limited (JDCL) to dispose up to 100% but not less than 60% equity interest in Dragon Hill Corporation Limited (Dragon Hill), a wholly-owned subsidiary of LBS. Under the MoU, the indicative price for acquisition of Dragon Hill is up to HKD1.65b (RM650m). The acquisition by JDCL will be financed via cash, equity shares in JDCL, and convertible securities. The proposed disposal is expected to be completed by March 2013. The management did mention that the proceeds from the disposal will be utilized to pare down LBS' debt and acquire strategic landbank. Hence, assuming 30% of the proceeds utilized to cut borrowings; its net gearing will be reduced to 0.30x from 0.67x.

Dividend. In 2011, LBS paid 2.5 sen dividend which translates into a 2.9% yield. This is the first dividend payment since 2006. Due to positive financial performance, management intends to pay more this year and next. Assuming LBS pays 3.0 sen of dividend; the yield is expected to be at 3.5% (based on current price).

VALUATION

We value LBS at RM1.02 per share based on ascribed Price-to-book ratio of 0.7x to FY13 book value. Our forward PB is derived from 1-standard deviation above its historical average PB of 0.52x. We are of the opinion that LBS deserves to trade at a higher level due after its business transformation, with greater earnings-visible products consisting medium-high end residential. In fact, the forward 0.7x PB is still lower than its closest peer, (based on products and market cap) Hua Yang Bhd of 1.3x.

Immediate catalyst for the stock will be the proposed disposal (c.RM650m) of its entire operation in China which is expected to complete in FY13 and strong property sales of close to RM1.0b next year. The proposed disposal will likely to boost up its cash flow and hence improve its gearing level. This will enable LBS to proceed with seek for strategic landbank in the foreseeable future.



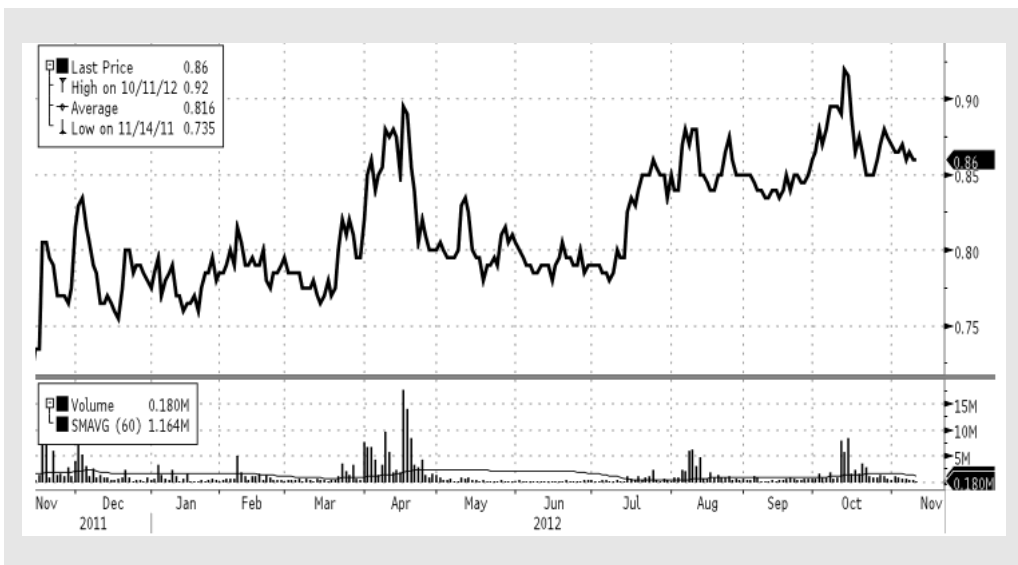
LBS' Property Portfolio

Projects	Units	GDV (RM m)
Bandar Saujana Putra	6,406	4,215
D'Island Residence-175 Acres	1,219	3,334
Commercial - 5.103 acres	1	175
Taman Greenhill/ Taman Perindustrian Greenhill	133	421
Magma Destar Sdn Bhd	458	255
Taman Tasik Puchong, Phase 2	334	92
Usaha Semarak Sdn Bhd	647	377
The Cemtrum, Cameron Highlands	932	1,976
Golden Hills, Cameron Highlands	815	512
Bandar Putera Indah Batu Pahat	5,253	858
Chemor (187.5 acres), Ipoh	2,063	264
Chemor (106.22 acres), Ipoh	1,015	138
Chemor, Ipoh Lingkaran Semangat Sdn Bhd	91	13
Chemor, Ipoh Juruplex Sdn Bhd	46	10
Jelapang Maju Light Industrial Park, Ipoh	60	9
Puncak Jelapang maju, Package A, B & C	266	18
	19,739	12,667

D'Island Project Details

Details	Remarks
Total GDV	RM3.6b
Developer	Astana Modal (M) Sdn Bhd
Development land area	175 acres
Land Tenure	Leasehold 99 years (exp Oct 2108)
Development period	5 – 8 years
Development mix	237 luxury superlinks
	298 semi-detached homes
	148 bungalows
	352 super condominiums
	commercial hub
	club house
Property launched to-date	Three storey superlink 22' x 80', 22' x 100',
	3-storey semi-detached 40' x 80'
	Three storey superlink 24' x 80', 24' x 100'
	Bungalow Lots
Features	LED street lights
	Lush green landscape
	Lakeside jogging track, outdoor gym, security system

DAILY PRICE CHART



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BANDAR SAUJANA PUTRA



D'ISLAND PROJECT



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.