

Company Focus

TA Enterprise

Bloomberg: TAE MK EQUITY | Reuters: TAES.KL

Refer to important disclosures at the end of this report

Malaysia Equity Research

18 Dec 2014

BUY RM0.70 KLCI : 1,681.90

Price Target : 12-Month RM 1.20

Shariah Compliance: No

Reason for Report : 3QFY15 results

Potential Catalyst: Sale of stockbroking unit, launches of projects on prime land banks

Where we differ: Only broker covering TAE

Analyst

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Result Summary

FY Jan (RM m)	3Q 2015	3Q 2014	2Q 2015	% Chg y-o-y	% Chg q-o-q
P&L Items					
Turnover	263.2	178.6	273.8	47.3	(3.9)
Opg Profit	85.5	65.0	71.2	31.6	20.1
EBITDA	104.9	84.3	90.6	24.5	15.8
Net Profit	31.7	42.0	40.6	(24.6)	(22.0)
Other Data					
Opg Margin (%)	32.5	36.4	26.0		
Net Margin (%)	12.0	23.5	14.8		

Financial Summary

FY Jan (RM m)	2013A	2014A	2015F	2016F
Turnover	781	871	1,116	1,382
Operating Profit	178	290	334	393
EBITDA	251	359	408	471
Net Pft (Pre Ex.)	82	137	175	177
EPS (sen)	4.8	8.0	10.2	10.3
EPS Pre Ex. (sen)	4.8	8.0	10.2	10.3
EPS Gth (%)	(17)	66	28	1
EPS Gth Pre Ex (%)	(17)	66	28	1
Net DPS (sen)	1.4	1.5	3.1	3.1
BV Per Share (sen)	98.9	104.7	113.4	120.7
PE (X)	14.5	8.7	6.8	6.7
PE Pre Ex. (X)	14.5	8.7	6.8	6.7
EV/EBITDA (X)	12.7	7.8	6.3	5.2
Net Div Yield (%)	1.9	2.2	4.4	4.5
P/Book Value (X)	0.7	0.7	0.6	0.6
Net Debt/Equity (X)	0.3	0.1	0.0	CASH
ROAE (%)	5.0	7.9	9.4	8.8

At A Glance

Issued Capital (m shrs)	1,712
Mkt. Cap (RMm/US\$m)	1,190 / 340
Avg. Daily Vol.('000)	1,590

ICB Industry : Consumer Services

ICB Sector: Travel & Leisure

Principal Business : TA Enterprise is principally involved in stockbroking business, property development, property investment and hotels.

Source: Company, AllianceDBS, Bloomberg Finance L.P.

Results in line

- 3QFY15 net profit was in line; broking and property development income picked up
- Remains an attractive M&A play
- Maintain BUY with SOP-based TP of RM1.20

Highlights

3QFY15 earnings in line

- Broking revenue and earnings grew in tandem with the surge in market transaction value, as expected. Average daily trading value on Bursa increased to RM2.2bn as at Oct 2014. Property development income also picked up driven by progressive billings for Damansara Avenue. The credit and lending segment reported strong recoveries, but that was offset by losses arising from the revaluation of investment securities and an acquisition-related cost.

Outlook

Potential M&A story

- Trading activity is expected to be subdued amid weaker sentiment. Based on our sensitivity analysis, each 5% drop in average daily traded value would reduce FY15 earnings by 1%.
- Nevertheless, TAE's stockbroking franchise remains an attractive M&A play given its strong retail presence (7% of market volume as of Nov 2014). Consolidation among brokers have been at 1.1 – 1.9x BV. Assuming a cash offer for TAE at 1x BV of RM820m (as at Jan 2014) for the broking and credit & lending business, that would work out to RM0.48 per share. This can be returned to shareholders via special dividends.

Unjustified discount to property arm

- At current price, the market is assigning a 68% discount to the value of TAE's property segment. The discount is unjustified, in our view, as a respectable hotel portfolio and 7 acres of prime land banks remain at its helm via TA Global.

Valuation

TA Enterprise is a Buy with RM1.20 target price. Our valuation is based on sum of parts. The latest round of ICPS conversion resulted in a dilution in TAE's effective stake in TA Global to 60.2%, which is a shade lower than our estimate (61%).

Risks

Softer property market and volatile market volumes

- Cooling measures in the property segment could lead to softer property launches. Intense competition in the stockbroking industry could further erode margins.

TAE SOP valuation

TA Global (TAG)

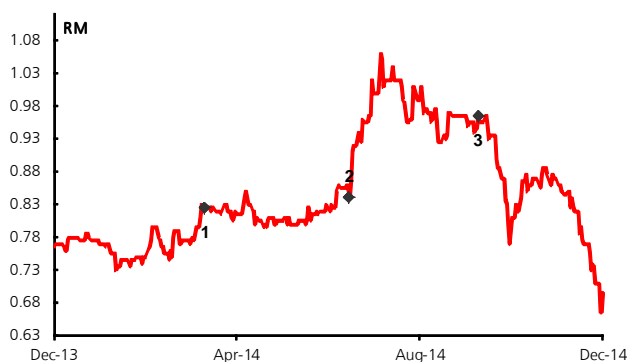
Property Investment	NLA (sq ft)	MV (RM psf)	(RMm)
Menara TA1	373,741	1,000	374
Terasen Centre	349,390	1,630	570
Subtotal (a)			943
Hotels	No of rooms	Value per room (RMm)	(RMm)
Radisson Plaza, Sydney	363	1.04	377
Westin, Melbourne	262	1.49	390
Whistler, Canada	180	1.12	202
Swissotel, Singapore	476	1.37	651
Swissotel, Kushan	387	0.48	185
Movenpick, Phuket	368	0.75	277
Subtotal (b)			2,081
Property Development			(RMm)
Damansara Avenue			274
Bukit Bintang			198
TA3 & TA4 (opposite KLCC)			289
West Georgia, Canada			97
The Gardens, Canada			46
Little Bay, Sydney			186
NPV of development profits			1,089
Value of land held under development			415
Subtotal (c)			1,505
Less: Net debt (d)			(870)
RNAV (a)+(b)+(c)-(d)			3,659
Discount to RNAV	45%		2,012
TAG's no. of shares (m)			5,322
TAG's RNAV per share (RM)			0.69

TA Enterprise (TAE)

Stockbroking, credit and lending	(RMm)
Book value of broking	327
Book value of credit and lending	491
Total	817
Target PBV (x)	1.0
Subtotal	817
TAE's stake in TAG @ 60%	60%
Total SOP	2,024
TAE's no. shares (m)	1,712
TAE's SOP per share (RM)	1.20

Source: AllianceDBS

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	27 Mar 14	0.83	1.00	Buy
2:	01 Jul 14	0.84	1.20	Buy
3:	25 Sep 14	0.97	1.20	Buy

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

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Published and Printed by
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