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Sector: Property

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Sentoria Group Bhd

Focus on Execution

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

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A recent meeting with management revealed that the company does not expect sizeable new ventures over the medium term as it has plateful of projects in hand (outstanding GDV of RM9.8bn), which could last the group for another 10-12 years. As such, project execution and brand building are Sentoria's key focus areas for FY15-17. Management is confident that the maiden phases of Sentoria Morib Resort City (SMRC) and Borneo Samariang Resort City (BSRC) will be rolled out from 3QFY15 onwards. Although FY15 earnings guidance comes in lower-than-expected, the net profit target still represents an encouraging profit growth of >20%. Forthcoming resort and township development up north is another catalyst. We cut our earnings forecasts by 7-37%, after factoring in lower property sales and margin assumptions. Target price is reduced slightly to RM1.30/share, as we roll forward our valuation base year to CY16, based on target PE of 8x. Maintain Sentoria as Buy. Key risks to our recommendation are 1) delay in obtaining approvals which may result in further deferment of SMRC and BSRC; 2) adverse weather strikes Kuantan, and 3) prolonged gestation period for its new theme parks.

Focus on execution and brand building

Sentoria has been on aggressive expansion mode in 2013-2014. It has proposed three massive integrated resort cities across the country, namely Morib (GDV: RM3.5bn), Samariang, Kuching (GDV: RM2.0bn) and Langkawi (GDV: RM2.1bn), as well as township development in Sungai Petani (GDV: RM800mn). With plateful of projects in hand, management does not expect sizeable new ventures over the medium-term. The group will begin to put its weight behind the resort city development in both Morib and Samariang, and focus on their execution. We view this positively as delivering on these resort cities will endorse its aspiration of becoming Malaysia's top integrated resort developer cum operator.

Launching RM746mn properties in FY15

Management will roll out RM746mn worth of properties in FY15, with bulk of the projects are scheduled for launch from 3QFY15 onwards – see **Figure 1**. This includes landed residential properties in Kuantan and commercial project dubbed East Coast Bazar (GDV: RM70m), featuring single and double storey shops with street retail space, a relatively new shopping concept for the Pahangite. More importantly, the group is expected to launch Sentoria Morib Resort City (SMRC) and Borneo Samariang Resort City (BSRC) in May-15 and Jun-15 respectively. It was slightly behind schedule due to delay in obtaining approval from the authority. Management is expecting the approvals latest by next month.

The maiden launch SMRC and BSRC will have an estimated GDV of RM246mn and RM404mn respectively. Among the new offering, we are particularly excited about the 2 Storey Resort Twin Villa (Semi-D) in SMRC, given its attractive pricing from RM638k/unit (or c.RM250psf) and resilient demand for landed

TP: RM1.30 (+23.1 %)

Last Traded: RM1.06

Buy

Share Information

Bloomberg Code	SNT:MK
Stock Name	SNTORIA
Stock Code	5213
Listing	Main Market
Share Cap (mn)	450.0
Market Cap (RMmn)	477.0
Par Value	0.20
52-wk Hi/Lo (RM)	1.61/0.87
12-mth Avg Daily Vol ('000 shrs)	423.20
Estimated Free Float (%)	22.5
Beta	0.76

Major Shareholders (%)

Sentoria Capital	- 61.1
State Secretary Pahang	- 12.2

Forecast Revision

	FY15	FY16
Forecast Revision (%)	(37.2)	(18.1)
Net profit (RMm)	37.7	68.5
Consensus	-	-
TA's / Consensus (%)	n.a	n.a
Previous Rating	Buy (Maintained)	

Financial Indicators

	FY15	FY16
Net Debt / Equity (%)	66.8	87.5
FCPS (sen)	(0.2)	(0.3)
Price / FCPS (x)	nm	nm
ROA (%)	7.9	11.2
NTA/Share (RM)	0.8	0.9
Price/NTA (x)	1.3	1.1

Share Performance (%)

Price Change	SNTORIA	FBM KLCI
1 mth	3.9	1.8
3 mth	(8.6)	2.4
6 mth	(27.9)	1.5
12 mth	9.3	(1.0)

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

homes in the Klang Valley. We understand that the 156 units of Twin Villa have attracted more than 500 registrants.

For leisure and hospitality development, management plans to spend RM80mn and RM40mn to construct a water park in SMRC and BSRC respectively, to create market awareness of these brand new resort developments. Construction of the water park is expected to commence by end of this year and will take 2 years to complete. Meanwhile, the Hotel Suites at both SMRC and BSRC will be offered under a sale-and-lease back arrangement to cater for future accommodation needs of its theme parks.

Target net profit growth of >20% YoY in FY15

To recap, Sentoria's 1QFY15 results were commendable, with revenue and net profit surged 35% and 36% YoY respectively. The strong set of results was underpinned by significant revenue recognition from its on-going township in Kuantan and higher number of visitors to Bukit Gambang Resort City (BGRC). For the full-year of 2015, management is targeting a net profit growth of 20% YoY. We had earlier expected the group to enter earnings super cycle this year. However, our projection appears overly bullish, given the commencement of SMRC and BSRC are now slightly behind schedule and revenue contribution from this two projects will be insignificant in FY15. Nonetheless, we believe profit growth of >20% YoY is achievable, driven by unbilled sales of RM117.6mn and turnaround in the leisure division.

Impact

We cut our FY15-17 earnings by 7-37% after 1) revising our FY15-17 new sales assumptions to between RM310mn and RM480mn from RM342mn and RM501mn previously; 2) delaying the commencement of progress billings for SMRC and BSRC by 6 months to 2QFY16; 3) lower property EBIT margin to between 26% and 31% (from 31-32% previously) to reflect the change in product mix. We also factor in the 10mn warrants converted by the major shareholders into our earnings model.

Valuation

Although FY15 earnings guidance comes in lower-than-expected, the net profit target still represents an encouraging profit growth of >20%. Investors should not focus on the FY15 earnings as FY16-17 are set to be substantially stronger following the commencement of SMRC and BSRC. New resort development in Langkawi and township development in Sungai Petani, which are targeted for launch by end FY16 should serve as another catalyst.

Target price is reduced slightly to RM1.30/share, as we roll forward our valuation base year to CY16, based on target PE of 8x. Maintain Sentoria as **Buy**. Key risks to our recommendation are 1) delay in obtaining approvals which may result in further deferment of SMRC and BSRC; 2) adverse weather strikes Kuantan, and 3) prolonged gestation period for its new theme parks.

Figure 1: Key Launches for FY15

Project & Dev Type		Unit Size (from)	No of Units	GDV (RM mn)	Price (from)	Exp Launch Date
Kuantan						
1	Taman Bukit Gambang 2 - Single Storey Semi D	2,800 sf	112	26.6	RM237k	Jun-15
2	East Coast Bazar - 1 & 2 Storey Shops	1,480 sf - 2,948 sf	194	70.0	RM338k/ 538k	Jun-15
Total			306	96.6		
Sentoria Morib Resort City						
1	2 Storey Resort Twin Villa	2,625 sf	156	93.0	RM638k	May-15
2	Hotel Suites	347 - 797 sf	435	90.0	RM180k - 280k	Jun-15
3	Sercived Apartment	800 - 1,000 sf	264	63.0	RM238k - 298k	Aug-15
Total			855.0	246.0		
Borneo Samariang Resort City						
1	Hotel Suites	400 - 800 sf	428	102.0	RM180k - 280k	Jun-15
2	Semi - D	990 sf	202	66.0	RM298k - 358k	Jul-15
3	Bungalow	1,920 sf	39	22.0	RM538k - 588k	Jul-15
4	Single Storey Terrace	760 sf	951	214.0	RM238k - 298k	Aug-15
Total			1620.0	404.0		
Grand Total			2,781.00	746.60		

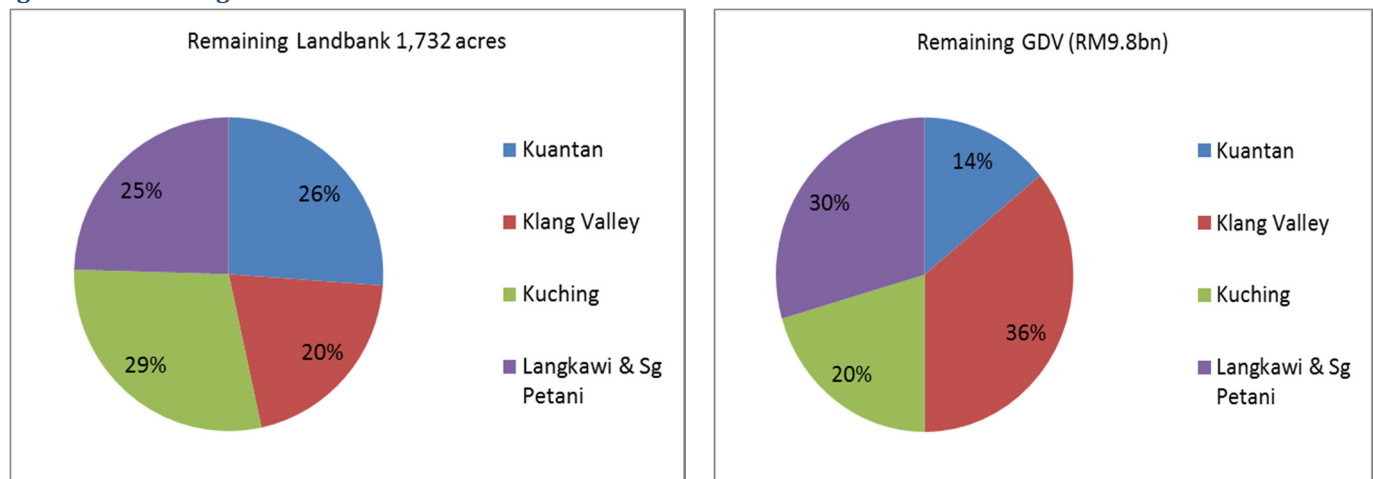
Source: Company, TA Research

Figure 2: RM1.7bn worth of launches for FY15-17

Project Location	Projects	Development Type	Acres	GDV (RM mn)
Kuantan	Taman Bukit Gambang, BGRC	Residential	44.0	100.0
	East Coast Bazar, BGRC	Commercial	22.0	70.0
	Affordable Housing	Residential	150.0	150.0
	Taman Bukit Rangin 3	Residential	96.0	100.0
Subtotal			312.0	420.0
Morib	Brands Village	Commercial	17.0	320.0
	Semi-D Villas	Residential	50.0	180.0
Subtotal			67.0	500.0
Kuching	Service Suites	Commercial	8.0	80.0
	Affordable Housing	Residential	210.0	420.0
Subtotal			218.0	500.0
Northern Region (Langkawi & Sg. Petani)	Service Suites	Commercial	3.0	80.0
	Affordable Housing	Residential	120.0	220.0
Subtotal			123.0	300.0
Grand Total			720.0	1,720.0

Source: Company, TA Research

Figure 3: Remaining Land bank and GDV



Source: Company, TA Research

Financial Statements

Profit & Loss (RMm)

YE Sep 30	2013	2014	2015f	2016f	2017f
Revenue	207.5	218.4	271.7	428.1	536.3
EBITDA	55.2	55.3	71.6	121.7	153.9
Dep. & amortisation	(8.0)	(12.9)	(20.9)	(29.4)	(35.5)
Net finance cost	(3.4)	(6.9)	(12.6)	(18.2)	(22.7)
PBT	43.8	35.5	38.1	74.1	95.7
Taxation	9.3	(6.5)	(0.4)	(5.5)	(7.8)
MI	0.0	0.1	0.0	0.0	0.0
Reported Net profit	53.1	29.1	37.7	68.5	87.9
Core net profit	53.1	29.1	37.7	68.5	87.9
Core EPS (sen)	12.1	6.6	8.4	15.2	19.5
GDPS (sen)	2.0	2.0	2.0	2.0	2.0
Div Yield (%)	1.9	1.9	1.9	1.9	1.9

Cash Flow (RMm)

YE Sep 30	2013	2014	2015f	2016f	2017f
PBT	43.8	35.5	38.1	74.1	95.7
Adjustments	(1.0)	3.0	12.6	18.2	22.7
Dep. & amortisation	8.0	12.9	20.7	28.6	34.2
Changes in WC	(10.6)	(31.4)	(52.5)	(32.1)	(52.4)
Operational cash flow	40.2	19.9	18.9	88.8	100.3
Capex	(74.3)	(49.8)	(121.3)	(206.5)	(163.7)
Others	7.1	(17.8)	0.0	0.0	0.0
Investment cash flow	(67.2)	(67.7)	(121.3)	(206.5)	(163.7)
Debt raised/(repaid)	29.3	81.9	125.0	125.0	100.0
Equity raised(repaid)	0.0	0.0	6.0	0.0	0.0
Dividend	(4.0)	(8.8)	(9.0)	(9.0)	(9.0)
Others	(0.5)	(5.5)	0.0	0.0	0.0
Financial cash flow	24.8	67.6	122.0	116.0	91.0
Net cash flow	(2.2)	19.9	19.6	(1.7)	27.6

Assumptions

YE Sep 30	2013	2014	2015f	2016f	2017f
New Sales (RM mn)	168	228	312	420	481
Prop Dev Margins (%)	28	34	31	28	26
No of Visitors ('000)	646	632	628	660	667
Revenue/Visitor (RM)	35	39	39	40	42

Balance Sheet (RMm)

YE Sep 30	2013	2014	2015f	2016f	2017f
PPE	218.9	334.9	397.1	490.2	607.9
Investment Properties	8.2	10.9	11.9	12.9	13.9
Others	53.6	78.8	116.2	200.1	210.8
Total Non Current Assets	280.6	424.6	525.2	703.2	832.6
Trade Receivables	123.2	152.9	161.3	214.1	268.2
Inventories	7.1	6.3	9.5	14.9	18.7
Cash	6.2	18.5	38.1	36.4	64.0
Others	42.0	55.0	67.9	109.1	136.2
Current Assets	178.5	232.7	276.7	374.5	487.0
Total assets	459.1	657.2	801.9	1077.7	1319.6
ST debt	24.9	18.6	23.6	28.6	8.6
Trade Payables	120.9	173.4	158.3	249.5	312.6
Other current liabilities	6.7	6.1	6.1	6.1	6.1
Current Liabilities	152.5	198.0	188.0	284.2	327.2
Shareholders' funds	248.3	324.7	359.4	418.9	497.8
MI	0.2	0.0	0.0	0.0	0.0
Total long term Liabilities	58.1	134.6	254.6	374.6	494.6
Total Equity and Liabilitie	459.1	657.2	801.9	1077.7	1319.6

Ratio

YE Sep 30	2013	2014	2015f	2016f	2017f
EPS Growth (%)	11.0	(45.1)	26.5	81.8	28.3
PER (x)	8.8	16.0	12.7	7.0	5.4
GDPS (sen)	2.0	2.0	2.0	2.0	2.0
Div Yield (%)	1.9	1.9	1.9	1.9	1.9
Net Debt/ (Net cash) (RM)	(76.8)	(134.7)	(240.1)	(366.8)	(439.1)
Net gearing (x)	0.3	0.4	0.7	0.9	0.9
ROE (%)	23.7	10.2	11.0	17.6	19.2
ROA (%)	22.3	8.3	7.9	11.2	11.5
NTA/share (RM)	0.6	0.7	0.8	0.9	1.1
P/NTA (x)	1.9	1.4	1.3	1.1	1.0

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