



TA SECURITIES

A MEMBER OF THE TA GROUP

MENARA TA ONE, 22 JALAN P. RAMLEE, 50250 KUALA LUMPUR, MALAYSIA TEL: +603-20721277 / FAX: +603-20325048

COMPANY UPDATE

Your guide to making intelligent investment decisions

CBRS
FREE Expert Analysis Reports

FBM KLCI: 1,588.10

Crescendo Corporation Berhad

An under-appreciated stock

Wednesday, March 28, 2012

TP: RM2.67 (+45.1%)

Business Summary	: Property development, and trade and manufacture concrete products.
Major Shareholders (%)	: Syarikat Kim Loong (64.27%)
	: -
	: -
Company Website	: www.crescendo.com.my
IR Contact	: 07-2248316
Constituent of	:
	FBM Emas Shariah FBM Hijrah

Recommendation:	BUY
Market Capitalisation (RMmn):	RM343.7
Current Price:	RM1.84
Market/ Sector:	Main/Property
Stock Code:	6718

TA Research Team Coverage

cvthiam@ta.com.my

+603-2072-1277 ext:1664

Key Stock Statistics

YE Jan		2012F	2013F
EPS	(sen)	34.5	38.5
PER	(x)	5.3	4.8
Gross div/ share	(sen)	14.0	15.0
NTA/share	(RM)	2.9	3.2
Book value/ share	(RM)	2.9	3.2
Issued capital	(mn shares)	188.7	190.0
52 weeks share price range	(RM)	1.95/1.30	

Per Share Data

YE Jan		2011	2012F	2013F	2014F
Book Value	(RV)	2.9	2.9	3.2	3.5
Cash Flow	(ser)	5.9	5.8	6.0	10.4
Earnings	(ser)	23.1	34.5	38.5	42.5
Dividend	(ser)	11.0	14.0	15.0	16.0
Payout Ratio	(%)	47.7	40.6	39.0	37.6
PER (x)	(x)	8.0	5.3	4.8	4.3
P/ Cash Flow	(x)	31.1	31.9	30.5	17.7
P/ Book Value	(x)	0.6	0.6	0.6	0.5
Dividend Yield	(%)	6.0	7.6	8.2	8.7
ROE	(%)	7.8	12.4	12.5	12.8
Net Gearing	(%)	18.1	11.8	6.9	1.8

P&L Analysis (RM mil)

YE Jan		2011	2012F	2013F	2014F
Revenue		215.2	308.1	353.3	398.3
Operating Profit		52.4	93.0	104.4	116.5
Interest Expenses		(1.4)	(0.6)	(0.7)	(0.6)
Pre-tax Profit		50.9	92.4	103.7	115.9
Effective Tax Rate	(%)	21.8	25.0	25.0	25.0
Net Profit		36.7	65.1	73.1	81.7
Operating Margin	(%)	24.3	30.2	29.5	29.2
Pre-tax Margin	(%)	23.7	30.0	29.4	29.1
Net-Margin	(%)	17.0	21.1	20.7	20.5

Result Preview

Crescendo will release its 4QFY12 results this Friday and we expect the 4Q net profit to be in between RM16.2mn and RM20.2mn, bringing FY12 net profit to RM63mn-RM67mn. Based on a payout ratio of 40%, we expect the company to propose a final dividend of 6sen/share (4QFY11: 5sen/share), bringing FY12 dividend to 14sen/share.

Our projected FY12 net profit of RM65.1mn represents a 78% growth YoY. We attribute the robust performance to 1) double digit revenue growth across the business segments; and 2) margin expansion due to higher average selling price and better product mix.

Demand for industrial properties remains strong

To recap, Crescendo's new sales in 9MFY12 had hit the RM200mn mark, surpassing its FY11's total sales of RM159mn. We understand from the management that it comprises mainly the sales of industrial units at Nusa Cemerlang Industrial Park (NCIP). We also gather that manufacturers from Japan are planning to relocate their manufacturing facilities from Thailand to Johor due to 1) the recent flood in Thailand that has disrupted operations; 2) attractive pricing, which is significantly lower than those in the Klang Valley and Singapore; 3) well-established infrastructures.

Management guided that NCIP should achieve a minimum RM100mn new sales consistently going forward. However, we view it as a quite conservative projection, as the booming economic activities introduced under the Economic Transformation Program in Johor should continued to attract local and foreign industrialists to invest in Johor. In addition, we note that industrial property in NCIP has registered a price hike of 37%, from RM270psf in 2010 to RM370psf in 2012. All in, we estimate project NCIP to contribute new sales of RM130mn – RM180mn for FY12-14.

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



Source: Bloomberg

Riding along the growth of Iskandar Malaysia

As of December 2011, Iskandar Malaysia has achieved a total investment of RM84.9bn, comprising 60% domestic investments and 40% foreign investments. We believe foreign investors are now more confident about the business environment in Iskandar Malaysia as the most of the basic infrastructures and amenities have already been put in place. Moreover, the collaboration between Khazanah and Temasek to develop a RM3bn project in Iskandar Malaysia should instill greater confidence among the Singaporean investors. Crescendo's management also concurred that it has received more queries about their NCIP industrial units from the Singaporean manufacturers and investors. This is also evidenced by the buyer profile of the NCIP project, where Singaporean are the main purchasers, representing 56% of the total value.

Currently, Crescendo has 3,016 acres of undeveloped landbank in Johor, with 1,696 acres of the landbank located within the prime Iskandar Malaysia region – see **Table 1** and **Figure 1**. Going forward, on top of the sustainable sales derived from its industrial properties, we expect Crescendo's prospects to remain intact, given it offers a wide range of products ranging from residential, commercial, and leisure properties, such as Bandar Cemerlang, CLSB and Ambok Resort to serve as future earnings growth driver.

1) Bandar Cemerlang

The group will kick start the first phase of its Bandar Cemerlang in Sep-12. Bandar Cemerlang is an integrated township development measuring 1,390 acres located near Ulu Tiram. The first phase of the project consist 303 units of double storey and cluster semi-detached houses worth total GDV of RM90mn. We expect the affordable homes which are priced at RM250k-RM300k/unit should garner strong interest among the first home buyers.

2) CLSB Land

Spanning across an area of 221.58 acres, this land will be developed into a water front development. It is strategically located within Iskandar Malaysia and is only 18km away from Johor Bahru. Construction work of main access to the development i.e the interchange connected to the Johor Bahru-Pasir Gudang highway has completed. Reclaiming works have commenced and are expected to be completed by the Jan-14. With a total estimated GDV of RM465mn, Crescendo targeted to launch the project in FY15.

3) Ambok Resort

This 794-acre of land has been zoned for a mixed development project. Located close to Pengerang, Crescendo plans to start developing the land in 6 years' time. Note that, Petronas will invest RM60bn in an integrated downstream oil and gas complex in Pengerang, Johor which is targeted for completion by 2015. These new oil and gas industry facilities in Pengerang are expected to boost the population in the surrounding township from a current 20,000 to 40,000. As such, we expect Ambok Resort development to benefit from the rising population in the region.

An under-appreciated stock

Since we released Crescendo's 3QFY12 result update report in Dec, its share price has advanced by 25%. However, we still see hefty potential upside as the stock is currently trading at 4.7x CY12 EPS and 0.6x NTA. We view the steep discount is unjustifiable against its earnings CAGR of 30.6% for FY11-14.

Crescendo has adopted a dividend policy to distribute at least 30% of its net profit as dividends. More importantly, it has been distributing more than 45% for the last 2 financial years. Based on yesterday closing price of RM1.84. Our projected DPS of 14sen would translate into a decent dividend yield of 7.6%, offering the highest dividend yield among the small-cap property stocks under our coverage – see **Peer Comparison Table**.

Peer Comparison Table

Comparative Valuation	KSL	Glomac	Hua Yang	Crescendo
Share Price (RM) @ 27/03/12	1.43	0.85	1.46	1.84
Mkt. Cap (RM mil)	558.5	514.6	210.2	343.6
Ave. Daily Vol. ('000)	204.9	754.3	496.1	79.8
P/E CY12 (x)	5.3	5.0	3.5	4.8
P/E CY13 (x)	3.6	4.0	3.0	4.4
P/NTA (x)	0.6	0.8	0.8	0.6
Yield (%)	3.5	6.5	4.6	7.6

Forecast

No change to our FY12 earnings projection. However, we tweak our FY13-14 earnings estimates higher by 6-8% to factor in 1) the revised sales mix within Bandar Cemerlang development which is targeted for launch in Sep-12; and 2) increasing average selling price and faster take-up rate for its NCIP industrial properties. We now project Crescendo to secure new sales of RM303mn (from RM280mn previously) for FY13 and RM328mn (from RM305mn previously) for FY14.

Valuation and recommendation

We arrive at a new target price of RM2.67/share based on a CY12 target PER of 7x for the small cap property stocks. We continue to like Crescendo due to 1) exposure to the resilient affordable housing development; 2) strong opportunities to tap on the growth of Iskandar Malaysia; and 3) attractive dividend yield of 7.6%. Given a total return of 45%, we maintain our Buy recommendation for Crescendo.

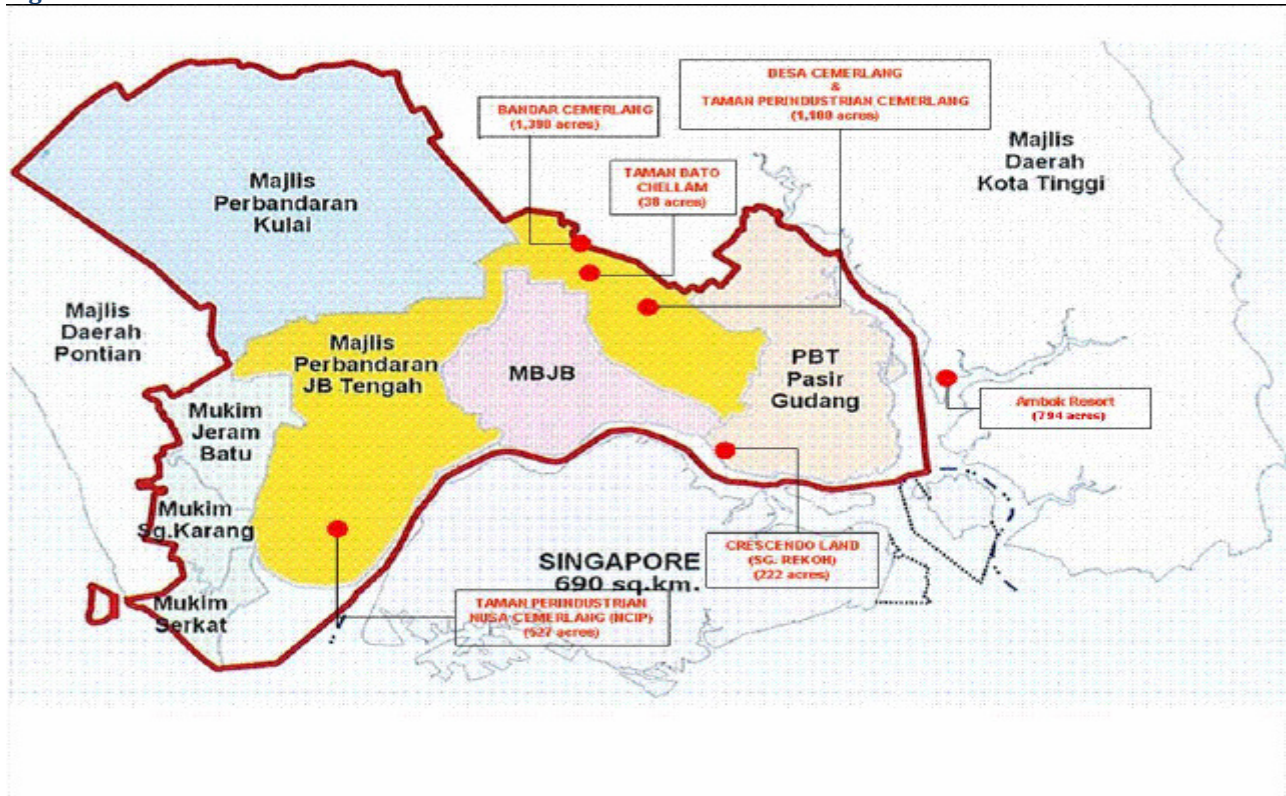
Table 1: Development landbank

Project	Distance from JB (km)	Type of Development	Land area (acre)	Estimated GDV (RM mn)
Taman Perindustrian Cemerlang *	16	Industrial / Commercial	155	250
Desa Cemerlang *	16	Residential / Commercial	105	353
Bandar Cemerlang	20			
- Tebrau, Johor Bahru *		Mixed	864	3,000
- Kota Tinggi		Mixed	526	
Others *	20	Residential	15	11
Taman Dato Chellam *	18	Residential / Commercial	35	127
Nusa Cemerlang Industrial Park *	30	Industrial	300	957
CLSB Land *	18	Mixed	222	465
Ambok	67	Resorts / Mixed	794	N/A
			3,016	5,163

* Land within the boundary of Iskandar Malaysia

Source: Company

Figure 1: Location of land bank



Source: Company

(THIS PAGE IS INTENTIONALLY LEFT BLANK)

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

This report has been prepared by TA SECURITIES HOLDINGS BERHAD for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and will be compensated to undertake the scheme. TA SECURITIES HOLDINGS BERHAD has produced this report independent of any influence from the CBRS or the subject company.

*For more information about CBRS and other research reports, please visit Bursa Malaysia's website at:
http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/eResearch.jsp*

for TA SECURITIES HOLDINGS BERHAD^(14948-M)
(A Participating Organisation of Bursa Malaysia Securities Berhad)
Kaladher Govindan – Head of Research