

## Mah Sing Group

Recommendation: **BUY**

Stock Code: 8583

Bloomberg: MSGB MK

Price: MYR3.34

12-Month Target Price: MYR3.83

Date: November 17, 2006

Board: Main

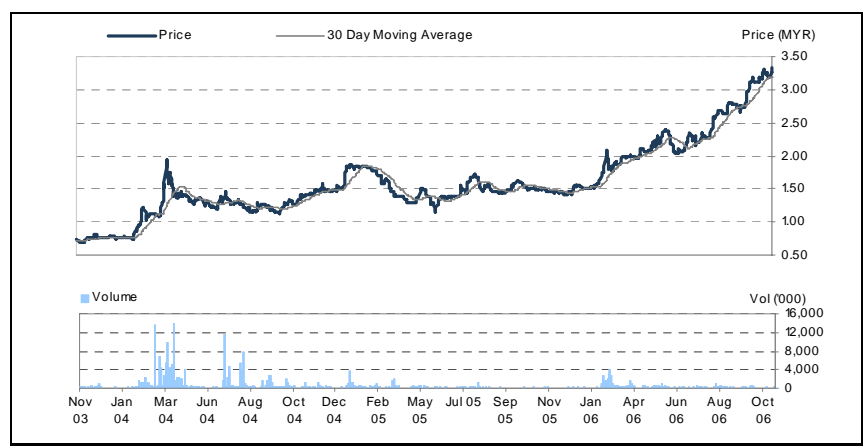
Sector: Property

GICS: Financials/Real Estate Management &amp; Development

Market Value - Total: MYR502.7 mln

**Summary:** Incorporated in 1965, the Mah Sing Group (MS) started as a plastics manufacturer and trader. It was listed on the Second Board of Bursa Malaysia in Oct. 1992 under the manufacturing sector. In 1994, MS ventured into property development.

Analyst: Chan Pheng Lee, CFA



## Results Review &amp; Earnings Outlook

- MS' 3Q06 financial results were within our expectations. 9M06 net profit reached MYR48.2 mln, accounting for 74% of our 2006 forecast. For the quarter, progress billings were underpinned by ongoing projects such as Aman Perdana in Meru-Shah Alam and Austin Perdana in Johor Bahru.
- Property development EBIT margin remained healthy at 26% in 3Q versus 21% in 2Q. We believe the level of profit margin is sustainable given MS' focus on mid- to high-end residential products in relatively good locations. Unbilled sales grew 18% QoQ to MYR431 mln as at Sep. 2006, which is commendable in view of a generally subdued property market.
- The Board of MS has approved the following corporate exercises: (1) private placement of up to 10% of existing share capital with an expected completion date in Jan. 2007, (2) 1-for-4 rights issue exercise to be completed in June 2007 and (3) 1-for-5 bonus issue to be completed in July 2007. We understand the bulk of the money (-MYR134 mln) raised will be used as working capital for various new projects.
- Management is targeting a 30% dividend payout in 2006. Accordingly, we have raised our 2006 and 2007 gross DPS forecasts to 16 sen (from 13 sen) and 18 sen (from 13 sen), respectively. Our earnings forecasts remain largely unchanged.

## Recommendation &amp; Investment Risks

- We are reiterating our Buy recommendation with an upgraded 12-month target price of MYR3.83 (from MYR3.59). The target price is derived from ascribing 8x PER (no change) to our 2008 diluted EPS estimate of 46.3 sen (rolled over from our 2007 estimate and diluted for warrants conversion) and includes a projected net DPS of 11.5 sen.
- Our target PER is at a premium to the 5x-7x that we have been using to value small- to mid-cap property stocks. The premium valuation reflects the company's track record in acquiring reasonably prime land with deferred payment structures and its ability to execute a quick turnaround strategy efficiently, hence enhancing the return on equity and minimizing the holding cost.
- Assuming that MS' corporate exercises proceed as planned, the company's paid-up capital will increase to a maximum of MYR313.1 mln in 2007 from MYR152.0 mln currently (assuming full conversion of 41.5 mln warrants). We have not incorporated the potential new shares into our forecasts pending the fixing of prices for the placement and rights shares and securing of approvals from the relevant authorities.
- Risks to our recommendation and target price include a sharper-than-expected slowdown in property demand in Malaysia. Delays in launches and/or poor take-up rates will also jeopardize our premium valuation.

## Key Stock Statistics

FY Dec.	2005	2006E
Reported EPS (sen)	33.3	42.9
PER (x)	10.0	7.8
Dividend/Share (sen)	12.0	16.0
NTA/Share (MYR)	1.76	2.00
Book Value/Share (MYR)	1.76	2.00
No. of Outstanding Shares (mln)	150.5	
52-week Share Price Range (MYR)	1.42 - 3.34	
Major Shareholders:	%	
Dato' Leong Hoy Kum	42.9	
FMR Corp. & Fidelity Int. Ltd.	6.6	

## Per Share Data

FY Dec.	2003	2004	2005	2006E
Book Value (MYR)	1.19	1.48	1.76	2.00
Cash Flow (sen)	26.5	30.5	42.3	51.7
Reported Earnings (sen)	16.6	19.2	33.3	42.9
Dividend (sen)	4.0	6.0	12.0	16.0
Payout Ratio (%)	17.4	25.0	25.9	27.0
PER (x)	20.2	17.4	10.0	7.8
P/Cash Flow (x)	12.6	11.0	7.9	6.5
P/Book Value (x)	2.8	2.3	1.9	1.7
Dividend Yield (%)	1.2	1.8	3.6	4.8
ROE (%)	15.0	15.7	20.6	23.2
Net Gearing (%)	70.6	74.0	49.7	12.9

All required disclosures appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2006 The McGraw-Hill Companies, Inc.

Page 1 of 4

**Quarterly Performance**

FY Dec. / MYR mln	3Q06	3Q05	% Change
Reported Revenue	117.9	134.4	-12.3
Reported Operating Profit	24.7	21.2	16.6
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	23.1	20.4	13.2
Reported Net Profit	16.7	14.1	18.9
Reported Operating Margin (%)	21.0	15.8	-
Reported Pre-tax Margin (%)	19.6	15.2	-
Reported Net Margin (%)	14.2	10.5	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2004	2005	2006E	2007E
Reported Revenue	356.5	473.5	529.1	630.0
Reported Operating Profit	43.7	73.5	96.9	119.3
Depreciation & Amortization	-14.7	-13.0	-13.4	-12.1
Net Interest Income / (Expense)	-8.4	-8.9	-4.9	-5.0
Reported Pre-tax Profit	38.8	69.6	92.0	114.4
Effective Tax Rate (%)	33.8	28.6	28.0	27.0
Reported Net Profit	25.1	48.3	65.0	82.2
Reported Operating Margin (%)	12.3	15.5	18.3	18.9
Reported Pre-tax Margin (%)	10.9	14.7	17.4	18.2
Reported Net Margin (%)	7.0	10.2	12.3	13.1

Source: Company data, S&amp;P Equity Research

**Standard & Poor's Equity Research Services**

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

**Glossary**

**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

**S&P 12 Month Target Price** – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Required Disclosures**

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

**Other Disclosures**

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM") which is regulated by the Securities Commission, in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, SPIS and SPIAS LLC (Korea) are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

**CMDF-Bursa Research Scheme ("CBRS")**

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

**Disclaimers**

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	3.83
1-Nov-06	Buy	3.59
16-Aug-06	Hold	2.87
19-Jul-06	Buy	2.47
23-May-06	Buy	2.44
18-Apr-06	Buy	2.23
2-Mar-06	Buy	2.18
20-Oct-05	Hold	1.61

