MKH Berhad

Property developer with a plantation arm

- MKH is a property developer that has diversified into plantations, building materials trading and property investments.
- We project MKH's earnings to peak in FY9/22F (+37% yoy) but fall in FY9/23F (-20% yoy) due to fluctuations in CPO prices and site activities.
- Initiate coverage with a Hold call due to its unexciting sector prospects but downside is capped by its low P/BV and P/E ratios, in our view.

A mid-size property developer with plantations in Indonesia

MKH Berhad (MKH) is a property developer that has diversified its business into several other sectors over the years: i) Property Development and Construction (PDC); ii) Plantation; iii) Hotel & Property Investment (HPI); and iv) Building Materials Trading & Furniture Manufacturing (BMT & FM). Currently, it owns about 566 acres of landbank with a remaining gross development value (GDV) of RM9.5bn and c.16.4k ha of planted palm oil estates in the East Kalimantan region. The plantation unit is the biggest earnings contributor, at 63% of FY21 profit before tax (PBT), followed by PDC (c.23% of PBT).

Core earnings to peak in FY9/22F

We project MKH's core EPS to rise 37% yoy in FY22F, driven by a 35% yoy jump in CPO prices, stronger contribution at PDC in tandem with increased site activities post lockdowns. We expect FY23F core EPS to decline 20% yoy as the 18% drop in CPO prices should offset the 62% yoy jump in PDC PBT (lifted by scheduled handover of projects) and for FY24F core EPS to improve 18% yoy mainly driven by stronger performance at the plantation division (+4% rise in FFB yields and lower operating costs).

Plantation earnings could gain dominance if it pursues M&A

MKH's plantation segment has become more significant over the past two years (23%/63% of the group's FY20/21 PBT vs. FY17-19's average of 7%) as rising CPO prices coincided with weaker PDC division earnings. We forecast the former segment to contribute 26-56% of FY22-24F PBT, despite weaker CPO prices. MKH plans to actively seek plantation land in East Kalimantan based on its recent investor slides and, if they come to fruition (see Fig 23), could position it as a commodity play down the road.

MKH is a Hold due to challenging sector outlook

We initiate coverage on MKH with a Hold call. We value the stock using sum-of-parts (SOP) methodology with a target price of RM1.34, ascribing: i) 0.4x FY21 P/BV to its property landbanks, on par with the property sector's average P/BV valuation; ii) 0.5x FY21 P/BV to investment properties, at the lower range of small-size REIT players, given lower dividend yields; (iii) EV/ha of US$7,000 on FY21 planted area, broadly in line with replacement costs to account for regulatory risks; and (iv) 6x FY23F P/E to its BMT & FM unit, similar to furniture manufacturing peers. We also apply a 15% discount on SOP valuation to factor in ESG/liquidity risk. Key upside risks include higher CPO prices and favourable policies for the property sector; downside risks are higher operating costs and macro headwinds.

Financial Summary	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Total Net Revenues (RMm)	912	914	989	1,158	1,073
Operating EBITDA (RMm)	185.1	204.1	232.3	202.0	209.8
Net Profit (RMm)	41.7	80.4	103.7	83.1	97.9
Core EPS (RM)	0.14	0.13	0.18	0.14	0.17
Core EPS Growth	(5.8%)	(7.6%)	37.3%	(19.9%)	17.9%
FD Core P/E (x)	8.68	9.40	6.85	8.55	7.25
DPS (RM)	0.030	0.035	0.035	0.035	0.035
Dividend Yield	2.44%	2.85%	2.85%	2.85%	2.85%
EV/EBITDA (x)	5.69	4.60	3.96	3.67	3.12
P/FCFE (x)	35.09	16.31	NA	3.33	2.97
Net Gearing	15.0%	5.5%	3.4%	(6.3%)	(10.7%)
P/BV (x)	0.44	0.42	0.40	0.38	0.37
ROE	5.05%	4.53%	5.93%	4.56%	5.18%
% Change In Core EPS Estimates					
CGS-CIMB/Consensus EPS (x)					

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Malaysia

HOLD *(initiation)*

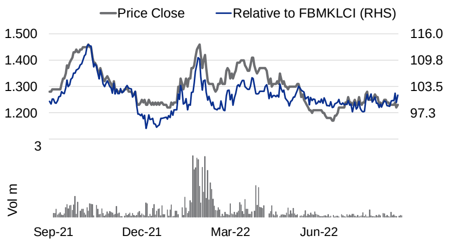
Consensus ratings*:	Buy 0	Hold 0	Sell 0

Current price:	RM1.23
Target price:	RM1.34
Previous target:	RM
Up/downside:	8.7%
CGS-CIMB / Consensus:	na
Reuters:	METR.KL
Bloomberg:	MKH MK
Market cap:	US$156.0m
	RM710.2m
Average daily turnover:	US$0.02m
	RM0.08m
Current shares o/s:	577.4m
Free float:	50.7%

*Source: Bloomberg

Key changes in this note

- N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.9	1.7	-3.9
Relative (%)	-0.1	2.4	1.6

Major shareholders	% held
Chen Choy & Sons Realty	40.9
Public Bank Grp Off Fund	9.2

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Property developer with a plantation arm

Company background

MKH is a property developer that started as a private limited company in 1979 under the name Srijang Bena Sdn Bhd. It was subsequently listed on the main market of Bursa Malaysia in 1995 as Metro Kajang Holdings Berhad (at IPO price of RM1.60/share) and rebranded as MKH in 2011. Over the years, the group has diversified its business to several other sectors: i) Property Development and Construction (PDC); ii) Plantation; iii) Hotel & Property Investment (HPI); and iv) Building Materials Trading & Furniture Manufacturing (BMT & FM).

Figure 1: Revenue breakdown by segment

Segments	FY17	FY18	FY19	FY20	FY21
PDC	65.7%	65.0%	69.2%	61.6%	55.7%
Plantation	24.4%	24.3%	20.5%	27.5%	32.2%
HPI	3.2%	3.0%	2.8%	2.7%	2.6%
BMT & FM	6.6%	7.4%	7.3%	7.9%	9.1%
Others	0.1%	0.3%	0.2%	0.3%	0.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Pretax profit breakdown by segment

Segments	FY17	FY18	FY19	FY20	FY21
PDC	71.2%	60.4%	77.2%	63.5%	22.5%
Plantation	7.7%	8.2%	3.7%	22.5%	63.3%
HPI	7.8%	9.3%	1.1%	-6.9%	0.6%
BMT & FM	2.9%	2.9%	3.5%	4.2%	3.5%
Others	10.4%	19.2%	14.5%	16.7%	10.1%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Property Development and Construction. The group currently has more than 40 years of experience in developing strata and landed properties, with its operations focusing on the Kajang/Semenyih and Greater KL regions. This segment contributed 56% of the group's revenue in FY21, making it the largest revenue contributor. Currently, MKH owns about 566 acres of landbank, which has a remaining GDV of RM9.5bn. The landbanks are strategically connected to major highways and located mainly within key growth areas and economic corridors. MKH leverages the strong demand for affordable housing by emphasising affordable pricing (average property price around RM500,000 per unit), good locations and the right product mix (focus on high-rise and landed properties).

The Kajang/Semenyih area is gaining prominence given: i) its strategic proximity to Kuala Lumpur, Putrajaya and Cyberjaya; ii) improved accessibility due to the completion of MRT stations in 2017, ongoing construction of Kajang 2 KTM, and good connectivity via highways, i.e. Grand Saga Highway, SILK Highway, Kajang-Seremban Highway (LEKAS) and North South Highway (PLUS); and iii) the increasing number of developers that have acquired land and launched projects in the area, i.e. Eco World Development and SP Setia. As >80% of its future projects are in the Kajang/Semenyih area, MKH is well placed to tap the growing demand for properties there in our view.

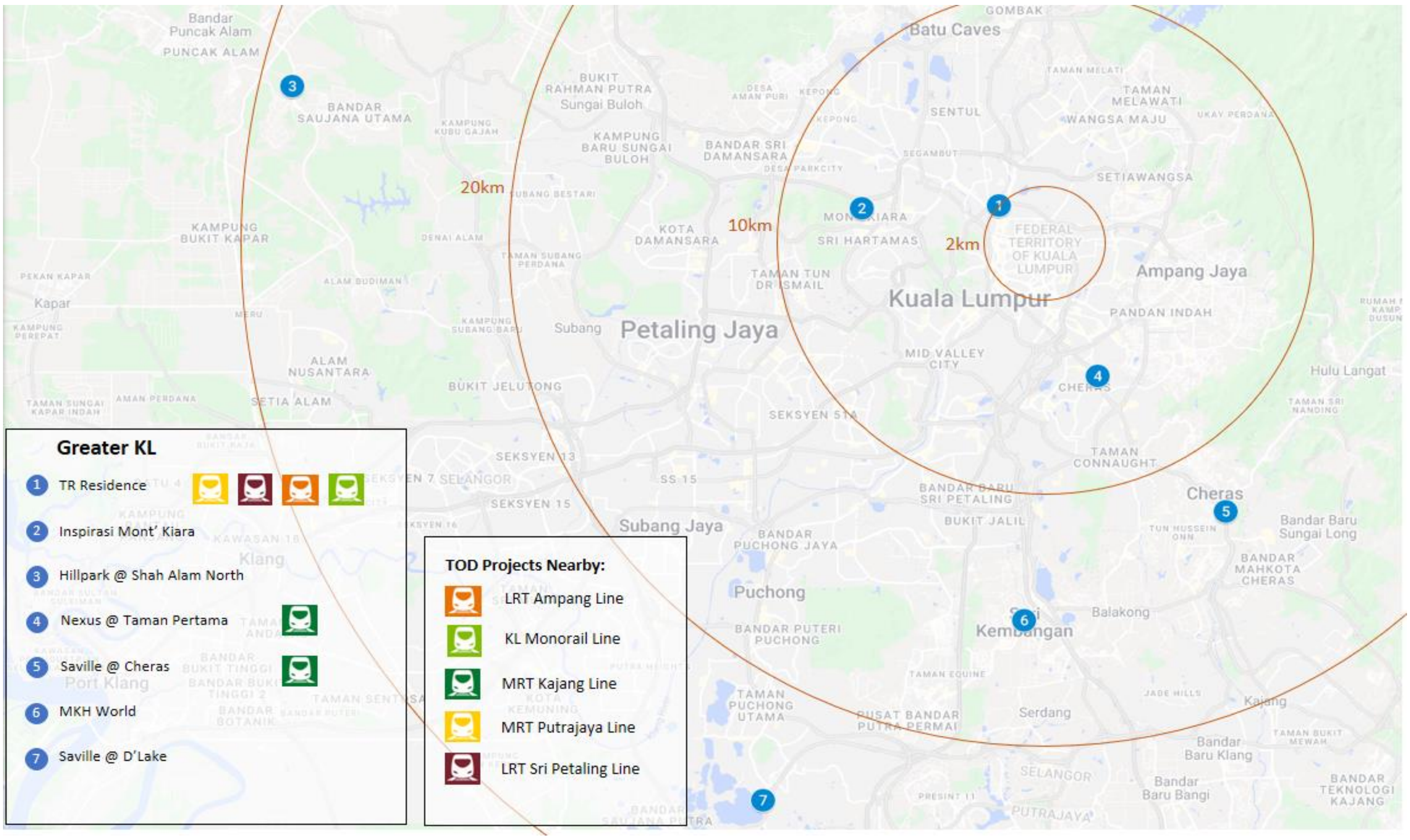
MKH also owns strategic landbanks with close proximity to public transport systems (MRT and railway stations), enabling the group to leverage the strong demand for transit-oriented development (TOD) concept projects. It is currently developing several TOD projects, such as Nexus @ Taman Pertama in Cheras, MKH Boulevard 2 in Kajang, Nexus @ Kajang Station, MIRAI Residences @ Kajang 2 Precinct 1 and a new serviced apartment project known as TR2 Residence @ Jalan Tun Razak, Kuala Lumpur.

Figure 3: Summary of projects

Projects	Remaining Acreage	Remaining GDV (RMm)
Kajang		
Kajang 2 Precinct 1	228	3,240
Kajang 2 Precinct 2	138	2,450
Kajang 2 Precinct 3	75	540
Kajang East	4	43
KEP5	10	459
MKH Youth City	7	641
MKH City	7	792
Hillpark Residence 2	38	446
Greater KL		
Hillpark @ Shah Alam	45	61
MKH World @ Serdang	12	746
SS5 @ Kelana Jaya	2	50
Total	**566**	**9,468**

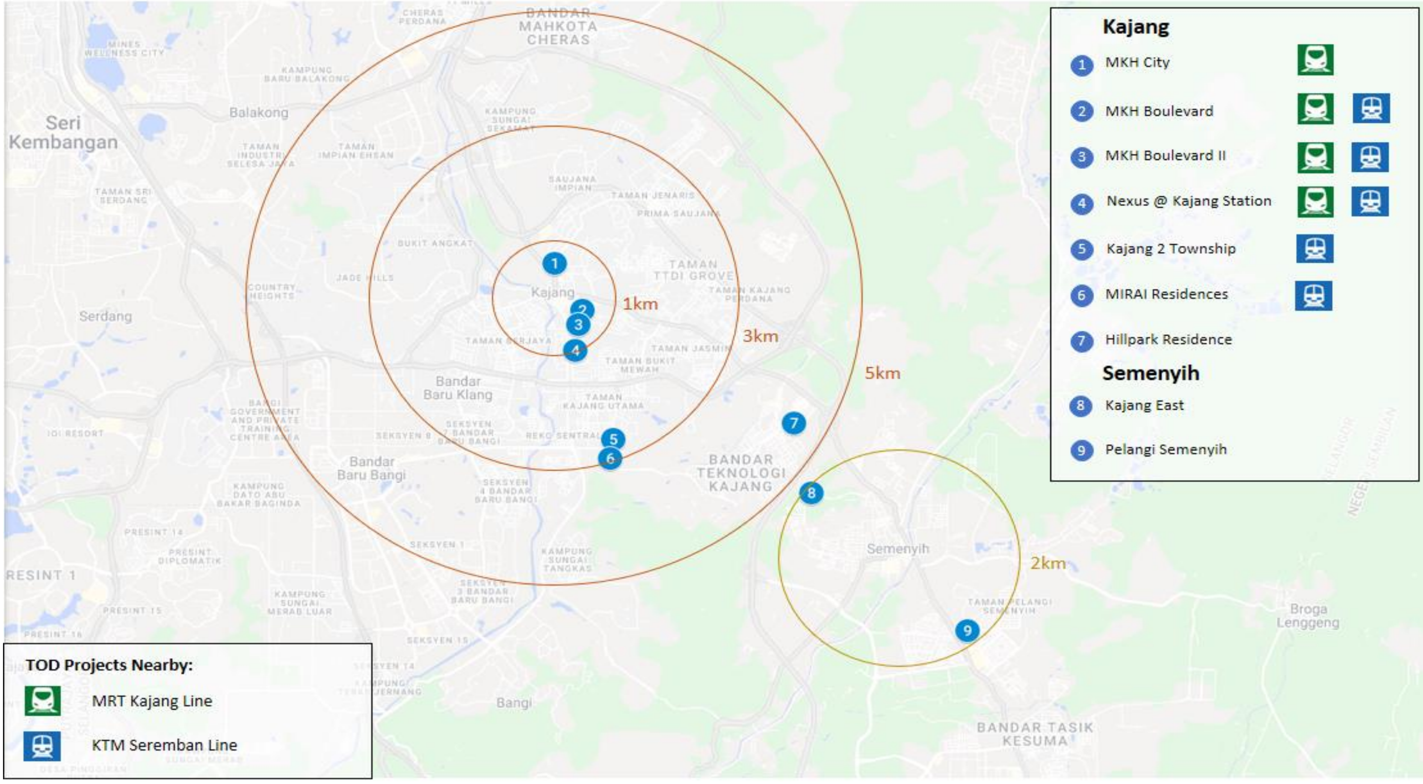
*As of 1HFY22, GDV based on CGS-CIMB and MKH's estimates
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: MKH's projects in Greater KL area



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, GOOGLE MAPS

Figure 5: MKH's projects in Kajang/Semenyih



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, GOOGLE MAPS

The PDC division recorded lower (vs. FY19) FY20-21 revenue and gross profit due to a decrease in site activities (due to Covid-19 lockdowns), completion of certain projects and fewer new launches, while its newly launched projects, i.e. Mirai Residences @ Kajang 2 and Nexus @ Taman Pertama, are still in the preliminary stages of development. We see its gross profit margin trending down going forward (vs. FY17-21 levels) as a result of more competitive sales rebates and a shift in focus to affordable housing to spur sales demand.

In FY22F, the group aims to launch new projects totalling c.RM800m in GDV, and we expect its FY22F new sales to come in higher at c.RM500m (vs. RM417.5m in FY21) due to the economy reopening and more aggressive launches. We project higher FY22-24F pretax profit for PDC (vs. FY21), on the back of stronger revenue recognition from ongoing/completing projects, despite lower gross margin assumptions of 18-20% (vs. above 25% in FY21) due to increased material costs, inflation and labour shortages.

MKH's PHC FY22-24F gross margin guidance of 18-20% is on the lower end vs. peers' 20-25%, which is likely due to lower economies of scale given the fewer new launches. In terms of landbank war chest, MKH is also lagging behind its nearest competitors, i.e. LBS Bina and Mah Sing.

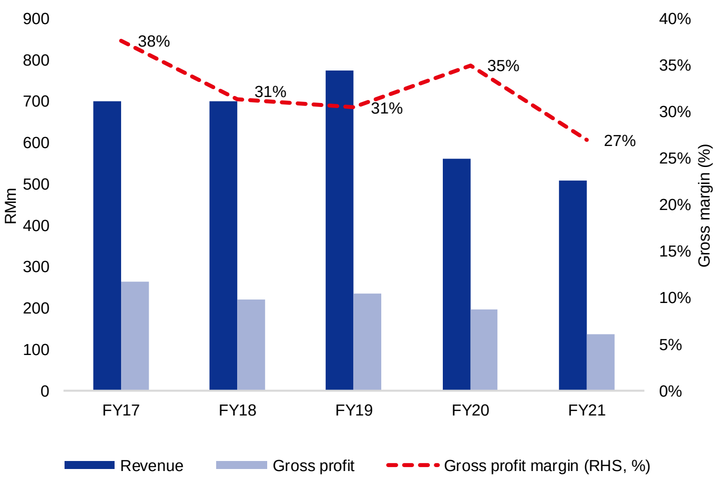
Figure 6: Property developers' landbanks

Company	Remaining landbank (acre)	Remaining GDV (RMbn)
Eco World Development	3,731	57
LBS Bina	2,678	24
Mah Sing	1,982	22
MKH	566	10
Sime Darby Property	15,408	107
SP Setia	7,710	150
UEM Sunrise	10,443	107

*As of latest results

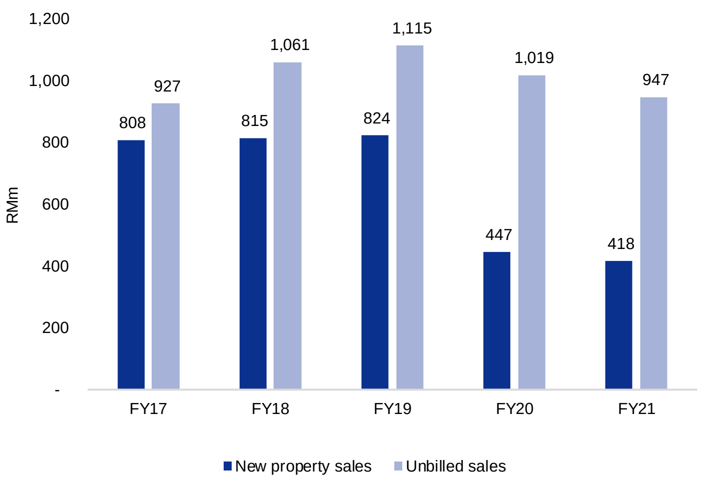
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: PDC division's revenue and gross profit trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

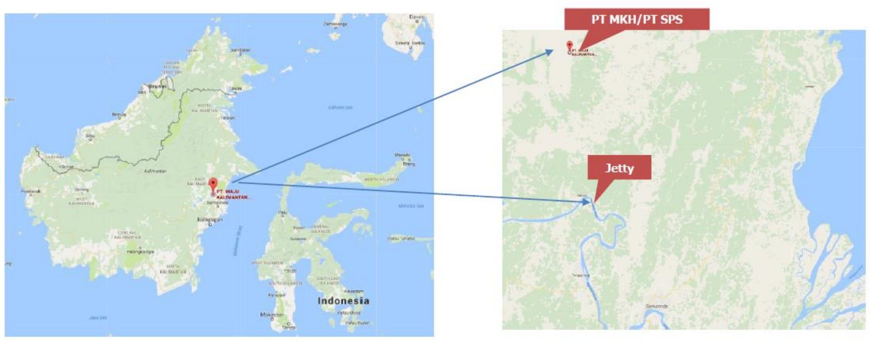
Figure 8: New property/unbilled sales trend



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Plantation. MKH ventured into the oil palm industry in 2008. The key business segments for MKH's plantation division include oil palm plantation and palm oil milling operations. As at 31 Mar 2022, the group owned 18,388ha of "Hak Guna Usaha" (cultivation tights) for its oil palm plantation landbank in the East Kalimantan region under two main subsidiaries, 95%-owned PT Maju Kalimantan Hadapan (PT MKH) and 75%-owned PT Sawit Prima Sakti (PT SPS). Located c.75km from Kota Samarinda, the capital city of East Kalimantan, the land is essentially held under a lease concession for 35 years from 2007 (PT MKH) and 2010 (PT SPS), with the option to renew for 25 years, and then an additional 35 years.

Figure 9: MKH's plantation estates are located in the East Kalimantan region, supported by its jetty operations



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

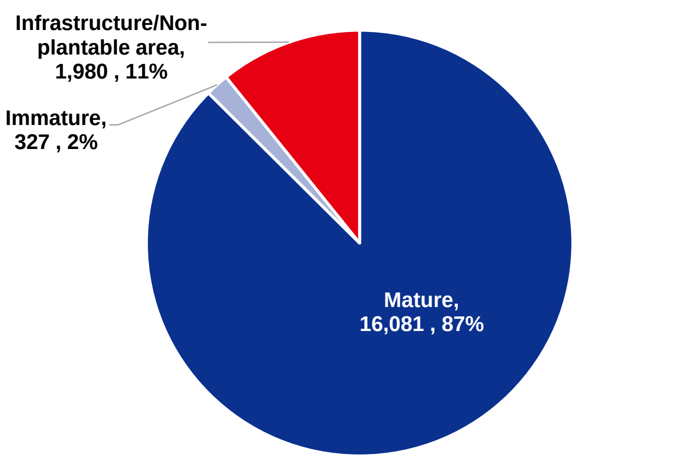
Figure 10: MKH's corporate structure for the plantation division

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Of the total land size, 16,408ha (or 87%) is planted with oil palm. MKH also owns a palm oil mill in East Kalimantan under PT MKH, which has a fresh fruit bunch

(FFB) processing capacity of 90mt per hour. The FFBs processed by this Indonesia Sustainable Palm Oil System (ISPO)-certified mill are mostly harvested from MKH's plantation estates in PT MKH and PT SPS, with the remaining coming from plasma smallholders in the region. On average, over the past five years, external FFB processed accounted for c.3.6% of the total FFB processed at its mills.

Figure 11: MKH's landbank breakdown as at end-Mar 2022 (ha)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 12: Planted area breakdown as at end Mar-2022

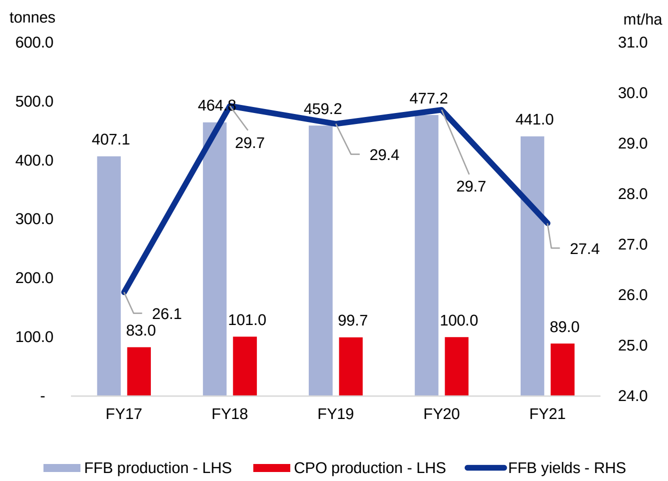
Estates	Planted Area (ha)	Age profile	Effective ownership
PT MKH	14,877	10-13	95%
PT SPS	1,531	4-10	75%
Total	**16,408**		

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

As a pure upstream oil palm player, MKH's plantation division essentially derives all of its plantation revenue from palm product sales. Hence, its sales are completely contingent on its estates' output, FFB purchased from third-party estates and the average selling prices (ASP) achieved for its palm products.

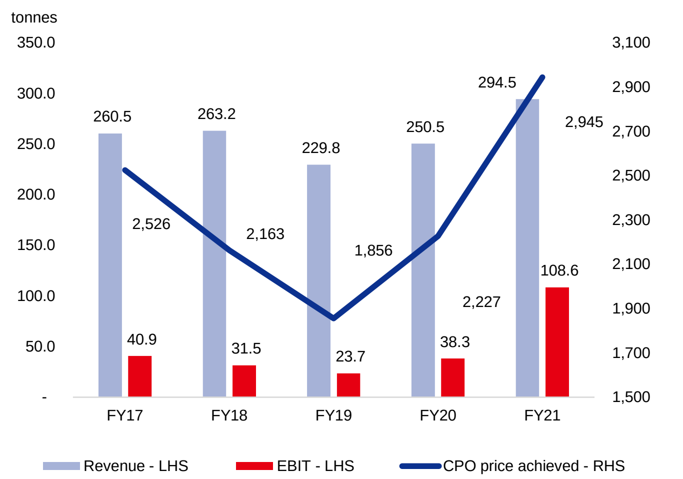
Its FFB production hinges on the size of its mature area estates and FFB yields. Its CPO and PK output depends on the oil extraction rate (OER) and kernel oil extraction rate (KER) achieved by the mills, while ASPs for its palm products depend largely on global supply and demand for edible oils.

Figure 13: MKH's palm product output fairly stable over the past few years…



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 14: ... causing its plantation earnings to be driven mostly by CPO prices



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We note that MKH's plantation estates consistently delivered high FFB yields of 26.1mt/ha to 29.7mt/ha in FY17-FY21, which we attribute to its favourable age profile of 9-12 years, coupled with favourable soil profiles and estate management practices. Additionally, the stable palm product yields imply that earnings volatility in the past few years was mostly driven by fluctuations in CPO prices.

Hotel & Property Investment. MKH established its property investment division in 1996, anchored by Plaza Metro Kajang and Metro Point Complex shopping malls, which are strategically located in the Kajang town centre.

MKH's property investment division contributed c.3% of the group's revenue and c.1% of PBT in FY21. Its property investment assets comprise Plaza Metro Kajang, Metro Point Complex shopping mall, the 3-star RHR Hotel, office blocks, shop lots, car park bays, four parcels of commercial land leased to hypermarkets and fast food restaurants, and Rafflesia International School in Kajang.

Figure 15: Property investment portfolio

Plaza Metro Kajang

Metro Point Complex

RHR Hotel @ Kajang

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Building Materials Trading & Furniture Manufacturing. The BMT unit formed about 8% of its FY21 revenue, while FM contributed 1%. The BMT division established its own ironmongeries (trademarked as EGON) and sanitary fittings (CASCADA). Approximately 65-70% of BMT's sales were derived from the group's development projects (sales of building materials to its contractors and subcontractors). The BMT and FM businesses contributed 1.3% and 2.2% of its FY21 PBT, respectively.

Management team

Led by experienced management ›

MKH is led by a senior management team with decades of experience in the property development, construction, and plantation industries. Tan Sri Dato' Chen Kooi Chiew has served as the Group Executive Chairman since 30 Oct 2006. Other than its real estate and property development ventures, he has successfully led MKH to establish and develop oil palm plantation as one of MKH's present core businesses.

Tan Sri Datuk Chen Lok Loi has served as the Group Managing Director since 19 Jan 2005. He has 40 years of experience in property development and construction-related businesses and is the past Chairman of Perbadanan PR1MA Malaysia. Datuk Chen Fook Wah is currently the Deputy Managing Director, having taken up the role in 19 Jan 2005. Tan Sri Dato' Chen Kooi Chiew, Tan Sri Datuk Chen Lok Loi, and Datuk Chen Fook Wah are siblings, and they sit on the board of MKH as executive directors. Tan Sri Dato' Chen Kooi Chiew is the largest shareholder of MKH with a 43.8% stake, according to MKH's FY21 annual report.

Ms. Kok Siew Yin is the company's Chief Financial Officer and has more than 17 years of audit experience in property development, construction, hotels, retail, manufacturing and timber plantation industries. Dato' Chong Yong Han has been the company's Property Director since 2013, with more than 20 years of experience in the property development and construction-related businesses. Dato' Lee Khee Meng is the Plantation Director and has been an international delegate at Indonesia Palm Oil Conferences since 2012. Dato' Chen Way Kian, (the son of Tan Sri Dato' Chen Kooi Chew) was appointed Deputy Property Director of MKH Berhad in 2015. He has been in the property development and agricultural sectors for more than 14 years.

Currently, the board of directors has seven members, three of whom are independent.

Figure 16: Board of directors

Board of directors	Date of appointment	Designation
Tan Sri Dato' Chen Kooi Chiew @ Cheng Ngi Chong	30-Oct-06	Executive Director -Group Executive Chairman
Tan Sri Datuk Chen Lok Loi	19-Jan-05	Executive Director -Group Managing Director
Datuk Chen Fook Wah	19-Jan-05	Executive Director - Deputy Managing Director
Datuk Mohammad bin Maidon	9-Mar-22	Senior Independent Non-Executive Director
Dato' Lim Hong Shuan	21-May-21	Independent Non-Executive Director
Ms. Hoon Shat Mei	1-Jun-22	Independent Non-Executive Director
Encik Jeffrey bin Bosra	9-Mar-22	Non-Independent Non-Executive Director

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Sector outlook

Muted outlook for property industry. We expect the overall sector's core net profit growth to be higher in CY22F (+29% yoy), as new property sales and revenue recognition of projects were affected in 2020-21F. However, on an aggregate basis, CY22F core net earnings of the stocks under our coverage are still 42% lower than the total CY19 core net profit, due to weaker property sales and new project launches during the Covid-19 period, indicating that the sector's CY22F earnings are unlikely to revert to pre-Covid-19 levels in the near term. We stay sector Neutral given the potential interest rate hikes (our economist is projecting another two 25bp rate hikes in CY23F), higher property overhang (+2% yoy in 1HCY22, in terms of total overhang value) and escalating construction costs (arising from building material and labour shortages.

Forecasting weaker earnings in 2HCY22F and CY23F for plantation division. We expect planters across our coverage to witness margin compression going into CY23-24F, mainly owing to: i) weaker CPO prices, due to a normalisation of global edible oils supply; ii) rising operating costs, arising from higher fertiliser prices and climbing labour costs; as well as iii) potentially higher ESG and compliance costs, as the sector faces continued scrutiny with regards to environmental and social issues. We estimate this to be partially offset by a recovery in FFB yields for both Indonesian and Malaysian planters. Hence, we remain Neutral on the plantation sector

SWOT analysis

Strengths. We believe MKH's key strength is its experienced management team, which has decades of experience in the property, construction and plantation sectors. It has also successfully diversified from property developer into a prominent plantation player, with more than 60% of its FY21 pretax profit supported by the plantation division. The division's key strength lies in its favourable age profile as its weighted average age as at end FY21 stood at c.11-12 years, which we believe is the optimal production age.

Opportunities. MKH is well positioned to benefit from: (i) its Kajang/Semenyih townships, given improved accessibility (completion of MRT stations), and ii) the government's focus on affordable housing as the majority of its products are priced below RM500,000 per unit. We also believe its strong balance sheet position will present opportunities for MKH to acquire more plantation land.

Weaknesses. We see its small landbank war chest vs. peers as one of its shortcomings. The land parcels will likely sustain its PDC division for only another 3-5 years, depending on its new launch plans.

Threats. We think that key threats include weak demand for property, stringent lending practices by banks and other macroeconomic concerns that could depress appetite for new houses. The group also faces fierce competition from other ambitious developers that are competing not only for house buyers but also for landbank for future development. Fluctuations in CPO selling prices, Indonesia's palm oil export regulations and weather conditions are also threats for its plantation segment.

Figure 17: SWOT analysis

Strengths	Opportunities
Experienced management team	Acquiring more plantation lands through mergers and acquistions
Favourable age profile for its plantation estates	Strategic positioning of its property landbanks
Diversified business model (property + plantation)	
Weaknesses	**Threats**
Limited landbanks and investment properties	Lower CPO selling prices
	Extreme weather conditions
	Volatile nature of Indonesia's palm oil export rulings
	Weak property demand
	Rising competition from property peers

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

RISKS

UPSIDE RISKS

CPO price risk

For its plantation division, given that MKH operates mainly in the upstream part of the palm oil value chain, its profitability is highly sensitive to the movement in CPO prices. For instance, average CPO prices were extremely volatile in 2021 (+64% yoy) and 7M22 (+45% yoy). A strong rally or a sharp correction in CPO prices could lead to an abrupt upswing/downswing in the company's profitability. Every RM100 per tonne increase in CPO prices could lead to +7%/+9%/+8% change in our core EPS forecasts for FY22F/23F/24F (refer to sensitivity table in Fig 28).

More favourable regulatory policies

The demand for MKH's properties may also be affected by changes in government regulations, i.e. introduction/extension of the Home Ownership Campaign (HOC) or abolishment of the real property gains tax (RPGT). Prime Minister Dato' Sri Ismail Sabri recently announced that first-time homebuyers will enjoy stamp duty exemptions on the instrument of transfer and loan agreement under the Keluarga

Malaysia Home Ownership Initiative (i-MILIKI) from Jun 2022 to Dec 2023. New property sales could pick up if more favourable government policies are introduced in future.

DOWNSIDE RISKS

High levels of property overhang

For the industry, overall completed unsold property value rose 2% yoy to RM50.1bn in 1HCY22 vs. RM49.3bn in 1HCY21 while the number of completed unsold property increased 3% to 67,188 units in 1HCY22 vs. 65,309 units in 1HCY21. Despite the reintroduction and extension of several Home Ownership Campaigns (HOC) in 2019 (from 1 Jan-31 Dec 19) and 2020-2021 (from 1 Jun 20-31 Dec 21), we observed the value and number of completed unsold property were higher vs. prior to HOCs (2018 completed unsold property: RM35.8bn, 51,265 units). With the high level of unsold inventory in the market, we expect new property sales could face obstacles in the near term.

Dependence on foreign workers

Due to the limited supply of local construction workers, the construction industry is heavily dependent on foreign workers. The Immigration Department of Malaysia currently only allows the employment of foreign workers from specific countries. Should the government implement restrictive regulations on foreign worker employment, there might be a shortage of workers, which could affect project delivery schedules.

Weather risk

Weather conditions in its plantation estates play an important role in ensuring the quality of FFB and the yield of the estates as extreme rain and/or sunshine could reduce production yield.

Changes in climate, such as excessive rainfall and/or drier weather patterns, may lead to a fall in the production of FFB, resulting in lower crops available for its milling division, thereby reducing its sales or profit margins.

FFB output for MKH declined 7.6%/8.8% yoy in FY21/22F due mainly to above average rainfall in the Kalimantan region, which had also led to higher fruit moisture content, resulting in a lower oil extraction rate (OER).

Financials

Analysis of historical earnings and projections

Historical earnings trend. MKH recorded higher revenue yoy in FY17-FY19 due to increased sales of building materials at its BMT division and greater revenue recognition from new and ongoing projects at its PDC unit. Nonetheless, core net profit showed a declining trend during the same period, despite higher yoy revenues, mainly dragged by: i) lower gross profit margin at the PDC division due to competitive sales rebates in FY18; and ii) a narrower gross profit margin at its plantation division, driven mainly by lower average CPO prices (-14% yoy for both FY18 and FY19) as well as higher operating costs for FY19 (+12% yoy).

MKH experienced declining revenue and core earnings in FY20-FY21 (vs. FY19) due to completion of projects and disruption of construction work at its property development projects during the Movement Control Order (MCO), mitigated by higher revenue and profit contribution from the plantation division.

- FY20: PDC unit's PBT declined 40% yoy due to lower revenue and profit recognition in 3QFY20, arising from the Covid-19 lockdowns. MKH's plantation division's segmental PBT jumped 4.4x yoy for FY20, mainly driven by higher CPO prices (+20% yoy to RM2,227 per tonne), as well as stronger FFB output (+3.9% yoy) from a 1% rise in FFB yields to 29.7 tonnes/ha and a 3% increase in its mature areas.
- FY21: PDC's PBT contracted 51% yoy, mainly dragged down by the ongoing lockdowns and lower new property sales/new launches. The jump in CPO prices by 32% yoy in FY21 eclipsed the 7.6% FFB output decline, allowing MKH to book a 3.9x yoy jump in plantation PBT.

Figure 18: Historical derivation of core net profit

	FY17	FY18	FY19	FY20	FY21
Reported net profit (RMm)	**128.2**	**70.9**	**82.6**	**41.7**	**80.4**
Less: Non-core items					
Development expenditure expensed off	-	(9.5)	-	(0.2)	(3.4)
Impairment loss	(0.1)	(0.3)	(5.4)	(0.0)	(0.4)
PPE written off	(0.0)	(1.3)	(0.1)	(0.3)	(0.4)
Changes in fair value of investment properties	3.0	(0.3)	(6.2)	(17.3)	(5.1)
Inventories written down/off	(0.2)	(0.9)	(0.2)	(0.2)	(0.0)
(Loss)/Gain changes in biological assets	-	1.5	(1.2)	(0.9)	1.6
Forex gains/(losses)	(13.9)	(40.4)	18.0	(17.4)	10.9
Reversal of impairment	0.1	0.1	0.3	0.1	0.1
Gain/ (loss) on disposal	0.0	3.1	0.1	0.1	3.5
Provision	(1.4)	(1.5)	(10.1)	(4.1)	(2.1)
Non-core items (RMm)	**(12.4)**	**(49.6)**	**(4.8)**	**(40.3)**	**4.8**
Core net profit (RMm)	**140.7**	**120.4**	**87.3**	**82.0**	**75.6**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

MKH's reported PATAMI was volatile over the past five years, mainly due to fluctuations in unrealised foreign exchange gains and losses from its plantation division. Excluding the earnings impact from inventory written down, one-off land donation (development expenditure expensed off), changes in fair values of biological assets and investment properties, gains from disposal of assets, foreign exchange movements, provisions and other non-core items, we estimate FY20's and FY21's core net profit was RM82m and RM76m, respectively, marginally lower than the pre-pandemic core net profit of RM87m in FY19.

In FY17-18, the non-core items were largely forex losses, following the weakening of the Indonesian rupiah against its US$ and RM borrowings. In FY18, MKH made a one-off land donation of RM9.5m for the establishment of a new secondary school within the vicinity of the Kajang 2 township. In FY19, the group registered non-core items such as forex gains due to the strengthening of the Indonesian rupiah vs. US$ borrowings, provisions for retirement benefits and gratuity, and changes in fair value of investment properties. MKH's non-core items in FY20 were mainly fair value losses on transfer of inventory to investment properties and forex loss. We observe the accounts payables days hover around 300 days historically, which was mainly related to its property project timing, in our view.

FY22-24F earnings trend. We believe earnings will be volatile in FY22-24F as well due to the projects' development timelines and fluctuations in CPO prices, coupled with rising estate costs for its plantation division. We forecast MKH's core net profit to rise 37% yoy in FY22F, supported by stronger performance at its: i) plantation division (+35% rise in yoy CPO prices offset higher operating costs and 9% decline in FFB yields); ii) PDC division (PBT +41% yoy), in line with higher project sites activities post lockdowns; and iii) HPI division, in tandem with the increased average occupancy rates post-lockdowns.

We expect FY23F core net profit to decline 20% vs. FY22F, given weaker profitability at its plantation division (an 18% drop in CPO prices), which could mitigate the potentially stronger performance at PDC (+62% yoy, lifted by the scheduled handover of projects, i.e. MKH Boulevard II, Hillpark @ Shah Alam North Aspirasi PP10, Hillpark @ Shah Alam North Iris PP 1&2 and Nexus @ Kajang Station). FY24F core net profit will likely improve 18% yoy on improved performance at the plantation division (+4% rise in FFB yields and a normalisation of operating costs) and stable earnings profile at PDC (+5% yoy).

Figure 19: Historical and estimated earnings trend

	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F
Revenue (RMm)	1069	1082	1122	912	914	989	1158	1073
Reported net profit (RMm)	128	71	83	42	80	104	83	98
Core net profit (RMm)	141	120	87	82	76	104	83	98
Core net profit growth (% yoy)		-14%	-27%	-6%	-8%	37%	-20%	18%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 20: Segmental PBT forecasts (RMm)

	FY20	FY21	FY22F	FY23F	FY24F
Property development and construction	74	36	51	83	87
Plantation	26	102	105	41	58
Hotel and property investment	(8)	1	11	11	11
Trading	1	2	2	2	2
Manufacturing	3	4	3	3	4
Investment Holding	24	19	18	18	19
Non-reportable segments	(4)	(2)	(3)	(3)	(3)
Total PBT (RMm)	**116**	**161**	**187**	**156**	**178**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 21: Key assumptions for its plantation operations

FYE Sep	FY20	FY21	FY22F	FY23F	FY24F
Mature area (ha)	16,081	16,081	16,081	16,081	16,081
FFB yields (mt/ha)	29.7	27.4	25.0	27.0	28.0
FFB production ('000 tonnes)	477.2	441.0	402.0	434.2	450.3
FFB output growth (% chg yoy)	3.9%	-7.6%	-8.8%	8.0%	3.7%
Average CPO selling prices achieved (RM/tonne)	2,227	2,945	3,962	3,245	2,973
CPO extraction rate (%)	20.7%	19.5%	18.7%	19.0%	19.5%
Estimated CPO cost of production (RM/tonne)	1,571	1,737	2,361	2,544	2,157
Segmental PBT (RM m)	**26.2**	**101.9**	**104.5**	**41.4**	**58.0**

CPO cost of production is taken after accounting for palm kernel credit and excludes FFB purchases
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

9MFY22 results review. MKH's 9MFY9/22 core net profit (excluding RM12m land disposal gain and RM4m forex movement/other disposal gains) rose 40% yoy, mainly driven by stronger contribution from the plantation unit (PBT +12% yoy) on higher average selling CPO price (YTD RM4,276/MT vs. RM2,822/MT in 9M21) and higher PBT at HPI (+38% yoy) as a result of an increase in average occupancy rate of (53% vs. 22% yoy). These more than offset the lower PBT at PDC (excluding land disposal gain), which was due to a fall in revenue recognised (-3% yoy). Unbilled sales as at end-Jun 22 stood at RM810.3m. We project a slightly weaker 4QFY22F performance in view of softer qoq CPO prices and lower revenue recognition at PDC.

Figure 22: 9MFY22 results comparison

FYE Sep 30	3Q	3Q	yoy %	2Q	qoq %	3QFY22	3QFY21	yoy %
(RM m)	**FY22**	**FY21**	**chg**	**FY22**	**chg**	**Cum**	**Cum**	**chg**
Revenue	256	203	*26%*	248	*3%*	709	696	*2%*
Operating costs	(202)	(148)	*36%*	(187)	*8%*	(539)	(531)	*2%*
EBITDA	55	55	*-1%*	61	*-10%*	169	165	*3%*
EBITDA margin (%)	21	27		25		24	24	
Depn & amort.	(9)	(10)	*-10%*	(10)	*-11%*	(28)	(29)	*-4%*
EBIT	46	46	*1%*	51	*-10%*	142	136	*4%*
Interest expense	(4)	(5)	*-17%*	(5)	*-9%*	(15)	(17)	*-15%*
Interest & invt inc	1	1	*-51%*	1	*12%*	3	3	*-13%*
JV/Associates' contrib	(0)	(0)	*>100%*	1	*>100%*	1	(2)	*>100%*
Exceptionals	12	0	*>100%*	2	*>100%*	16	10	*61%*
Pretax profit	54	42	*28%*	50	*8%*	147	130	*13%*
Tax	(14)	(17)	*-16%*	(12)	*17%*	(38)	(44)	*-14%*
Tax rate (%)	27	41		24		26	34	
Minority interests	(7)	(4)	*96%*	(4)	*68%*	(11)	(17)	*-34%*
Net profit	33	21	*52%*	34	*-3%*	98	68	*43%*
Core net profit	21	21	*-1%*	31	*-33%*	81	58	*40%*
EPS (sen)	6	4	*52%*	6	*-3%*	17	12	*43%*
Core EPS (sen)	4	4	*-1%*	5	*-33%*	14	10	*40%*

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Room to gear up for M&A ➤

MKH's net gearing level hovered at 0.1-0.3x in FY17-FY21, which is at the lower end/mid-range of property developer/plantation peers. Its net gearing level improved significantly to <0.1x in FY21 (vs. c.0.2x in FY20), mainly due to net repayment of bank borrowings on better cash flows from plantations and ongoing project developments. We gather that there will be no major capex in the near term and that its FY22F capex is likely to be around the range of RM10m-20m (similar to FY18-21), according to management guidance.

With the reduced gearing and greater financial flexibility, we believe MKH is in a good position to acquire more strategic landbank/plantation land, if the opportunity arises, and to undertake large-scale property development projects in the future.

MKH also indicated in its recent Annual General Meeting (AGM) slides on Mar 2022 their plans for their plantation segment to actively seek plantation estates in East Kalimantan to add to its current landbank.

Based on our back-of-the-envelope calculations, assuming the group increases its gross gearing to 0.5 to 0.8x (additional borrowing of RM400m-832m) and funds its potential acquisition of oil palm estates using borrowings, we estimate that the group could acquire planted palm oil estates in the Kalimantan region (as per the company's plans disclosed in the AGM slides) of about 16.6k ha to 26.5k ha, based on a transaction price of US$9,500 per ha (broadly in line with the average EV/ha of Indonesia listed plantation companies). We estimate potential core EPS accretion of 14.1%-14.4% for FY23F and 25.9%-32.9% for FY24F in the event of any such acquisitions. We have not factored these prospects into our forecasts at this juncture due to the large uncertainties around these M&A plans.

Figure 23: Scenario analysis on plantation land acquisition based on different gearing levels

Description	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Long-term borrowing as at end Jun-22 (RM m)	323.8	323.8	323.8	323.8
Gross gearing (x) as at end Jun-22	0.22	0.22	0.22	0.22
Increased gross gearing (x)	**0.50**	**0.60**	**0.70**	**0.80**
Increased borrowing (RM m)	722.8	867.3	1,011.9	1,156.5
Transaction price per ha (RM/ha) *	42,750	42,750	42,750	42,750
Planted estates bought (ha)	**16,907.2**	**20,288.6**	**23,670.1**	**27,051.5**
MKH's current planted estates (ha)	16,408.0	16,408.0	16,408.0	16,408.0
Increase to MKH's planted palm estates	**103.0%**	**123.7%**	**144.3%**	**164.9%**
Profit per ha based on MKH FY23F plantation segment (RM)	1,892.4	1,892.4	1,892.4	1,892.4
Additional profit from acquired estates (RM m)	**32.0**	**38.4**	**44.8**	**51.2**
Interest cost from additional borrowings ^ (RM m)	18.0	24.5	31.0	37.5
Additional earnings accretion from acquisition (RM m)	**14.0**	**13.9**	**13.8**	**13.7**
MKH's FY23F core net proft ** (RM m)	97.4	97.4	97.4	97.4
MKH's FY23F core net proft post acquisition (RM m)	**111.45**	**111.34**	**111.23**	**111.13**
Potential enhancement to MKH's FY23F core net profit	**14.4%**	**14.3%**	**14.2%**	**14.1%**
Profit per ha based on MKH FY24F plantation segment (RM)	2,643.3	2,643.3	2,643.3	2,643.3
Additional profit from acquired estates (RM m)	44.7	53.6	62.6	71.5
Interest cost from additional borrowings ^ (RM m)	18.0	24.5	31.0	37.5
Additional earnings accretion from acquisition (RM m)	**26.7**	**29.2**	**31.6**	**34.0**
MKH's FY24F core net proft ** (RM m)	103.4	103.4	103.4	103.4
MKH's FY24F core net proft post acquisition (RM m)	**130.12**	**132.56**	**134.99**	**137.42**
Potential enhancement to MKH's FY24F core net profit	**25.9%**	**28.2%**	**30.6%**	**32.9%**

*Based on average EV/ha of US$9,500 for Indonesia listed planters

^Based on an interest rate of 4.5%

**CGS-CIMB forecast

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 24: Gearing ratio of property players under our coverage

	Net gearing (%)	Gross gearing (%)
Eco World Development	35	55
Eco World International	7	20
LBS Bina Group	48	68
Mah Sing	34	44
Sime Darby Property	30	38
SP Setia	64	81
UEM Sunrise	50	64
UOA Development	Net cash	0
IGB Bhd	71	102
MKH Bhd	**5**	**22**

*As of latest results

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 25: Gearing ratio of plantation players under our coverage

Malaysia		Net gearing (%)	Gross gearing (%)
Kuala Lumpur Kepong	KLK MK	48	70
FGV Holdings Bhd	FGV MK	37	54
IOI Corporation	IOI MK	21	45
Genting Plantations	GENP MK	15	46
MKH Bhd	**MKH MK**	**5**	**22**
Sarawak Plantation	SPLB MK	Net cash	5
Hap Seng Plantations	HAPL MK	Net cash	3
Ta Ann	TAH MK	Net cash	19
United Malacca Bhd	UMR MK	Net cash	9
Indonesia			
Dharma Satya Nusantara	DSNG IJ	73	77
Triputra Agro Persada	TAPG IJ	15	34
Astra Agro Lestari	AALI IJ	19	28
London Sumatra	LSIP IJ	Net cash	0

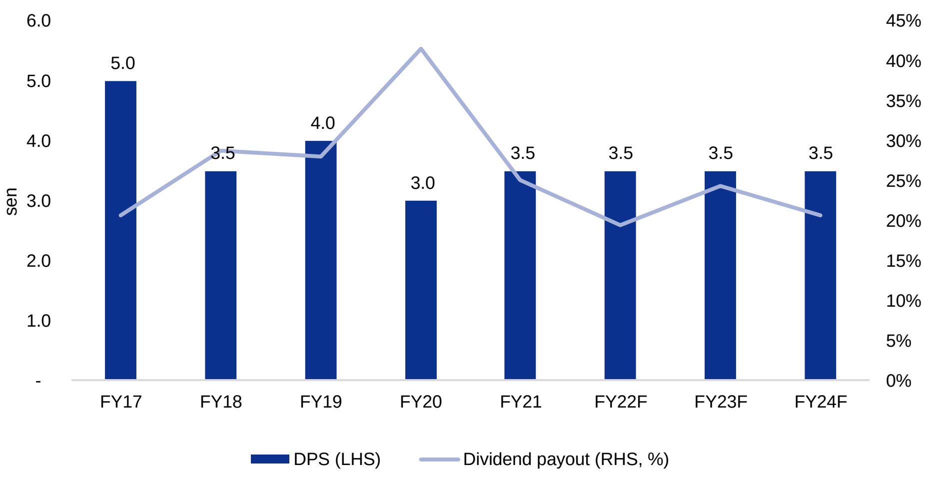
*As of latest results

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Dividend policy

MKH does not have a formal dividend policy. For the past five years (FY17-FY21), the group has paid out DPS in the range of 3-5 sen, translating into a dividend payout ratio of 20-42%. We expect MKH's dividend payment to be around 3.5 sen in FY22-24F, representing a dividend yield of c.3%, based on the current share price.

Figure 26: Dividend payout trend



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Sensitivity analysis

Higher interest rates, CPO prices and FFB yields»

Interest rate hike. We expect the high interest rates to have a negative impact on MKH's earnings, although it will likely be limited given the group's low gearing level (<0.1x as of FY21). The majority of its borrowings are based on floating rates (>99%). According to our sensitivity analysis, its FY22F core net profit could decline by 0.5-1% if interest rates increase by 25-50bp and could improve 0.6-1.1% if interest rates decrease by 25-50bp. We have incorporated a 75-100bp interest rate hike into our FY22-24F numbers.

Figure 27: Sensitivity analysis of core earnings vs. interest rate hike

	Interest rate hike			
	-50bps	-25bps	+25bps	+50bps
FY22F core earnings impact	1.1%	0.6%	-0.5%	-1.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

CPO prices and FFB yields. Our sensitivity analysis reveals that every RM100 per tonne change in our CPO price forecasts will move our FY22-24F core net profit forecasts by RM6.0m-7.7m or 7.0-8.1%. Also, should the group be successful in raising FFB yields by 1 tonne/ha above our assumption, its FY22-24F core net profit will jump by RM8.3m-9.5m (or 8.7-11.0%).

Figure 28: Earnings sensitivity to changes in CPO price assumptions

CPO price assumptions (RM/tonne)	Core net proft (RM m)		
	FY22F	FY23F	FY24F
(RM300)	68.2	59.8	72.0
(RM200)	74.2	66.7	79.7
(RM100)	80.2	73.6	87.5
Base case	**86.3**	**80.5**	**95.2**
+RM100	92.3	87.4	103.0
+RM200	98.4	94.4	110.7
+RM300	104.4	101.3	118.4
Base case CPO price (RM/tonne)	3,962	3,245	2,973

\SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 29: Earnings sensitivity to changes in FFB yield assumptions

FFB yield assumptions (mt/ha)	Core net proft (RM m)		
	FY22F	FY23F	FY24F
-3 mt/ha	57.7	55.5	70.2
-2 mt/ha	67.2	63.9	78.6
-1 mt/ha	76.8	72.2	86.9
Base case	**86.3**	**80.5**	**95.2**
+1 mt/ha	95.8	88.9	103.5
+2 mt/ha	105.3	97.2	111.9
+3 mt/ha	114.8	105.5	120.2
Base case FFB yield (mt/ha)	25.0	27.0	28.0

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Valuation & Recommendation

Initiate coverage with a Hold recommendation

We initiate coverage on MKH with a Hold recommendation and a TP of RM1.34. We value MKH using sum-of-parts (SOP), ascribing: i) 0.4x FY21 P/BV for its property development landbanks, which is in line with the average property sector P/BV; ii) 0.5x FY21 P/BV for investment properties, at the lower end of small-size REIT players, given its lower dividend yields; We are using latest reported numbers rather that estimates for the above divisions, as the reported book value/fair value of property development landbanks/investment properties are valued based on independent professional valuation, which we believe is reflective of the actual values; iii) EV/ha of US$7,000 for its oil palm planted area (effective planted area owned of 15,281 ha as at end FY21) for its plantation division, which is broadly in line with average replacement costs for palm oil estates in Indonesia, to account for regulatory risks as well as our forecast of weaker hoh margins in 2H22F owing to softer CPO prices and rising costs, and (iv) 6x FY23F P/E for its BMT & FM unit, similar to furniture manufacturing peers. We also apply a 15% discount to its SOP valuation to reflect: (i) ESG risk given MKH's D+ ESG rating from Refinitiv, below its peers, and as the group has yet to obtain RSPO certifications coupled with rising ESG risks in the industry, and (ii) low stock liquidity due to thin trading volume.

We note that MKH is currently trading at c.0.4x FY23F P/BV, similar to the property sector's FY23F P/BV average of 0.41x, making its valuation appear fair at the moment. We believe share price downside is limited as it is currently trading at -1.5 s.d. from its 5-year historical average P/E of 8.8x and -1. s.d. from its 5-year historical average P/BV of 0.49x (refer to Figures 31 and 32).

We see headwinds for: i) the property sector coming from rising raw material costs, labour shortage, inflation and rising interest rates, which could dampen buyer sentiments and cause margin compression, and ii) the plantation segment coming from rising operating costs, weaker CPO prices and volatile CPO price regulations in Indonesia.

Figure 30: SOP valuation

Assets	Methodology	Value (RMm)
Property development landbanks	0.4x FY21 P/BV	353
Plantation	EV/ha of US$7,000 on FY21 planted area	460
Investment properties	0.5x FY21 P/BV	172
Trading & manufacturing	6x FY23F P/E	25.5
Cash	FY21	428
Debt	FY21	(530)
SOP value for MKH Berhad		**909**
No of shares (m)		577
SOP value per share (RM)		1.57
Discount to SOP (ESG risk/liquidity)		15%
Target Price (RM)		**1.34**

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 31: MKH's 12M rolling forward P/E (x)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 32: MKH's 12M rolling forward P/BV (x)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 33: Sector comparison – Property

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) CY22F	Core P/E (x) CY23F	3-year EPS CAGR (%)	P/BV (x) CY22F	P/BV (x) CY23F	Recurring ROE (%) CY22F	Recurring ROE (%) CY23F	Dividend Yield (%) CY22F	Dividend Yield (%) CY23F
Eco World Development Group Bhd	ECW MK	Add	0.65	0.82	417	9.6	9.3	-3.2%	0.38	0.37	4.0%	4.0%	6.2%	6.2%
Eco World International	ECWI MK	Hold	0.29	0.35	153	na	na	-196.4%	0.26	0.26	-3.6%	-1.7%	0.0%	0.0%
IGB Bhd	IGBB MK	Add	2.38	2.61	471	13.8	12.0	-277.5%	0.53	0.51	3.9%	4.4%	4.2%	4.2%
LBS Bina Group	LBS MK	Add	0.41	0.54	139	4.8	5.3	0.6%	0.38	0.37	9.6%	8.1%	6.3%	5.6%
Mah Sing Group	MSGB MK	Add	0.55	0.75	293	9.6	9.0	11.9%	0.38	0.37	4.0%	4.1%	4.9%	4.4%
MKH Berhad	MKH MK	Hold	1.23	1.34	156	7.2	8.2	-1.1%	0.39	0.38	5.7%	4.7%	2.8%	2.8%
SP Setia	SPSB MK	Add	0.67	1.52	595	14.0	11.8	11.0%	0.19	0.19	1.4%	1.6%	1.4%	1.7%
Sime Darby Property Berhad	SDPR MK	Add	0.46	0.70	687	12.7	10.9	23.7%	0.34	0.33	2.7%	3.0%	2.4%	2.8%
UEM Sunrise Bhd	UEMS MK	Add	0.28	0.40	311	46.4	23.5	na	0.21	0.21	0.5%	0.9%	0.0%	0.0%
UOA Development	UOAD MK	Reduce	1.71	1.68	904	38.6	37.8	-9.5%	0.70	0.71	1.8%	1.9%	2.6%	2.6%
Average						**19.7**	**17.0**	**-35.0%**	**0.42**	**0.41**	**2.6%**	**2.8%**	**2.9%**	**3.0%**

Data as at 21 Sep 2022
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 34: Sector comparison – REITS

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) CY22F	Core P/E (x) CY23F	3-year EPS CAGR (%)	P/BV (x) CY22F	P/BV (x) CY23F	Recurring ROE (%) CY22F	Recurring ROE (%) CY23F	Dividend Yield (%) CY22F	Dividend Yield (%) CY23F
Axis REIT	AXRB MK	Add	1.87	2.34	674	19.6	17.5	5.1%	1.23	1.22	6.3%	7.0%	5.1%	5.7%
CapitaLand Malaysia Trust	CLMT MK	Hold	0.54	0.59	259	13.7	13.0	23.8%	0.46	0.46	3.5%	3.6%	6.6%	7.0%
IGB REIT	IGBREIT MK	Add	1.61	1.90	1,267	20.3	17.5	18.3%	1.52	1.53	7.4%	8.6%	5.1%	5.9%
KLCCP Stapled Group	KLCCSS MK	Hold	6.62	7.24	2,625	18.8	16.7	3.6%	0.92	0.92	4.9%	5.5%	4.9%	5.5%
Sentral REIT	SENTRAL MK	Hold	0.89	0.95	209	13.9	13.6	-4.7%	0.72	0.72	5.2%	5.3%	6.6%	6.8%
Sunway REIT	SREIT MK	Hold	1.42	1.60	1,068	16.8	15.7	16.8%	1.00	0.98	6.0%	6.3%	5.4%	5.7%
Average						**18.4**	**16.7**	**10.9%**	**1.06**	**1.06**	**5.7%**	**6.3%**	**5.2%**	**5.7%**

Data as at 21 Sep 2022
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 35: Sector comparison – Agribusiness

Company	BB Ticker	Recom.	Price (local curr)	Target Price (local curr)	Market Cap	Core P/E (x) CY22F	Core P/E (x) CY23F	3-year EPS CAGR (%)	P/BV (x) CY22F	P/BV (x) CY23F	Recur. ROE (%) CY22F	Recur. ROE (%) CY23F	EV/EBITDA (x) CY22F	EV/EBITDA (x) CY23F	Dividend Yield (%) CY22F	Dividend Yield (%) CY23F
IOI Corporation	IOI MK	Hold	RM3.89	RM4.24	5,307	17.2	22.0	-14.0%	2.16	2.05	15.6%	10.8%	9.9	11.9	3.6%	2.9%
Kuala Lumpur Kepong	KLK MK	Add	RM22.00	RM24.86	5,209	10.7	14.3	-18.8%	1.67	1.59	17.1%	11.4%	6.0	7.6	4.3%	3.2%
FGV Holdings Bhd	FGV MK	Hold	RM1.46	RM1.69	1,170	4.1	9.4	-55.4%	0.84	0.79	22.7%	8.6%	2.9	4.7	7.0%	3.4%
Genting Plantations	GENP MK	Hold	RM6.25	RM7.06	1,231	9.9	17.7	-16.6%	1.05	1.03	11.2%	5.9%	5.3	8.3	6.6%	4.0%
Hap Seng Plantations	HAPL MK	Add	RM2.32	RM2.80	407	6.8	13.2	-33.5%	0.93	0.91	14.6%	7.0%	2.7	4.4	9.1%	4.6%
Ta Ann	TAH MK	Hold	RM3.64	RM4.21	352	5.0	7.9	-39.4%	0.92	0.86	19.8%	11.3%	2.6	3.5	11.3%	5.1%
United Malacca Bhd	UMR MK	Hold	RM5.43	RM5.55	250	8.7	13.8	-58.8%	0.78	0.75	9.4%	5.5%	4.5	5.8	3.4%	2.4%
Sarawak Plantation	SPLB MK	Hold	RM2.03	RM2.05	124	5.8	7.6	-24.2%	0.78	0.74	14.7%	10.1%	2.9	3.4	8.2%	5.9%
Malaysia Average						**12.2**	**16.8**	**-21.5%**	**1.7**	**1.6**	**16.3%**	**10.2%**	**6.9**	**8.8**	**4.8%**	**3.3%**
Wilmar International	WIL SP	Add	SGD3.95	SGD5.69	17,455	10.0	10.0	-6.9%	0.86	0.82	8.8%	8.4%	10.1	9.6	4.5%	4.5%
Golden Agri-Resources	GGR SP	Hold	SGD0.28	SGD0.28	2,466	4.3	7.9	-35.7%	0.49	0.47	12.4%	6.4%	3.6	4.5	7.6%	4.1%
First Resources Ltd	FR SP	Add	SGD1.48	SGD1.76	1,648	6.2	9.5	-7.1%	1.24	1.17	20.9%	12.7%	3.6	4.8	8.0%	5.3%
Singapore Average						**9.1**	**9.7**	**-10.2%**	**0.8**	**0.8**	**10.1%**	**8.5%**	**8.9**	**8.6**	**5.1%**	**4.5%**
Astra Agro Lestari	AALI IJ	Hold	Rp8,850.00	Rp10,000.00	1,136	7.9	10.1	-25.4%	0.78	0.75	10.1%	7.5%	4.1	4.6	5.5%	5.9%
Dharma Satya Nusantara	DSNG IJ	Add	Rp490.00	Rp570.00	346	7.3	7.6	-13.7%	0.70	0.65	9.9%	8.8%	4.4	3.9	3.4%	3.2%
London Sumatra	LSIP IJ	Add	Rp1,160.00	Rp1,250.00	528	7.5	9.4	-11.3%	0.73	0.70	10.0%	7.6%	1.6	0.9	5.3%	4.3%
Triputra Agro Persada	TAPG IJ	Add	Rp685.00	Rp825.00	907	5.3	7.1	-7.6%	1.43	1.24	28.2%	17.5%	4.8	5.4	5.1%	3.8%
Indonesia Average						**7.0**	**8.8**	**-15.9%**	**1.0**	**0.9**	**15.7%**	**10.8%**	**3.9**	**4.1**	**5.1%**	**4.6%**
Sector average						**9.4**	**11.8**	**-15.9%**	**1.2**	**1.1**	**14.0%**	**9.8%**	**6.6**	**7.2**	**5.0%**	**4.1%**

Data as at 21 Sep 2022
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Figure 36: Sector comparison – Furniture manufacturing

Company name	Bloomberg Ticker	Price Local Curr	Mkt Cap (US$)	P/E CY22F	P/E CY23F	P/BV CY22F	P/BV CY23F	EV/EBITDA CY22F	EV/EBITDA CY23F	Yield (%) CY22F	Yield (%) CY23F	ROE (%) CY22F	ROE (%) CY23F
Lii Hen Industries Bhd	LHI MK Equity	0.82	96.67	6.3	5.8	0.9	0.8	3.3	3.0	7.1	8.0	14.2	14.5
Evergreen Fibreboard Bhd	EVF MK Equity	0.46	84.41	5.7	4.6	0.4	0.3	2.8	2.5	4.4	5.5	6.1	7.2
Average				**6.0**	**5.2**	**0.7**	**0.6**	**3.1**	**2.8**	**5.8**	**6.8**	**10.4**	**11.1**

Data as at 21 Sep 2022
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

ESG in a nutshell

Refinitiv ESG Scores

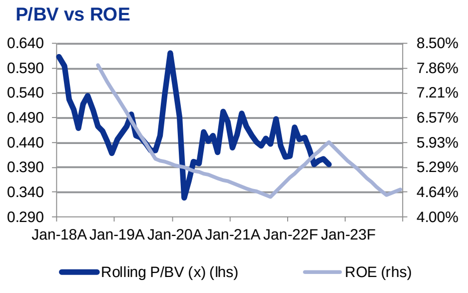
D+	A+	D+	D-	C-	D+
ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score

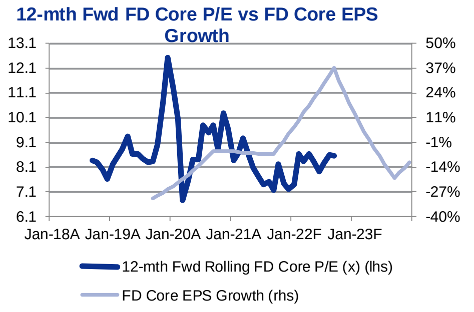
MKH is ranked in the bottom 25% in ESG ratings among the public-listed companies in FBM EMAS that have been assessed by FTSE Russell as of Jun 2022. We observe that its lower ESG rating could be due to lack of ESG disclosures and as it has not adopted integrated reporting based on the globally recognised framework.

Keep your eye on	Implications
MKH's key sustainability matters are economic and business performance, occupational health and safety, and governance, ethics and integrity.	We believe more developers will increase their focus on ESG issues and establish sustainability frameworks to ensure their businesses meet sustainability goals.
ESG highlights	**Implications**
As at end-2020, MKH was awarded a 5-year ISPO certification for its PT MKH estate and its CPO mill. It is rated D+ by Refinitiv (Environmental pillar score: D-, Social: C-, and Governance: D+).	While we recognise MKH's certification efforts, we believe further improvements could be made. MKH has yet to become a member of the Roundtable of Sustainable Palm Oil (RSPO) and has not begun the process required under RSPO certification, which is often recognised as the global standard for sustainable palm oil production. Additionally, we would be more comfortable if we were to learn that MKH has adopted a No Deforestation, Peat and Exploitation (NDPE) policy, of which there is no mention in its sustainability statement, based on its 2022 annual report. We incorporate the above concerns into our relatively lower EV/ha valuations for the plantation division.
Trends	**Implications**
To aid the reduction of its carbon footprint and encourage public transportation ridership, its PDC division has been developing transit-oriented development (TOD) projects that are connected or well within walking distance to public transit points.	We expect more developers to work towards reducing their carbon footprint by monitoring and identifying significant sources of greenhouse gas emissions.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS





Profit & Loss

(RMm)	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Total Net Revenues	**911.9**	**913.6**	**989.2**	**1,158.0**	**1,072.8**
Gross Profit	**311.9**	**294.6**	**359.6**	**329.9**	**325.9**
Operating EBITDA	**185.1**	**204.1**	**232.3**	**202.0**	**209.8**
Depreciation And Amortisation	(36.4)	(36.9)	(37.4)	(38.0)	(38.5)
Operating EBIT	**148.7**	**167.3**	**194.9**	**164.0**	**171.3**
Financial Income/(Expense)	(50.4)	(31.5)	(31.9)	(31.3)	(28.1)
Pretax Income/(Loss) from Assoc.	(5.1)	(2.4)	1.8	0.4	7.8
Non-Operating Income/(Expense)	23.3	27.7	22.2	23.1	26.9
Profit Before Tax (pre-EI)	**116.5**	**161.1**	**187.0**	**156.1**	**178.0**
Exceptional Items					
Pre-tax Profit	**116.5**	**161.1**	**187.0**	**156.1**	**178.0**
Taxation	**(50.2)**	**(58.3)**	**(64.1)**	**(57.1)**	**(60.5)**
Exceptional Income - post-tax					
Profit After Tax	**66.3**	**102.7**	**122.9**	**99.0**	**117.4**
Minority Interests	(24.5)	(22.3)	(19.2)	(16.0)	(19.5)
Pref. & Special Div	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**41.7**	**80.4**	**103.7**	**83.1**	**97.9**
Recurring Net Profit	82.0	75.6	103.7	83.1	97.9
Fully Diluted Recurring Net Profit	**82.0**	**75.6**	**103.7**	**83.1**	**97.9**

Cash Flow

(RMm)	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
EBITDA	185.1	204.1	232.3	202.0	209.8
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(51.2)	40.2	(91.7)	86.8	(19.3)
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	54.5	23.3	17.6	16.2	23.6
Net Interest (Paid)/Received	(24.2)	(20.8)	(25.5)	(24.0)	(16.9)
Tax Paid	(44.7)	(40.1)	(64.1)	(57.1)	(60.5)
Cashflow From Operations	**119.5**	**206.7**	**68.6**	**223.9**	**136.7**
Capex	(9.5)	(10.8)	(10.0)	(10.0)	(10.0)
Disposals Of FAs/subsidiaries					
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(48.2)	(46.6)	(1.8)	(0.4)	(7.8)
Cash Flow From Investing	**(57.7)**	**(57.4)**	**(11.8)**	**(10.4)**	**(17.8)**
Debt Raised/(repaid)	(41.5)	(105.7)	(100.0)	0.0	120.0
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(23.2)	(17.3)	(20.2)	(20.2)	(20.2)
Preferred Dividends					
Other Financing Cashflow	(6.6)	23.5	0.0	0.0	0.0
Cash Flow From Financing	**(71.2)**	**(99.5)**	**(120.2)**	**(20.2)**	**99.8**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Total Cash And Equivalents	375	428	364	557	776
Properties Under Development	395	540	557	601	581
Total Debtors	211	196	226	260	237
Inventories	137	162	162	162	162
Total Other Current Assets	361	302	302	302	302
Total Current Assets	**1,478**	**1,627**	**1,611**	**1,883**	**2,058**
Fixed Assets	409	401	374	346	317
Total Investments	**359**	**357**	**359**	**359**	**367**
Intangible Assets	51	60	60	60	60
Total Other Non-Current Assets	1,049	1,014	1,014	1,014	1,014
Total Non-current Assets	**1,868**	**1,832**	**1,806**	**1,779**	**1,758**
Short-term Debt	378	354	354	354	354
Current Portion of Long-Term Debt					
Total Creditors	517	554	509	674	612
Other Current Liabilities	30	46	46	46	46
Total Current Liabilities	**924**	**953**	**909**	**1,074**	**1,011**
Total Long-term Debt	256	176	76	76	196
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	371	415	415	415	415
Total Non-current Liabilities	**627**	**591**	**491**	**491**	**611**
Total Provisions	70	70	70	70	70
Total Liabilities	**1,622**	**1,615**	**1,470**	**1,635**	**1,693**
Shareholders' Equity	**1,633**	**1,706**	**1,790**	**1,852**	**1,930**
Minority Interests	92	139	158	174	193
Total Equity	**1,724**	**1,845**	**1,947**	**2,026**	**2,124**

Key Ratios

	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Revenue Growth	(18.7%)	0.2%	8.3%	17.1%	(7.4%)
Operating EBITDA Growth	(7.0%)	10.3%	13.8%	(13.1%)	3.9%
Operating EBITDA Margin	20.3%	22.3%	23.5%	17.4%	19.6%
Net Cash Per Share (RM)	-0.45	-0.18	-0.11	0.22	0.39
BVPS (RM)	2.82	2.95	3.10	3.21	3.34
Gross Interest Cover	2.95	5.31	6.11	5.24	6.10
Effective Tax Rate	43.1%	36.2%	34.3%	36.6%	34.0%
Net Dividend Payout Ratio	41.6%	25.1%	19.5%	24.3%	20.6%
Accounts Receivables Days	88.35	81.22	77.92	76.65	84.76
Inventory Days	100.9	88.1	93.8	71.3	79.3
Accounts Payables Days	326.6	307.3	299.1	254.0	307.5
ROIC (%)	12.9%	8.1%	9.4%	7.7%	8.5%
ROCE (%)	6.13%	6.90%	8.01%	6.62%	6.53%
Return On Average Assets	3.48%	3.94%	4.50%	3.68%	3.89%

Key Drivers

	Sep-20A	Sep-21A	Sep-22F	Sep-23F	Sep-24F
Property development & construction revenue	561.8	509.0	519.3	719.6	638.3
Plantation revenue	250.5	294.5	353.0	321.4	317.5
Hotel & property investment revenue	25.0	23.9	30.0	30.0	30.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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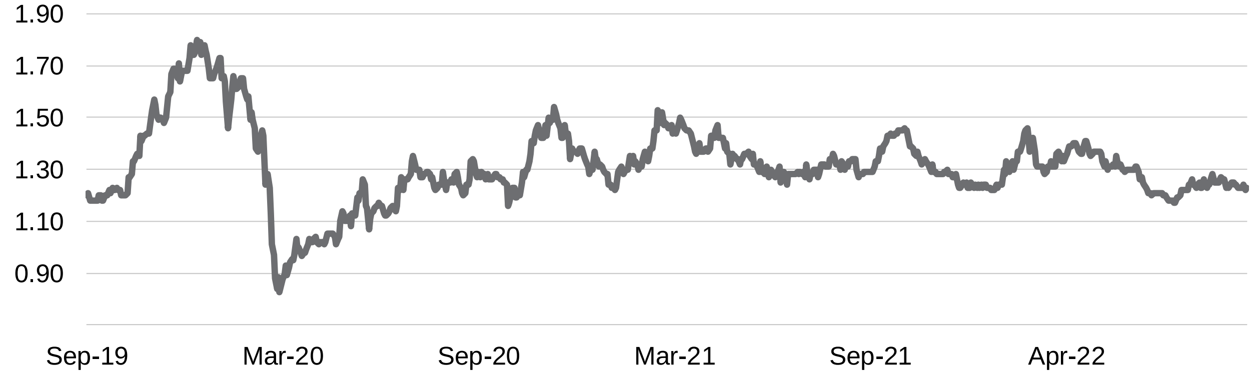
Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022 643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



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Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

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