Strategic alliance niche

Out**think.** Out**perform.**

Titijaya Land (TTJ) is a property developer with landbank in Klang Valley and Penang. Its competitive advantage is being able to acquire strategic landbank through joint ventures and land swap arrangements with government agencies. Low land-holding costs and flexibility on project rollouts led to a net profit margin of 18% in 9MFY16. The stock's annualised FY16E PER of 7.5x is at a discount to the property sector weighted-average CY16E PER of 12x.

Strategic landbank

TTJ has landbank in popular areas in Klang Valley, such as Ara Damansara, Klang, Ampang, KL Sentral, Seri Kembangan, Shah Alam and Subang Jaya, and Penang Island. TTJ expects its total gross development value (GDV) of RM9.8bn to sustain activities up to 2023. Ongoing projects have a total GDV of RM1.5bn, located in Klang Valley.

Focus on affordable housing

TTJ expects current unbilled sales of RM538m, equivalent to 1.6x FY15 revenue, to support earnings in FY16-17. It has planned launches of RM398m in FY16. Total pre-sales were RM231m in 9MFY16. Its ongoing projects saw good take-up rates due to its focus on launching affordable housing products priced below RM600k (89% of units launched).

Successful alliance model

TTJ has been able to acquire landbank for property development at reasonable prices through strategic alliances with government agencies. For example, TTJ formed a 70:30 joint venture with Bina Puri to develop 4.6 acres of net land owned by Prasarana. There was no upfront land cost, and Prasarana is entitled to a 20% share of GDV as compensation for the land over the development period. This reduces working capital requirements and should not strain the company's balance sheet.

Financials and valuation

TTJ saw a net profit 4-year CAGR of 38% in FY11-15. But the company thinks earnings could see a dip in FY16 due to the slowdown in property demand. Low gearing of 0.23x could allow the group to embark on strategic landbank acquisitions to capitalise on an expected recovery in property demand in 2017. The 2016E annualised PER of 7.5x and Price/Book of 0.9x is at a discount to most peers.

Earnings & Valuation Summary

FYE 31 Jun	2010	2011	2012	2013	2014	2015
Revenue (RMm)	101.8	137.2	118.3	193.8	283.8	340.7
EBITDA (RMm)	-	-	-	72.7	96.4	109.4
Pretax profit (RMm)	32.8	30.6	43.2	71.0	96.4	111.1
Net profit (RMm)	27.2	22.5	34.1	52.2	71.3	80.9
EPS (sen)	7.6	6.3	9.6	14.6	20.0	22.7
PER (x)	19.4	23.4	15.5	10.1	7.4	6.6
Core net profit (RMm)	27.2	22.5	34.1	52.2	71.3	80.9
Core EPS (sen)	7.6	6.3	9.6	14.6	20.0	22.7
Core EPS growth (%)	-	(17.2)	51.6	52.9	36.6	13.5
Core PER (x)	19.4	23.4	15.5	10.1	7.4	6.5
Net DPS (sen)	-	-	-	-	4.0	4.5
Dividend Yield (%)	-	-	-	-	2.7	3.0
EV/EBITDA (x)	-	-	-	-	9.1	6.8
Chg in EPS (%)		(17.2)	51.6	52.9	36.6	13.5
Affin core/Consensus (x)	-	-	-	-	-	-

Source: Bloomberg

Company Note

Titijaya Land

TTJ MK

Sector: Property

RM1.49 @ 27 Jul 2016

Not Rated

Price Performance

	1M	3M	12M
Absolute	+4.2%	+2.8%	-17.2%
Rel to KLCI	+2.1%	+4.5%	-14.9%

Stock Data

Issued shares (m)	356.9
Mkt cap (RMm)/(US$m)	531.7/130.3
Avg daily vol - 6mth (US$m)	0.1
52-wk range (RM)	1.35-1.81
Est free float	19.2%
BV per share (RM)	1.46
P/BV (x)	1.0
Net cash/ (debt) (RMm) (3Q16)	(117.4)
ROE (2015)	17%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

TITIJAYA GROUP	64.1%
AIA	6.7%
EPF	5.0%
LTH	4.9%

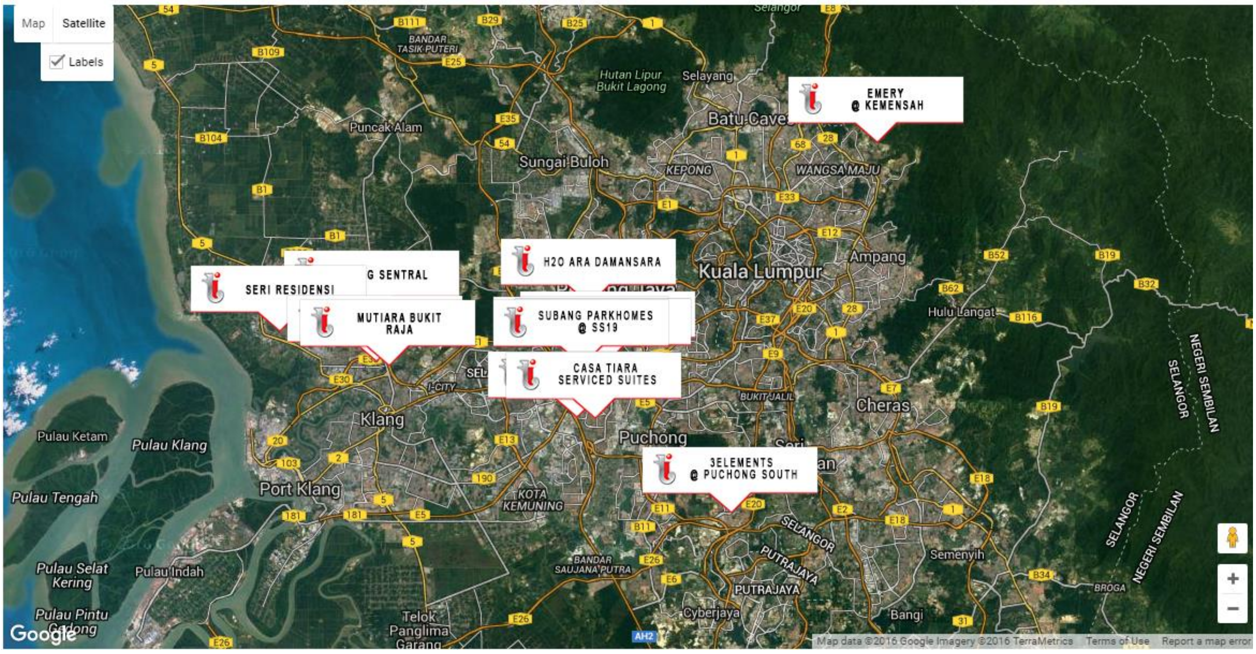
Source: Affin, Bloomberg

Loong Chee Wei CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

Strategic landbank

TTJ has landbank in popular areas in Klang Valley, such as Ara Damansara, Klang, Ampang, KL Sentral, Seri Kembangan, Shah Alam and Subang Jaya, and Penang Island. The company expects a total GDV of RM9.8bn to sustain activities up to 2023. Six ongoing projects have a total GDV of RM1.5bn, located in Klang Valley. It also has nine upcoming projects with a total GDV of RM8.3bn in the pipeline.

Fig 1: Strategic landbank locations in Klang Valley



Source: Company

Although the current landbank should be sufficient to sustain property development activities for up to 8 years, management is still eyeing land acquisitions and joint venture projects in Klang Valley, Penang and Kota Kinabalu. The company said it would continue to focus on developing affordable residential properties with selling prices of less than RM600k. Asking prices for land are more reasonable currently due to weak property market sentiment, and TTJ is in a strong financial position to finance new ventures as net gearing is currently low at 0.2x.

The strategic locations of its current projects should result in sustainable sales despite lacklustre property demand currently. Long-term property demand in the Klang Valley and Penang, where TTJ's projects are located, should continue to be underpinned by pent-up demand from the growing young working population and migration from smaller towns and rural areas.

Fig 2: Ongoing projects with total GDV of RM 1.5bn

No	Project Name	Property Type	Take up Rate (%)	Total Units Built	Land Area (sq. ft)	Tenure	GDV (RM bn)	*Commencement/ Completion Date
1	Zone Innovation Park @ Klang	• Semi Detached Factory	85.9	92	1,821,092	Freehold	0.23	2012/2016
2	3 Elements @ Serdang	• Shop Office • SoFo Suited • Serviced Apartments	100 96.12 100	88 850 342	262,962	Leasehold	0.44	2011/2016
3	Embun @ Kemensah	• Superlink	70.59	51	206,300	Freehold	0.10	2014/2016
4	H20 @ Ara Damansara	• Serviced Apartment □ Block A □ Block C • SoHo Suite: Block D	 98.33 68.25 41.67	 240 337 480	263,059	Freehold	0.60	2014/2019
5	Mutiara Residences @ Klang	• 2 ½ Storey (20 X 75) • 2 ½ Storey (20 X 65)	91.67 0	24 15	135,472	Freehold	0.03	2014/2017
6	Seri Alam Residences @ Klang	• Phase 1 – Cluster • Phase 2A	60.42 0	48 76	1,951,401	Freehold	0.10	2016/2018
					Total On-going projects		**1.5**	

Source: Company

Fig 3: Upcoming projects with total GDV of RM 8.3bn

No	Project Name	Property Type	Land Area (sq. ft)	Tenure	GDV (RM bn)	*Commencement/ Completion Date
1	Park Residence @ Cheras	• 3 Storey Low Rise Apartment • Medium Cost Walk-Up Apartment	228,690	Freehold	0.08	2016/2019
2	Emporia Monfort @ Shah Alam	• Mixed Development	702,187	Freehold	1.50	2017/2023
3	Riveria @ Brickfields	• Mixed Development	496,235	Leasehold	1.40	2017/2023
4	Batu Maung @ Penang	• Mixed Development	888,624	Leasehold	2.52	2015/2020
5	Odeon Cinema @ Jalan Tuanku Abdul	• Mixed Development	126,672	Freehold	1.50	NA
6	H20 @ Ara Damansara	• Serviced Apartment □ Block B	263,059	Freehold	0.19	2014/2019
7	Seri Alam Residences @ Klang	• Phase 2B– 4: Semi Detached	1,951,401	Freehold	0.24	2016/2019
8	Emery @ Kemensah	• Semi Detached	438,388	Freehold	0.16	2014/2017
9	Klang Sentral	• Serviced Apartment	-	NA	0.70	2021
			Total Upcoming Projects		**8.3**	

Source: Company

Focus on affordable housing

The company believes current unbilled sales of RM538m, equivalent to 1.6x FY15 revenue, will support earnings in FY16-17. It has planned launches of RM398m in FY16. Total pre-sales achieved were RM231m in 9MFY16. Its ongoing projects saw good take-up rates due to its focus on launching affordable housing products priced below RM600k (89% of units launched).

TTJ has evolved by creating mixed development projects incorporating all-in-one lifestyle products to be more attractive to the new generation of working population that is demanding better lifestyle facilities and public transport and road connectivity. The government is supporting house ownership by the young population with initiatives such as the Youth Housing Scheme, which provides loans for property costing RM500k and below and a subsidy of up to RM30k under the First Home Deposit Scheme to assist first-time home buyers with their down payments for a house.

Some of the units in TTJ's projects that may benefit from the government initiatives include H20@Ara Damansara, Emporia Monfort@Glenmarie, Shah Alam, 3 Elements@Serdang and Riveria@KL Sentral. These properties are selling at lower rates psf in comparison to similar type properties in the same area.

Fig 4: Comparison of selling price (psf) of similar property types

Project Name	Property Type	Built-Up Area (Sq Ft)	Price/Sq Ft (RM)	Listed Price (RM)	Similar Projects	Developer	Property Type	Built-Up Area (Sq Ft)	Price/Sq Ft (RM)	Listed Price (RM)
H20 @ Ara Damansara	Serviced Apartment Block A	750-754	760-850	570,000	Cantara Residences	Sime Darby Property	Serviced Apartment	646 - 2,145	800 - 850	613,454 - 2,124,054
	Serviced Apartment Block C	800-880	760-850	670,000						
	SoHo Suite Block D	449	950	427,000						
Emporia Monfort @ Shah Alam	Serviced Apartment	560 - 1200	568	318,000	Vista Alam	Tahap Warisan	Serviced Apartment	700 - 1500	438	307,000
Riveria @ Brickfields	Service Apartments / SoHo/ Office Units	430 - 700	700 - 900	300,000	Scotts Garden	Aston Villa	Serviced Apartment	775 - 1905	700 - 800	542,500
Park Residence @ Cheras	3 Storey Link Villa	2,859	360	1,028,000	Suria Residence	Glomac Berhad	3 Storey Link House	2,943	377	1,109,700
Zone Innovation Park @ Klang	Semi Detached Factory	8,800 - 11,900	242	2,133,000	LCH Industrial Park	LCH Corporation	Super Terrace Factory	6,450	295	1,902,400
3 Elements @ Serdang	Shop Office	4,862	427	2,080,000	One South	Huayang	Shop Office	479 - 2,100	388 - 750	186,300
	SoFo Suited	504 - 1,131	520	261,787 - 367,307			Serviced Apartment	850	250	212,500
	Serviced Apartments	660 - 900	480	293,000						
Embun @ Kemensah	4 Storey Villas	4522 - 5502	430	1,950,000	Kemensah Mewah	Kemensah Mewah Sdn Bhd	3 Storey Semi-D	3,500 - 5,000	457 - 540	1,600,000 - 2,700,000
Emery @ Kemensah	3 Storey Semi-D Villas	3946	608	2,400,000						
Mutiara Residences @ Klang	2.5 Storey (20 x 75)	2,709	283	766,000	Desa Bayumas @ Klang	SRITAMA	2.5 Semi-D Cluster	2,298 - 3,100	283 - 340	778,000 - 878,000
	2.5 Storey (20 x 65)	2,430	283	688,000						
Batu Maung @ Penang	Service Suites/ Shop Office / Condominium	750 - 1,100	660	500,000 - 700,000	The Loft @ Southbay City	Mah Sing Group	Condominium	1,325 - 1,615	742 - 900	983,150 - 1,453,500

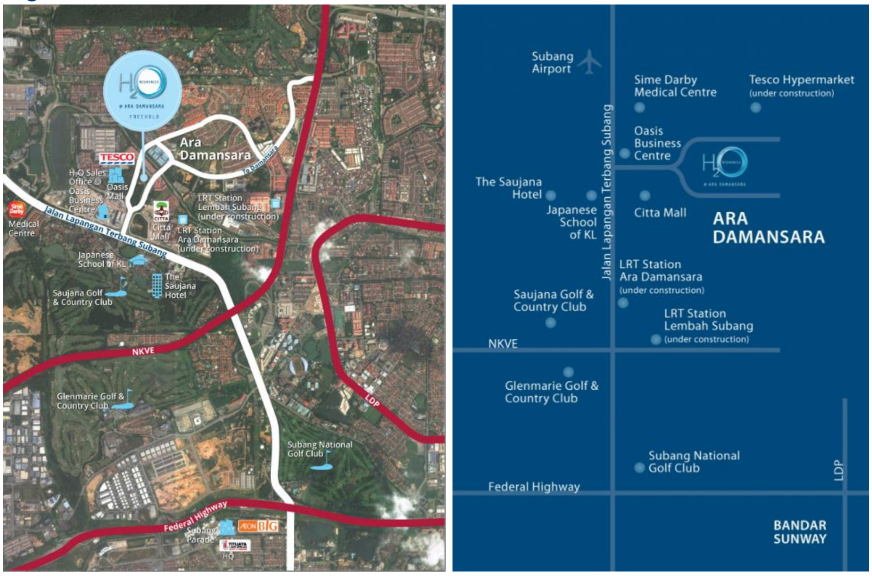
Source: Company, The Edge, Property Review, Property Malaysia, The Star

H20@Ara Damansara

A high-rise serviced apartment cum SOHO units rolled out in 2014 with a GDV of RM794m. It launched 3 blocks previously and recently launched its last block for sale. The previous blocks have an average take-up rate of 70% and demand for H20 should remain strong as it is selling at RM760-RM850 psf, below another similar type of property in the same area. Cantara Residences, developed by Sime Darby, which is selling at RM800-RM850 psf.

In addition, H20 is located close to two MRT stations, Ara Damansara and Lembah Subang. Studies have shown that price appreciation is at least 15% for properties within 500m of proposed LRT or MRT stations.

Fig 5: Location of H20



Land Area (sq ft)	526,118
GDV	RM 794m
per sq ft unit selling price	RM760-850
Accessiblity	NKVE and Federal highway
MRT/LRT	Ara Damansara(1 km) and Lembah Subang
Public amenities	Tesco and Citta Mall (walking distance), international school and hotel, 10 minutes drive to Sime Darby Medical Center, 5-10 minutes drive to 3 golf courses

Source: Company

Emporia Monfort @Glenmarie, Shah Alam

Fig 6: Location of Emporia Monfort

Land Area (sq ft)	702,187
GDV	RM 1.5 bn
per sq ft unit selling price	RM568
Accessiblity	ELITE Highway, Guthrie Corridor Expressway, NKVE
MRT/LRT	Batu Tiga and Shah Alam KTM
Public amenities	Next to KDU College, Shopping complexes, Giant, Tesco 3 golf courses,

Source: Company

The 250-unit serviced apartment project with built-up area of 560-1,200 sq ft per unit is selling at RM568 psf, which is slightly higher vis-à-vis another serviced apartment in the vicinity, Vista Alam, which is selling at RM438 psf but has a larger built-up area, 700–1,500 sf. Emporia is built on 16.2 acres of land valued at RM270m acquired about 10 years ago.

TTJ signed a contract in April this year with Ascott Ltd for the latter to manage Emporia and Areca (GDV of RM2.5bn), another development located in Batu Maung, Penang. Ascott Ltd, the world's largest international serviced residence owner-operator, will manage the serviced residence components for a contract period of 10 years with an option to extend for 5 years. The 20.4-acre landbank for the Areca project is next to the Penang Second Bridge and Southbay City, which was acquired from Lembaga Kemajuan Ikan for RM126m.

Fig 7: Location of Areca, Batu Maung, Penang

Source: Company

Park Residences @Cheras

Park Residency (GDV of RM76m) comprises low-density 3-storey linked villas located close to Connaught Primary School. There are 62 units in total with a starting price of RM1m per unit. For a built-up area of 2,900 sq ft, the average selling price is RM360 psf, cheaper than the Suria Residence, which is selling at RM377 psf, developed by Glomac.

Riveria @KL Sentral

A leasehold project with a GDV of RM1.4bn scheduled to be launched in FY17. This mixed development project, with a unit built-up area of 700-900 sq ft, is strategically located near the KL Sentral LRT station and is a stone's throw away from the Tun Sambathan monorail station. The average selling price of RM700-900 psf is comparable to Scott Garden serviced apartments, which are going for RM700-800 psf.

Successful alliance model

Strategic joint ventures for prime-area development

TTJ's competitive advantage is its ability to acquire landbank for property development at reasonable prices through strategic alliances with government agencies. An example of a recent deal is TTJ's 70:30 joint venture with Bina Puri to develop a 4.6 acres of net land owned by Prasarana. There was no upfront land cost and Prasarana will be entitled to a 20% share of GDV as compensation for the land over the development period. This reduces working capital requirements and should not strain the company's balance sheet. The land is located near KL Sentral and the project is called Riveria@KL Sentral.

Land-for-school swap with MoE

In addition, TTJ has entered into a 40:60 joint venture with Amona Development Sdn Bhd for a land swap deal with the Ministry of Education. This parcel, measuring 2.7 acres, is currently in use as a parking lot in a prime area between Bukit Bintang and Tun Razak Exchange valued at RM2,800 psf. The land is worth about RM330m.

TTJ will build 6 schools on government land in various locations in Klang Valley. The cost is estimated to be RM200m, with 10% profit to be earned from the construction work.

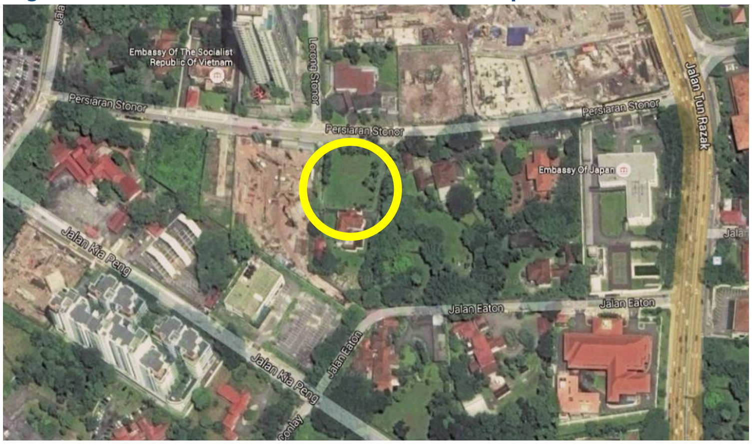
Figure 8: Location of land swap deal with MoE

Source: Company, The Edge Financial

Monetizing Stonor

Another successful alliance is the joint venture with landowner Lembaga Getah, venturing into a mixed development project with a GDV RM2.5bn. The 4.75-acre parcel is valued at RM3,200 psf. This freehold land is close to the Petronas Twin Towers, between Persiaran Stonor and Jalan Eaton, and is flanked by the Embassy of Japan and the High Commission of Pakistan.

Figure 9: Location of Stonor for hotel development



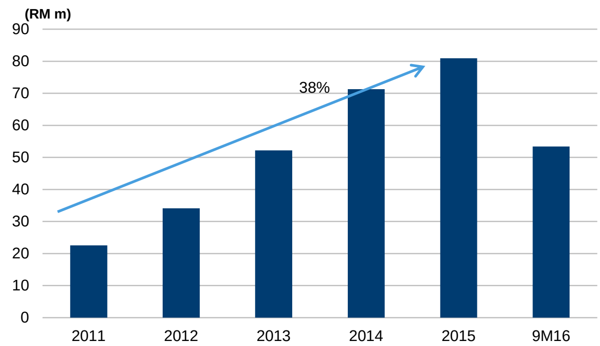
Source: Company, The Edge Financial

Financials and valuation

TTJ saw a 4-year net profit CAGR of 38% in FY11-15. This was mainly due to 100% take-up rates for projects like First Subang, One SOHO and Casa Tiara Service Suites, and more than 95% take-up rates in Subang Parkhomes and Seri Alam Industrial Park. Generally, TTJ's buyers see a relatively low rejection rate of 30% for loans (some property developers see loan rejection rates as high as 50-60%) to purchase the properties that are affordably priced and hence support the high take-up rate.

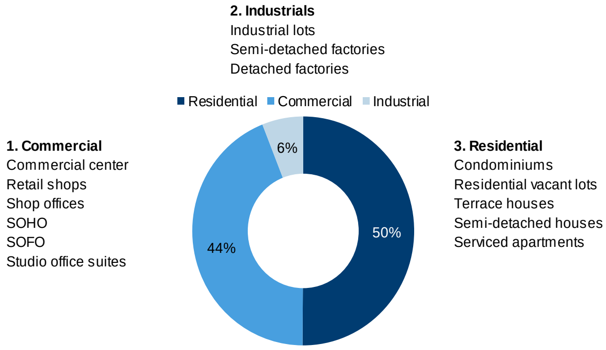
The residential business segment contributed the most to TTJ's top line, accounting for 50% of revenue, followed by commercial and industrials contributing 44% and 6% of revenue, respectively.

Fig 10: Net profit and CAGR



Source: Company, Bloomberg

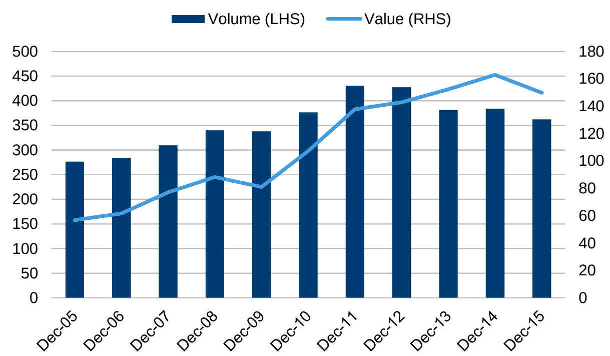
Fig 11: Business segments



Source: Company, Bloomberg

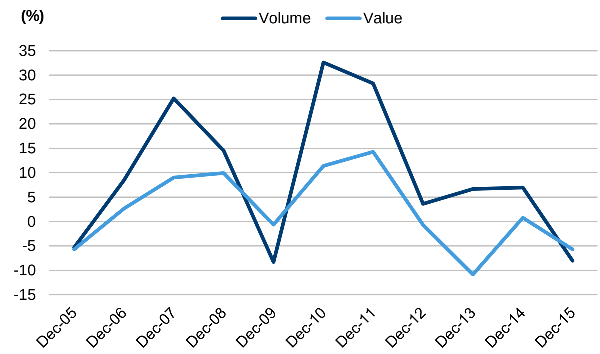
However, the company thinks earnings could see a dip in FY16 due to the slowdown in property demand. Property transaction values have fallen by 8% yoy in 2015 to RM149.9bn for the first time since 2010, and property transaction volumes have eased over four consecutive years since 2011, with the latest figure of 362,105 units showing a contraction of 5.7% yoy in 2015.

Fig 12: Property transaction volume and value



Source: Napic

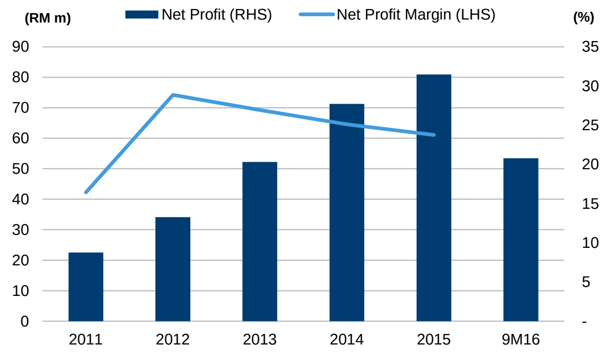
Fig 13: Growth rate on property transaction



Source: Napic

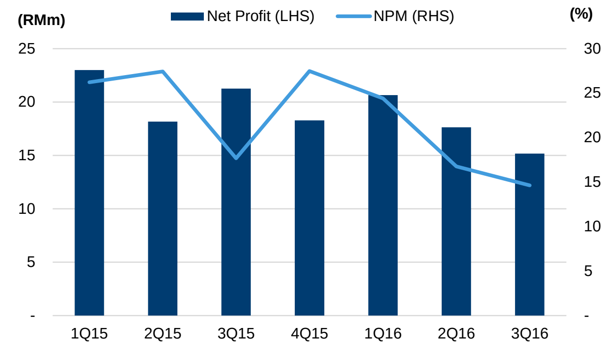
TTJ is targeting pre-sales of RM300m in FY16 and achieved RM223m in 9MFY16. Annualised net profit was RM71.2m in FY16, based on 9MFY16 net profit of RM53.4m, indicating a 12% yoy decline from RM80.9m in FY15. The net profit margin contracted from 27% in 4Q15 to 15% in 3Q16 due to a lower profit-margin product mix. The new launch of H20 Block B in FY17 is expected to support property sales. But there is a risk of slower new project launches in FY17, which could affect earnings.

Fig 14: Yearly net profit



Source: Company, Bloomberg

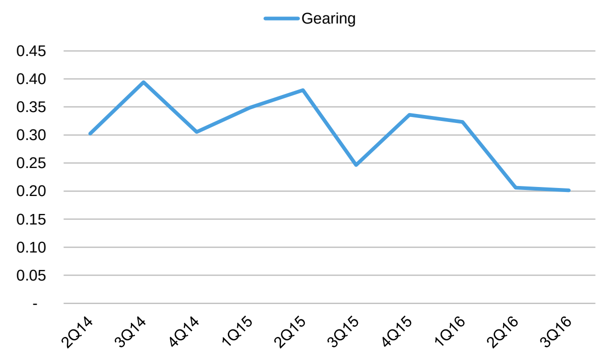
Fig 15: Quarterly net profit



Source: Company, Bloomberg

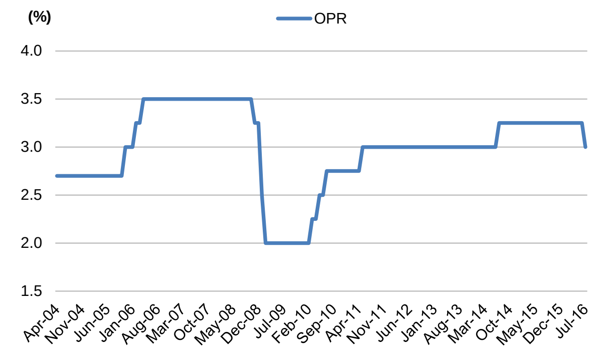
TTJ's low gearing of 0.23x (3Q16) allows the group to embark on strategic landbanking activities and capitalise on the expected recovery in property demand in 2017. With the recent overnight policy rate (OPR) cut of 25bps to 3% by BNM, the lower borrowing cost could stimulate a recovery in housing demand. A key development to watch for is whether banks will ease restrictions on lending for house purchases to support the expected recovery in demand. TTJ believes its low gearing would support its dividend policy of paying out at least 20% of net profit.

Fig 16: Net gearing level



Source: Company, Bloomberg

Fig 17: Overnight policy rate



Source: Bloomberg

Valuation

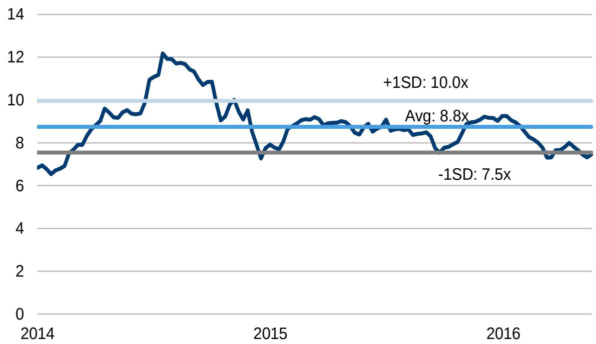
TTJ is currently trading at an annualised FY16E PER of 7.5x and a historical Price/Book of 1x, which is at a discount to most peers. It is trading below a forward mean PER of 8.8x and a Price/Book of 1.3x and a property sector weighted-average PER of 12x for CY16E.

Fig 18: Peer Comparison Table

Stock	Bbg	Rating	Sh Pr (RM)	TP (RM)	Mkt cap (RMbn)	Core PER (x) CY16E	Core PER (x) CY17E	Core EPS gr (%) CY16E	Core EPS gr (%) CY17E	P/RNAV (x)	P/BV (x) CY16E	ROE (%) CY16E	DY (%) CY16E
SP Setia	SPSB MK	BUY	3.01	3.25	7.9	11.6	11.3	(27.8)	2.5	0.7	1.1	9.8	3.6
IOI Prop	IOIPG MK	BUY	2.39	2.50	10.5	11.1	9.0	20.6	22.3	0.6	0.7	6.6	4.7
Sunway	SWB MK	BUY	2.96	3.90	6.0	9.5	8.4	(10.7)	12.2	0.6	0.9	9.0	3.4
UOA Devt	UOAD MK	BUY	2.35	2.64	3.8	10.6	8.8	(20.2)	20.0	0.6	1.1	10.5	5.1
E&O	EAST MK	BUY	1.72	2.40	2.2	34.6	23.5	(7.1)	47.5	0.4	1.3	3.4	1.7
Tropicana	TRCB MK	BUY	1.06	1.73	1.5	7.7	7.3	(10.4)	6.5	0.3	0.5	6.7	6.1
AmProp	APRO MK	BUY	0.91	0.89	0.5	6.9	4.2	9.5	64.2	0.4	0.5	13.0	5.9
*Titijaya	TTJ MK	NR	1.49	NA	0.5	6.6	5.6	0.0	24.4	NA	0.9	15.0	4.6
Wgt avg						**12.1**	**10.2**	**(5.2)**	**17.1**	**0.6**	**0.9**	**8.3**	**4.1**

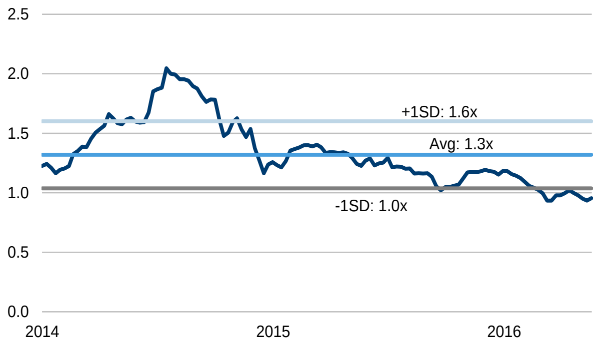
** Based on Bloomberg consensus forecasts.*
Source: Affin Hwang estimates, Bloomberg

Fig 19: Forward rolling PE



Source: Bloomberg

Fig 20: PBV



Source: Bloomberg

Key Risks

1. A sharper-than-expected slowdown in property market and a fall in property prices.
2. Stiffer competition from other developers through various promotions and price discounts.
3. Higher building material and construction costs, and the inability to increase selling prices, affecting profit margins.

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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Chulan Tower Branch,
3rd Floor, Chulan Tower,
No 3, Jalan Conlay,
50450 Kuala Lumpur.
www.affinhwang.com
Email : affin.research@affinhwang.com
Tel : + 603 2143 8668
Fax : + 603 2145 3005