



AmInvestment Bank

Company report

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TITIJAYA LAND

(TTJ MK EQUITY, TITI.KL)

PROPERTY



14 Aug 2017

Forging ahead on solid footing

BUY

Initiation

Rationale for report: Initiation

Price	RM1.54
Fair Value	RM2.01
52-week High/Low	RM1.93/RM1.45

Key Changes

Fair value	↔
EPS	↔

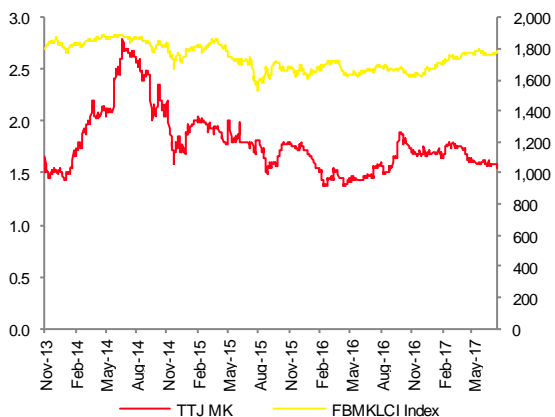
YE to Jun	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	400.1	283.6	333.7	376.6
Core net profit (RM mil)	68.4	68.1	80.1	90.4
FD Core EPS (sen)	18.3	17.3	18.8	27.8
FD Core EPS growth (%)	(15.6)	(5.6)	8.5	47.9
Consensus Net Profit (RM mil)	-	72.0	76.9	117.0
DPS (sen)	4.5	0.4	1.0	1.0
PE (x)	8.4	8.9	8.2	5.5
EV/EBITDA (x)	7.9	7.2	5.4	4.1
Div yield (%)	2.9	0.3	0.6	0.6
ROE (%)	13.6	12.1	12.7	12.7
Net Gearing (%)	20.9	7.5	nm	nm

Stock and Financial Data

Shares Outstanding (million)	410.0
Market Cap (RMmil)	631.4
Book Value (RM/share)	1.47
P/BV (x)	1.0
ROE (%)	13.6
Net Gearing (%)	20.9

Major Shareholders	Titijaya Group Bhd (59.1%) AIA Bhd (7.8%) Lembaga Tabung haji (4.3%)
Free Float	25.9
Avg Daily Value (RMmil)	1.2

Price performance	3mth	6mth	12mth
Absolute (%)	(6.1)	(8.9)	(1.9)
Relative (%)	(6.7)	(13.5)	(7.8)



Investment Highlights

- We initiate our coverage on Titijaya Land Bhd (Titijaya) with a BUY recommendation and a fair value of RM2.01, based on a 30% discount to its RNAV.
- Titijaya was founded in 1997 by Tan Sri Lim Soon Peng. Its early projects included double-storey terrace houses and three-storey shop offices in Taman Bukit Cheras, Kuala Lumpur and double-storey terrace houses, residential lots and low-cost apartments in Klang.
- Titijaya launched its first high-rise development project, E-Tiara Serviced Apartments in Subang Jaya, in 2004. Subsequently in 2007, Titijaya embarked on its first mixed commercial development of office suites and retail lots, First Subang, in SS15 Subang Jaya. This was followed by Subang Parkhomes (Phase 1), its first low-rise and low-density condominiums located in Subang Jaya in 2009. In 2013, Titijaya was listed on the Main Market of Bursa Malaysia.
- Currently, its ongoing projects include H2O @ Ara Damansara (mixed development), Emery @ Kemensah (high-end landed residential) in Ampang, Mutiara Residences in Klang (landed residential) and Seri Alam Residence in Klang (landed residential).
- Titijaya is launching new developments with RM1.82bil GDV in FY18. These comprise 5 new projects, namely The Shore @ Kota Kinabalu (mixed development), 3rdNvenue @ Jalan Ampang (mixed development), Riveria KL Sentral (mixed development), Damansara West, Bukit Subang (township), and Park Residensi @ Cheras (landed residential).
- Titijaya's revenue growth has been strong, with a FY13-FY16 3-year CAGR of 29.0%. Although we expect revenue growth to be negative in FY17 consistent with the challenging industry condition, we expect a rebound from FY18 onwards, supported by a slew of new launches in FY18 and beyond.
- Its earnings growth has also been commendable, with its FY13-FY16 3-year net profit CAGR standing at 7.1%, despite its net profit margin dropping to 17.1% in FY16 compared to 23.8% in FY15, which we believe was due to the challenging industry environment. Moving forward, we expect Titijaya's earnings to return to positive growth from FY18 onwards, supported by the upcoming launches of new projects and improving market conditions, which should result in its profitability level to normalise to its historical level.

BACKGROUND

□ History

Titijaya's history began in 1997 when it was founded by its group managing director Tan Sri Lim Soon Peng. The early projects of Titijaya include double-storey terrace houses and three-storey shop offices in Taman Bukit Cheras, Kuala Lumpur and double-storey terrace houses, residential lots and low-cost apartments in Klang.

In 2004 Titijaya launched its first high-rise development project, E-Tiara Serviced Apartments in Subang Jaya and also shop offices known as Klang Sentral Commercial Centre in Klang. The following year saw the launch of its second high-rise project, Casa Tiara Serviced Suites, also located in Subang Jaya. In the same year, its Tiara Square Business Centre, a project in UEP Subang Jaya, was also launched.

Subsequently, in 2007, Titijaya rolled out its first mixed commercial development of office suites and retail lots, named First Subang, in SS15 Subang Jaya. This was followed by another project in Subang Jaya, named One SOHO, in 2008.

In 2009, Titijaya launched Subang Parkhomes (Phase 1), its first low-rise and low-density condominiums located in Subang Jaya. Among the projects it has completed include Subang Parkhomes (Phase 2) in Subang Jaya, Seri Alam Industrial Park in Klang, Zone Innovation Park in Klang, Galleria in Klang, and 3Elements in Seri Kembangan,

In 2013, Titijaya was listed on the Main Market of Bursa Malaysia.

□ Ongoing projects

Titijaya has several ongoing property development projects in Malaysia, which are listed below:

H2O @ Ara Damansara

This is a mixed development located in Ara Damansara, with a total estimated GDV of RM794mil. It consists of 4 residential towers made up of serviced apartments and SoHo suits. The whole development is expected to be completed in 2019.

Emery @ Kemensah

This is a high-end residential development consisting of landed properties located in Kemensah, Ampang, Selangor. It has an estimated total GDV of RM50.7mil. This project is expected to be completed by end-2017.

Mutiara Residence

Located in Klang, Selangor with a total GDV of RM30.3mil, this project comprises 2.5-storey link houses, priced between RM680K and RM890K each. The development is scheduled to be completed by end-2017.

Seri Alam Residence

This is a landed residential development project located in Klang, Selangor with an estimated total GDV of RM102.1mil. It consists of cluster and semi-detached houses, with selling prices between RM600K and RM750K each. The development is expected to be completed in 2018.

OUTLOOK

□ RM1.82bil GDV of new launches in FY18

Titijaya's outlook over the near term is positive, supported by its upcoming launches in FY18. It has lined up new launches totalling RM1.82bil in GDV as follows:

The Shore @ Kota Kinabalu, Sabah

A mixed development project on 1.8 acres of land strategically located within Kota Kinabalu's central business district, Sabah, it has an estimated GDV of RM575mil. The prices for the units range between RM455K and RM810K, with sizes from 409 to 729 sq ft. The entire development is expected to be completed by 2022.

This is Titijaya's second collaboration with CREC after 3rdNVenue.

3rdNVenue @ Jalan Ampang

This is an integrated mixed development consisting of office suites, serviced apartments and retail lots. It is located at a prime location along the Embassy Row in Jalan Ampang, at the heart of Kuala Lumpur, 5 minutes' drive from Kuala Lumpur City Centre. It also has good accessibility, being the only development with direct access to AKLEH in Jalan Ampang, with the nearest LRT station just 600 metres away.

With a land size of 6.06 acres, this development has an estimated total GDV of RM1.8bil, with the units priced between RM450K and RM1mil. The project is expected to be completed by 2024.

This development marks a major milestone for Titijaya, being its first collaboration with China's CREC, one of the largest global EPCC players. The project has an in-kind payment contractor financing structure, where 40% of sales are secured through in-kind payment to contractor. This would minimise market demand risk, while freeing up its cash flow and reduce upfront capital requirements. This would also lead to an improved cost management, lower execution risk and timely delivery.

EXHIBIT 1: ONGOING PROJECTS

Projects launched	Type	Est. GDV (RM mil)	Take-up rate (%)	Progress	Completion
Mutiara Residence	2.5-storey (20' x75') 2.5-storey (20' x 65')	30.3	100.0%	80.0% 80.0%	2017
H2O Block A	Serviced apartments	794.0	99.2%	46.2%	2019
H2O Block B	Serviced apartments		Newly launched	(April 2017)	
H2O Block C	SoHo Suits		81.0%		
H2O Block D			59.6%		
Seri Alam Residences	Phase 1: Cluster houses Phase 2A: Semi-D houses	102.1	100.0% 0.3%	52.6% 23.1%	2018
Others		50.7			
Total		977.1			

Source: Company, AmlInvestment Bank Bhd

Riveria KL Sentral

Strategically located in KL Sentral, this transit-oriented development consists of retail, SOHO units and serviced apartments. Developed on a land size measuring 4.61 acres, the project has an estimated total GDV of RM1.0bil. The prices for the units will range between RM336K and RM780K, with built-ups from 255 to 990 sq ft. The development is expected to be completed by 2023.

Damansara West, Bukit Subang

This is a township residential development project located in Bukit Subang, Selangor. The total land size for the development is 46.2 acres, with an estimated total GDV of RM2.4bil. The units will be priced between RM300K and RM450K, with the unit sizes ranging from 750 to 1,000 sq ft. The development is expected to be completed by 2027.

Park Residensi @ Cheras

Located in Alam Damai, Cheras with a total GDV of RM75mil, this is a residential development consisting of 68 units of 3-storey link houses. The development is scheduled to be launched in 3QCY17.

□ More projects planned beyond FY18

Beyond FY18, Titijaya has lined up a slew of potential developments that will ensure its earnings sustainability over the long run. However, there is no specific launch date yet for these projects. As such, we expect these projects to be launched only from 2020 onwards. Among the projects are listed below:

Odeon @ Jalan Tuanku Abdul Rahman, KL

This is a transport-oriented development located in Jalan Tuanku Abdul Rahman, Kuala Lumpur consisting of serviced apartments and retail units. The development is planned for 2 towers of serviced apartments and a number of retail units, with an estimated total GDV of RM1.5bil.

Trio Monfort @ Glenmarie

An integrated mixed development project located in Glenmarie, Shah Alam, it has an estimated GDV of RM1.5bil.

Batu Maung, Penang

A mixed development project located at the waterfront of Batu Maung, Penang featuring condominiums, serviced apartments, office lots and retail spaces. The estimated total GDV of the project is RM2.52bil.

Klang Sentral Serviced Apartments

Comprising serviced apartments, it is located within the Klang Sentral transport hub, within walking distance of the Klang Sentral bus and taxi terminal. The estimated total GDV of the development is RM700mil.

RISKS

□ Longer-than-expected slowdown in property market

There is a risk that Titijaya's new property sales could be affected if the challenging market condition persists longer than expected. This could lead to lower property sales of the group and decline in future earnings.

□ Increased competition in affordable segment

Due to the slowdown in the property market, the majority of property developers in the country have shifted their focus to the affordable segment, which has historically been the core segment for Titijaya. There is a risk that Titijaya's future performance might be impacted by the increased competition within its key market segment.

EXHIBIT 2: UPCOMING PROJECTS

Projects	Type	Est. GDV (RM mil)	Commencement	Completion date
Klang Sentral Serviced Apartment	Serviced apartment	700.0	TBA	TBA
Seri Alam Residence	Phase 2B – Single-storey Phase 3 – Semi-detached Phase 4 – Semi-detached	237.9	2018	2019
3rdNvenue	Office suites Serviced apartment Retail	1,800.0	2017	2024
Riveria	Office suites Serviced apartment 1 Serviced apartment 2 Shop lots	1,000.0	2017	2023
The Shore @ Kota Kinabalu	Retail Serviced residences Hotel	575.0	2017	2022
Odeon	Retail Serviced apartment - Block 1 Serviced apartment - Block 2	1,500.0	TBA	TBA
Batu Maung, Penang	Condominium SoHo Commercial	2,520.0	TBA	TBA
Trio Monfort, Glenmarie	Mixed development	1,500.0	TBA	TBA
Damansara West	Serviced apartment Strata shop Program Perumahan Rakyat Serviced apartment	2,400.0	2017	2027
Others		75.3		
Total		12,308.2		

Source: AmlInvestment Bank Bhd, Company

❑ Scarcity of land in good locations

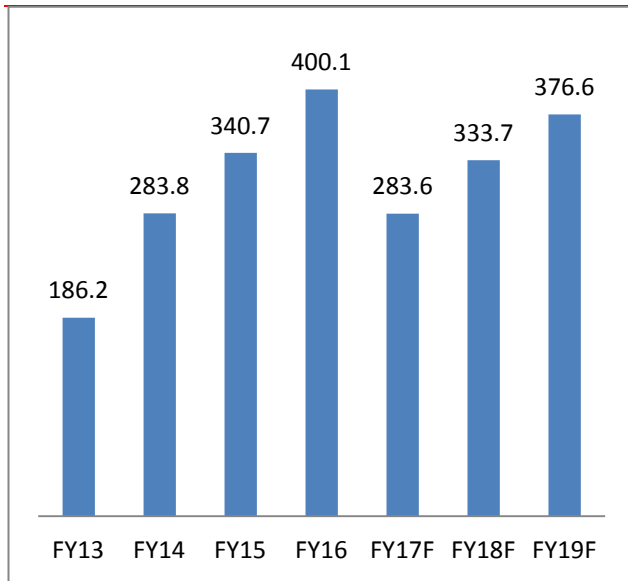
As a property developer, Titijaya needs to continuously replenish its landbank to ensure sustainability in its revenue and earnings moving forward. Competition among local property developers for land in good locations poses tough challenges to Titijaya in acquiring landbank at favourable locations.

Although we expect revenue growth to be negative in FY17 consistent with the challenging industry condition, we expect a rebound from FY18 onwards, supported by a slew of new launches in FY18 and beyond.

FINANCIALS

❑ Strong revenue growth

Titijaya has recorded strong revenue growth from FY13-FY16, with a 3-year compounded annual growth rate (CAGR) of 29.0% to RM400.1mil in FY16. This was attributed to good take-up rates and consistent progress at its development projects.

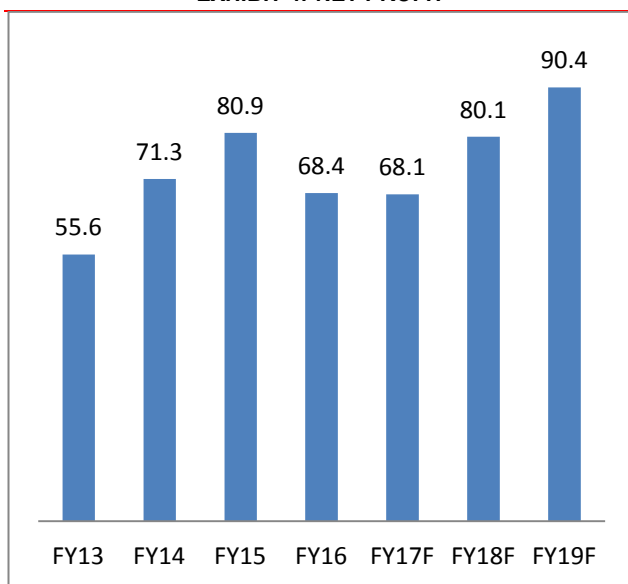
EXHIBIT 3: REVENUE GROWTH

Source: Company, AmlInvestment Bank Bhd

□ Commendable earnings growth

Consistent with revenue growth, Titijaya has sustained commendable earnings growth, with its FY13-FY16 3-year net profit CAGR standing at 7.1%. This was despite its net profit margin dropping to 17.1% in FY16 compared to 23.8% in FY15, which we believe was due to the challenging environment forcing Titijaya to sacrifice its margins in its property sales.

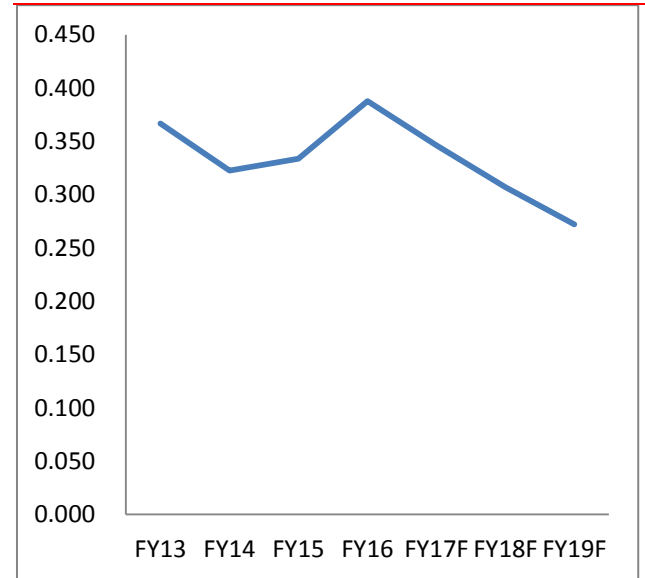
Moving forward, we expect Titijaya's earnings to return to positive growth from FY18 onwards, supported by the upcoming launches of new projects in FY18 and the improving market environment.

EXHIBIT 4: NET PROFIT

Source: Company, AmlInvestment Bank Bhd

□ Healthy balance sheet

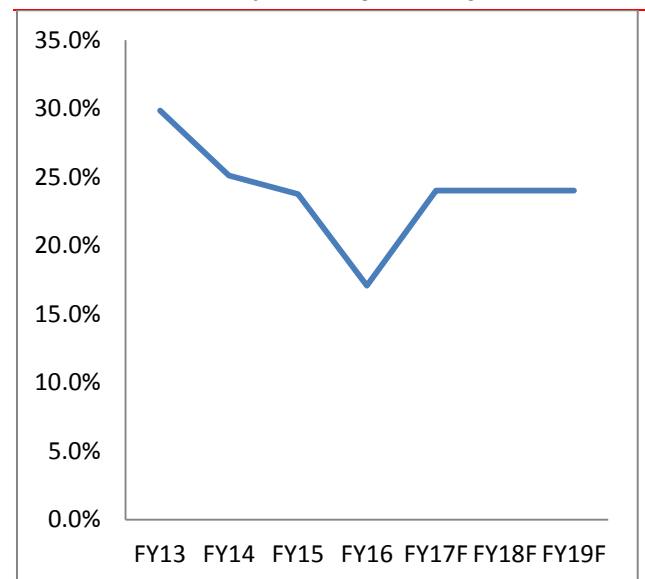
Titijaya's gearing level has been kept at comfortable levels historically, and we expect this prudent approach to be maintained in the future. Its debt-to-equity level has stayed below 0.4x since FY13 until FY16.

EXHIBIT 5: DEBT-TO-EQUITY LEVEL

Source: Company, AmlInvestment Bank Bhd

□ Sustained profitability

Over the years, Titijaya has managed to sustain its profitability at commendable levels. Its net profit margin ranged between 23% and 30% in FY13-FY15. This level dropped to 17.1% in FY16, which we believe was due to challenging market conditions with Titijaya having to lower its selling prices and sacrifice its profitability in order to sustain sales performance. However, we expect the profitability level to normalise from FY17F onwards, due to the improving market environment.

EXHIBIT 6: NET PROFIT MARGIN

Source: Company, AmlInvestment Bank Bhd

□ Rights issue to boost war chest

Titijaya has proposed a rights issue of irredeemable convertible preference shares (ICPS) of up to 615.0mil ICPS on the basis of 3 ICPS for every 2 existing TLB shares held by shareholders. The indicative issue price of the ICPS is RM0.165 each. The conversion ratio of the ICPS is either 10 ICPS into 1 new Titijaya share or a combination of 1 ICPS and cash payment of RM1.485 for 1 new Titijaya share. The ICPS can be converted within 5 years from the date of issuance of the ICPS.

We expect the rights issue of ICPS to be positive to Titijaya over the long term. Assuming it is fully subscribed, the ICPS is expected to raise RM101.5mil for the group, with 70% of the proceeds to be utilised for the property development expenditure with the rest being utilised to pare down its bank borrowings.

RECOMMENDATION AND VALUATION**□ Initiate coverage with a BUY recommendation**

We initiate our coverage on Titijaya with a BUY call and a fair value of RM2.01 per share, based on a 30% discount to its revalued net asset value (RNAV), consistent with the valuation of other property stocks on our radar. We believe Titijaya's share price still has a substantial upside, driven by its expected earnings growth in the foreseeable future.

EXHIBIT 7: RNAV

NPV at 8.3%		
Projects	Value (RM m)	Stake (%)
Mutiara Residence	4.5	100%
Seri Alam Residences	64.4	100%
Embun & Emery @ Kemensah	9.2	100%
H2O Ara Damansara	127.7	100%
3rdNvenue @ Jalan Ampang	188.9	70%
The Shore @ Kota Kinabalu	94.1	100%
Park Residensi @ Cheras	13.7	100%
Riveria KL Sentral	111.0	70%
Damansara West, Bukit Subang	334.4	100%
Total NPV	948.0	
Shareholders' equity as at end-FY16		
Proceeds from ICPS (maximum scenario)	101.5	
RNAV (RM mil)	1,580.7	
Total no of outstanding shares	410.0	
Additional no of shares from ICPS conversion (maximum scenario, 10 into 1)	61.5	
Consideration shares for NPO Builders acquisition	79.7	
FD total no of shares	551.2	
RNAV per share (RM)	2.87	
30% discount attached	0.86	
Fair value (RM)	2.01	

Source: AmlInvestment Bank Bhd, Company

EXHIBIT 8: COST OF EQUITY

RFR	4.0%
Beta	0.72
Market risk premium	6.0%
Ke	8.3%

Source: Company, AmlInvestment Bank Bhd

EXHIBIT 9: PB BAND CHART

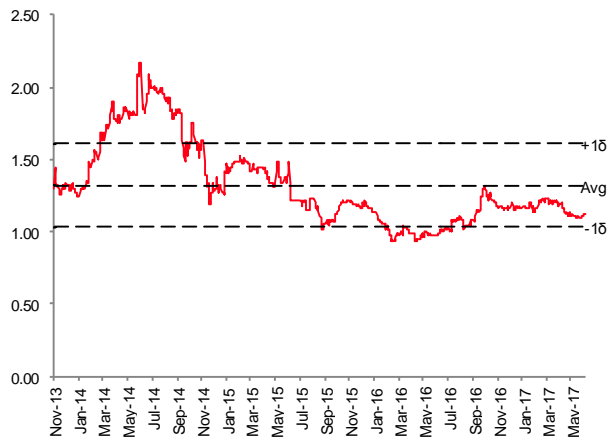


EXHIBIT 10: PE BAND CHART

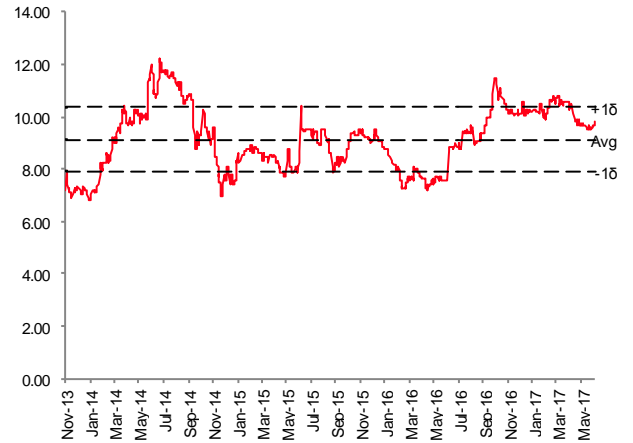


EXHIBIT 11: FINANCIAL DATA

Income Statement (RMmil, YE 30 Jun)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	340.7	400.1	283.6	333.7	376.6
EBITDA	112.5	93.9	94.1	110.1	123.9
Depreciation/Amortisation	(0.6)	(0.6)	(1.2)	(1.2)	(1.2)
Operating income (EBIT)	111.8	93.3	92.9	108.9	122.7
Other income & associates	-	-	-	-	-
Net interest	(0.8)	(1.9)	(2.1)	(2.1)	(2.1)
Exceptional items	-	-	-	-	-
Pretax profit	111.1	91.4	90.8	106.8	120.5
Taxation	(30.3)	(23.1)	(22.7)	(26.7)	(30.1)
Minorities/pref dividends	0.2	0.1	-	-	-
Net profit	80.9	68.4	68.1	80.1	90.4
Core net profit	80.9	68.4	68.1	80.1	90.4
Balance Sheet (RMmil, YE 30 Jun)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	4.5	11.3	11.1	10.8	10.6
Intangible assets	3.7	3.7	3.7	3.7	3.7
Other long-term assets	211.5	263.8	263.8	263.8	263.8
Total non-current assets	219.7	278.8	278.6	278.3	278.1
Cash & equivalent	189.3	94.9	161.4	237.7	324.1
Stock	23.4	21.0	21.0	21.0	21.0
Trade debtors	217.7	213.4	213.4	213.4	213.4
Other current assets	406.8	484.2	481.7	481.7	481.7
Total current assets	837.2	813.5	877.5	953.7	1,040.2
Trade creditors	163.2	194.7	194.7	194.7	194.7
Short-term borrowings	54.7	104.7	104.7	104.7	104.7
Other current liabilities	200.4	109.5	109.5	109.5	109.5
Total current liabilities	418.3	408.9	408.9	408.9	408.9
Long-term borrowings	103.8	101.1	101.1	101.1	101.1
Other long-term liabilities	59.4	51.1	51.1	51.1	51.1
Total long-term liabilities	163.1	152.2	152.2	152.2	152.2
Shareholders' funds	474.9	530.8	594.5	670.5	756.8
Minority interests	0.6	0.5	0.5	0.5	0.5
BV/share (RM)	1.34	1.47	1.45	1.64	1.85
Cash Flow (RMmil, YE 30 Jun)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	111.1	91.4	90.8	106.8	120.5
Depreciation/Amortisation	0.6	0.6	1.2	1.2	1.2
Net change in working capital	78.7	(138.3)	-	-	-
Others	(30.6)	(20.0)	(22.7)	(26.7)	(30.1)
Cash flow from operations	159.9	(66.4)	69.3	81.3	91.6
Capital expenditure	(0.4)	(7.3)	(1.0)	(1.0)	(1.0)
Net investments & sale of fixed assets	(3.3)	2.3	-	-	-
Others	(25.2)	(45.6)	-	-	-
Cash flow from investing	(28.9)	(50.5)	(1.0)	(1.0)	(1.0)
Debt raised/(repaid)	(35.0)	22.1	-	-	-
Equity raised/(repaid)	0.9	-	-	-	-
Dividends paid	(14.1)	(16.1)	(1.8)	(4.1)	(4.1)
Others	(47.2)	8.0	-	-	-
Cash flow from financing	(95.4)	9.3	(1.8)	(4.1)	(4.1)
Net cash flow	35.6	(107.6)	66.5	76.2	86.5
Net cash/(debt) b/f	133.0	168.5	60.9	127.5	203.7
Net cash/(debt) c/f	168.5	60.9	127.5	203.7	290.1
Key Ratios (YE 30 Jun)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	20.0	17.4	(29.1)	17.7	12.9
EBITDA growth (%)	14.4	(16.5)	0.3	17.0	12.4
Pretax margin (%)	32.6	22.8	32.0	32.0	32.0
Net profit margin (%)	23.8	17.1	24.0	24.0	24.0
Interest cover (x)	146.5	49.2	43.4	50.9	57.3
Effective tax rate (%)	27.3	25.3	25.0	25.0	25.0
Dividend payout (%)	17.5	23.6	2.6	5.1	4.5
Debtors turnover (days)	233	195	275	233	207
Stock turnover (days)	45	30	32	28	18
Creditors turnover (days)	316	277	293	264	163

Source: Company, AmlInvestment Bank Bhd estimates

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