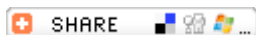




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WITH the property market recovering, helped by the buoyant stock market, record low interest rates and improving confidence, property stocks have rallied sharply from their earlier lows.

Dijaya Corp's (RM1.04) share price has lagged its property peers in the recent rally. This is partly due to the fact that its share price has been less volatile and largely resilient earlier. After falling from an earlier peak of around RM1.50 in early 2008, its share price hovered at the 90 sen to RM1.00 range over the past one year. Its shares are also not widely owned by institutional investors.



At the current share price of RM1.03, Dijaya's shares are deeply undervalued, trading at low price-to-earnings (P/E) multiples of 8.5 and 5.6 times 2009-10 earnings, and a steep 58% below its latest book value of RM2.48, as of March 2009.

Its net trading asset (NTA) is already severely understated due to low land costs. The bulk of its land bank is in the prime developments of Tropicana Golf and Country Resort and Tropicana Indah in Petaling Jaya, which are carried in its books at just RM10.66 psf and RM8.10 psf, respectively — against current market prices of RM130-150 psf.

Balance sheet is very strong — Dijaya is one of very few developers that are ungeared. Despite paying for earlier land purchases (RM66.2 million for land in Kajang and Cheras) and funding for the ongoing Tropicana City development, the company had net cash and equivalents of RM27.7 million in March 2009.

If market sentiment stays positive, we would expect investors to start focusing on laggards. Dijaya offers good value, even though it is off most investors' radar screens, with its low P/E and price-to-book valuations. A potential re-rating catalyst could emerge later as the company launches its two new Tropicana developments, which will boost earnings in the next few years.

1Q09 results boosted by one-off gains

Dijaya had strong results for the first quarter of FY December 2009 (1Q09), although they were boosted by one-off gains from the sale of land. In that quarter, Dijaya's turnover declined marginally by 6.6% year-on-year (y-o-y) to RM44.8 million. Pre-tax profit almost doubled from RM8.2 million to RM15.9 million, while net profit almost tripled from RM3.3 million to RM9.6 million.

Profits were boosted by a gain of around RM11 million from the sale of its 517-acre agriculture land in Tanjung Malim for RM25 million, which was of little use. It also booked in gains of 600,000 from the sale of shares. Excluding these gains, we estimate underlying pre-tax profit would have fallen by about

47% y-o-y to RM4.3 million. But its profits tend to be lumpy on a quarter-to-quarter basis, depending on progress billings and project completion.

Earnings continue to be driven by its ongoing developments, namely the Tropics at Tropicana City, Casa Indah at Tropicana Indah and the shophouses at TSB Sungei Buloh. The company has unbilled sales of RM317 million as of June 2009, which will support earnings for the next year.

We expect Dijaya's pre-tax profit to fall 21% to RM58.4 million in 2009, but net profit to remain fairly stable at RM31.3 million. Stronger growth will be evident in 2010 as the property market recovers and the company resumes launches. The mall and office tower will also contribute fully by then. Our forecasts assume the two Tropicana projects are launched in mid-2010.

Strong sales, new launches planned

After a difficult period for much of the second half of 2008 (2H2008) and 1Q2009, the outlook for the property sector has improved, although most developers are still cautious. Most continue to hold back their launches, focusing on clearing existing inventory with attractive financing schemes and discounts.

Dijaya is no exception. The company has been focusing on selling its inventory — and with good success. In 1H2009, we understand the company managed to generate sales of RM215 million. Most of these sales came from The Tropics apartments in Tropicana City, on top of Tropicana Mall, where the take-up rate has increased from 70% to 98%.

The strong sales here are largely due to the fact that these units were earlier held back last year by management and released to the market only this year. There is latent underlying demand in the well-established and matured Damansara-SS2 area, where supply is limited. And the Tropicana City development is also shaping out quite well, after the opening of the Tropicana Mall in December 2008.

The mall is about 75% leased, of which 70% has already been occupied. It will provide a new source of recurring income this year onwards, with estimated rental income of over RM20 million. The office tower, once completed at the end of 2009, will provide estimated rental income of around RM5 million when fully occupied.

Dijaya has opened preliminary registration for the two Tropicana projects — which were earlier put on hold due to the crisis — to gauge public response, although no deposits are required. The pricing and launch dates have yet to be finalised and will depend on market conditions.

Tropicana Grande will be launched first, as early as end-2009 or 1Q2010 while Tropicana Avenue may be launched in 2Q2010. The former consists of about 300 condos with large built-up space of 2,500-4,500 sq ft, located on 5.2 acres. The gross development value (GDV) of the project is RM540 million. Tropicana Avenue comprises three blocks of nine- and 11-storey shop offices on seven acres.

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Dijaya earnings forecast

YE Dec (RM m)	2007	2008	2009E	2010E
Turnover	254.5	247.1	187.2	255.5
Pre-tax profit	71.6	73.6	58.4	79.7
Net profit	48.8	32.8	31.3	47.7
EPS (sen)	18.8	12.7	12.1	18.4
P/E (x)	5.5	8.1	8.5	5.6
Dividend (sen)	4.0	2.0	3.0	3.0
Dividend yield (%)	3.9	1.9	2.9	2.9
Book value (RM)	2.34	2.39	2.49	2.65
Price/Book value (x)	0.44	0.43	0.41	0.39

*Note: Forecasts exclude rights issue