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Thursday, 19 March 2009 20:12



DIJAYA Corp (RM0.875) recently released full-year results for FY Dec 2008 that were above expectations. The company's full-year net profit of RM32.8 million, although down 33% year-on-year (y-o-y), was some 56% above our earlier conservative forecasts.

Much of the spurt came in the fourth quarter, where Dijaya reported net profit of RM23.5 million - or 72% of the full year's total. Up until the third quarter of 2008 (3Q08), the company's earnings had been relatively weak, hit by one-off large tax expenses in 3Q08 and land acquisition-related costs in 1Q08. The strong performance in 4Q08 came largely from progressive billings at TSB Sungei Buloh.

For the full year, Dijaya's revenue was relatively flat at RM247.1 million. Pre-tax profit rose 2.8% to RM73.6 million. However, net profit declined 32.7% to RM32.8 million due to higher minority interests (from increasing contributions at TSB Sungei Buloh and Tropicana Indah), and higher taxes in 3Q08.

Dijaya's balance sheet remains debt-free and is in very good shape, although its cash position has fallen due to land purchases and ongoing funding for the Tropicana City development.

As at end-December 2008, net cash and equivalents stood at RM25.7 million, down slightly from RM26.6 million in September 2008, and from RM141.3 million in December 2007. This includes payment of RM66.2 million for two earlier land purchases (Kajang and Cheras). The Jenjarom land purchase (amounting to RM29.5 million, of which 90% is outstanding) is still pending completion.

Outlook

The outlook for the property sector remains weak. The deepening global financial crisis, especially since 4Q08, has crimped consumer spending and big-ticket item purchases. Most developers are holding back their launches, awaiting further clarity on demand. This will continue for some time, depending on the length and breadth of the current downturn.

We do foresee a bottoming of the US economy in 4Q09. The stock market should recover three to four months ahead. With a bottoming of the economy, retrenchments tailing off and some stock market wealth effect, we expect sentiment for PROPERTIES [] to improve in late 2009/early 2010.



We are maintaining our assumption that the two Tropicana projects will be launched in mid-2010, although the company may attempt to launch Tropicana Grande in the second half of

Earnings forecast

Year end 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)	4.7	6.9	7.2	4.8
Dividend (sen)	4.0	2.0	3.0	3.0
Dividend yield (%)	4.6	2.3	3.4	3.4
Book value (RM)	2.34	2.39	2.49	2.65
Price/Book value (x)	0.37	0.37	0.35	0.33



Note: Forecasts exclude rights issue

2009 (2H09). Tropicana Grande consists of 241 condos with large built-up space of 2,500-4,500 sq ft, located on 5.2 acres of land. Tropicana Avenue comprises three blocks of nine- and 11-storey shop-offices on seven acres (2.8ha) of land.

In the meantime, the company is busy completing its existing projects in Tropicana City and TSB Sungei Buloh, and selling the balance of its projects and inventory.

Tropicana City Mall opened for business in December 2008 and is about 80%-85% leased, with tenants opening in stages. The mall will provide a new source of recurring income from 2009 onwards, with estimated rental income of over RM20 million. The office tower, once completed, will provide rental income of around RM5 million when fully occupied.

Will ride downturn well

While the operating environment for property developers is very challenging, we expect Dijaya to weather through this downturn relatively well.

The company has a debt-free balance sheet and unbilled sales of RM190 million that will support earnings for another year. In addition, it also will focus on selling the balance of its inventory and unsold units, which amount to about RM330 million.

Starting this year, it will also enjoy recurring income from Tropicana City Mall and later the adjoining office tower. These new streams of income - plus progressive billings - will sustain income to tide the company through the downturn.

Dijaya has a large landbank, with much of it acquired at low prices, especially in Tropicana and Tropicana Indah. The company has also put into place a longer-term footprint by enlarging its landbank at low prices.

Between December 2007 and February 2008, the company acquired a total of 186.2 acres of mainly agriculture land - at relatively low prices - but within or near established areas, to be converted to residential status and development.

The pieces of land acquired include 66 acres in Kajang, Selangor, for RM47.5 million (RM16.50 psf); 93.4 acres in Jenjarom, near Klang, for RM29.5 million (RM7.25 psf) and 26.8 acres in Cheras for RM18.7 million (RM16 psf).

With the new landbank, Dijaya will be able to widen its product and customer mix - from mainly high-end to the middle market as well. The company plans to launch the newly acquired 66-acre Kajang land in 3Q09, featuring mainly terrace houses, with gross development value (GDV) of RM167 million.

Maintain forecasts, buy call

We are maintaining our 2009-2010 forecasts and our buy recommendation. We expect 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 launches resume. The mall and office tower will also contribute fully by then.

Our forecasts assume the two Tropicana projects are launched in mid-2010. We have not factored in the launch of the Indian joint venture or other projects.

As previously noted, we expect the earlier proposed two-call, 3-for-4 rights issue, which has been

deferred indefinitely, to be eventually called off given current market conditions and its existing strong balance sheet.

At RM0.875, Dijaya's shares are trading at undemanding P/E multiples of 7.2 and 4.8 times 2009-2010 earnings, and a steep 63% below its latest book value of RM2.39. Its book value is already severely understated due to low land costs.

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