

RB LAND: A GOOD START

Despite the generally weak performance of the property sector, RB Land Holdings stands out for its potential.

By James S

It seems the stock market did not get any boost from the recent second-quarter results of listed companies. According to local stockbroker Avenue Securities Research, most of the companies only performed in line its expectations.

In fact, there were also sectors and companies that reported weaker-than-expected results. The property sector was one that performed below the research house's expectations. Quoting from Avenue Securities' note on the sector:

The smaller cap property stocks under coverage had delivered a set of disappointing results. Net profit of four property stocks universe decreased by 15.05% y-o-y and 14.71% q-o-q respectively. The common factors attributing to the lower-than-expected results were (i) weaker-and-slower-than-expected sales and projects launching, as well as (ii) slower-than-expected work progress and hence delay in completing and handing over (of units).

A quick check with bankers in town (reveals) that they also agree that the growth rate of primary mortgage has been declining while the default rate of residential properties is also on the rise. Apart from the risk of oversupply, the risk of rising interest rate could cast uncertainties on (speculative) demand as well.

However, Avenue Research notes that as an emerging economy with a supportive demographic structure and high urbanisation rate, property investment in

Malaysia remains profitable in the long run.

Besides, it adds, Malaysian properties are relatively cheap compared with those in the other parts of the region (see *Special Report in Malaysian Business* issue of Aug 16). Hence, it adds, there could be some hidden gems that may still be under-researched and overlooked by the investment community.

Some analysts think RB Land Holdings Bhd is one such company. They point to its undervalued landbanks and strong shareholders, which include a 30%-stake by the Singapore Government's investment arm, GIC, in RB Land, a subsidiary of RB Land Holdings.

The Company

RB Land Holdings (RB Land) was formally known as Econstates. After the completion of a reverse takeover exercise by the property arm of listed construction major,

Road Builder (M) Holdings Bhd, the company was renamed.

The change was apparently to reflect the new identity of the company as part of the Road Builder Group (which currently owns 69.89% of RB Land).

The restructuring exercise involved the injection of Road Builder's property flagship companies and its two major projects, Seremban 2 and Shah Alam 2, into RB Land.

According to an investment report by Hwang-DBS Vickers Research, the injection of these landbanks was done at a 3296-40% discount to their market values, hence allowing minority shareholders to enjoy potential appreciation in the land value.

With the restructuring (completed on March 19, 2004), RB Land's projects now comprise its flagship development of Seremban 2 and Shah Alam 2 as well as The Boulevard in Subang Jaya.

The success of the above projects is already reflected in RB Land's contribution of around 50% to the operating profit of its parent, Road Builder.

The Landbanks and Projects

According to Hwang-DBS Research, RB Land owns 1,525 hectares of development land with an estimated gross development value (GDV) of RM6.3 billion. Of this, 73% are located in Seremban and the remainder in the Klang Valley.

Its present landbank size (see Figure 1) should sustain the company's property developments for another 8-10 years, the research house says.

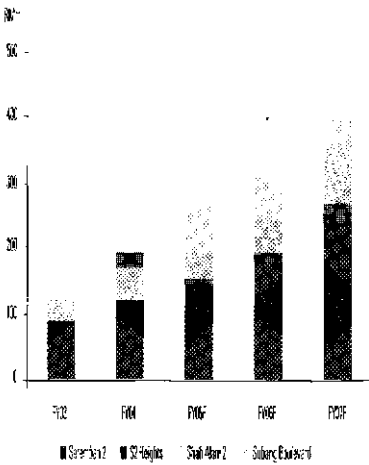
In addition, RB Land also owns Holiday Villa Subang, a five-star hotel with 383 rooms in Subang Jaya. The occupancy rate of the hotel stands at 75% currently.

FIGURE 1: PRINCIPAL DEVELOPMENT ASSETS

| Project/Landbank | Tenure | Original (acres) | Landbank (acres) | Estimated GDV (RMbn) | Open Market Value (RMm) |
|------------------|-----------|------------------|------------------|----------------------|-------------------------|
| Shah Alam 2 | Leasehold | 1,093 | 911 | 1.23 | 457 |
| Seremban 2 | Freehold | 2,300 | 597 | 1.58 | 185 |
| S2 Heights | Freehold | 1,576 | 1,576 | 2.42 | 222 |
| S2 CBD | Freehold | 247 | 247 | 0.62 | 65 |
| RB Property | Freehold | 436 | 436 | 0.21 | 51 |
| Subang Boulevard | Leasehold | 9 | 9 | 0.30 | n.a |
| Total | | 5,661 | 3,776 | 6.34 | 960 |

Source: Hwang-DBS Vickers Research

FIGURE 2: ACCELERATING PROPERTY SALES



Source: Hwang-DBS Vickers Research

Seremban 2 And S2 Heights

In essence, Seremban 2 is the key project earner (more than 60% of operating profit) for RB Land. Covering 929 hectares, it is an integrated township with a vision of creating a 'new' Seremban township.

The recent relocation of the State Government Administrative Centre has increased the population and demand for housing in Seremban 2.

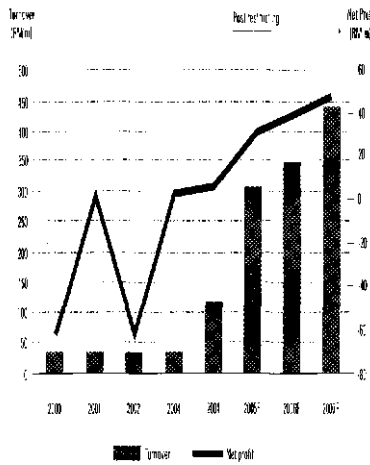
The recent relocation of the State Government Administrative Centre here has increased the population and demand for housing in Seremban 2. In addition, says Hwang-DBS Research, the township has also successfully tapped into the demand of the southern Kuala Lumpur population.

To further increase the attractiveness of the township, RB Land has constructed a three-storey shopping complex here and leased it to Aeon Co (M) Bhd (formally known as Jaya Jusco Bhd), which operates the Jusco department stores.

In the future, the township could get a farther boost should the toll plaza along the North-South Expressway be relocated, resulting in more traffic flowing through Seremban 2 and its surrounding areas.

Adjacent to Seremban 2, RB Land owns another 636 hectares known as S2 Heights.

FIGURE 3: TURNOVER & NET PROFIT TREND



Source: Hwang-DBS Vickers Research

S2 Heights was launched in early 2005 and its maiden launch consisted of 214 units of single and double-storey terrace homes.

This mixed development will focus mainly on medium-cost and high-end housing units including condominiums,

and should strengthen RB Land's dominance of the combined Seremban-S2 Heights area for housing development.

Shah Alam 2

This 441-hectare project of the group is located in the northwest of the Klang Valley. Compared with Seremban 2, response to the Shah Alam 2 project has been weaker.

This could be due to the intense competition and pricing pressure arising from the large supply of new properties in the area, and the perceived lack of accessibility, says Hwang-DBS Research.

To boost demand for the houses in Shah Alam 2, RB Land is banking on the transformation of the entire Bandar Puncak Alam development into a university town and the completion of the New North Klang Valley Expressway (NNKVE).

It was reported that the Government has allocated 404 hectares for the Universiti Teknologi Mara campus in Bandar Puncak Alam. The NNKVE (that was first announced in February 2004) is expected to cut travelling time between Shah Alam 2 and the Kuala Lumpur city centre to only 30-35 minutes.

However, to date, the 23km NNKVE is still at its planning stage, and there appears to be no immediate catalyst to boost demand here in the short term.

Subang Boulevard

This is a well-located 3.6ha high-rise and high-density development in Subang Jaya (behind the Holiday Villa hotel). The group is in the midst of completing 190 condominium units in two blocks here. The first block was launched in December 2003 and the second in March 2004.

FIGURE 4: REVISED ASSET VALUE (RNAV) OF RB LAND HOLDINGS

| | Stake | Acreage | Market value (psf) | Value |
|-------------------------------------|-------|---------|--------------------|-------|
| Seremban 2 Residential | 70% | 597 | 20 | 364 |
| Seremban 2 Commercial | 70% | 247 | 20 | 151 |
| Seremban 2 Industrial | 70% | 34 | 15 | 16 |
| S2 Heights | 70% | 1,576 | 5 | 240 |
| Pekan Bukit Kepayang Commercial | 70% | 33 | 20 | 20 |
| Shah Alam 2 Residential | 79% | 911 | 6 | 187 |
| Shah Alam 2 Commercial | 79% | 3 | 15 | 1 |
| Subang Boulevard | 100% | 9 | 100 | 40 |
| Others | 70% | 444 | | 47 |
| Less: NBV of Development Properties | | | | (831) |
| Holiday Villa Hotel | | | | 115 |
| Less: NBV of Hotel | | | | (197) |
| Surplus | | | | 353 |
| Shareholders' Funds (at end FY04) | | | | 602 |
| Net Assets | | | | 955 |
| RNAV per share (RM) | | | | 1.88 |

Source: Hwang-DBS Vickers Research

The group plans to launch another two blocks of condominiums, consisting of 380 units, in FY2006 on the same 1.73ha site housing the original earlier-launched two blocks. The remaining 1.27ha will only be developed once the current project is sold.

The Prospects

RB Land has said it is continuously on the lookout for choice landbanks for development, either by way of acquisition or joint venture, in high growth areas within the Klang Valley, Johor and Penang.

Its foray into the Johor property market will begin next year with a mixed development project in Bandar Permas Jaya, Johor. The 4.18ha freehold vacant land was acquired only recently for a cash consideration of RM4.95 million.

Hwang-DBS Research says for its existing projects, especially the maturing Seremban 2, the group will likely venture into the higher-end property segments such as bungalows, and semi-detached and super link homes that will allow the developer to command higher profit margins and boost earnings in the future.

In addition, it was also reported that RB Land is in the midst of exploring the potential of township development in India.

The Financials

Hwang-DBS Research reckons that RB Land, coming up from a low earnings base following its restructuring exercise, would likely post a much higher revenue of RM304.1 million and net profit of RM30.5 million in FY06.

This would be a 19.4% and 37.7% growth y-o-y from its recent actual FY05 figures of RM289.3 million and RM27.7 million respectively. The earnings came from Seremban 2, Shah Alam 2, Subang Boulevard, S2 CityCentre and S2 Heights.

The research house believes the profitability of the group will be even stronger in FY07 (see Figure 2). The bullish forecast is on the back of the potential launching in FY06 of 2,482 units valued at RM514 million (with a sales target of RM300 million, implying a 58% take-up rate) and an unbilled sales achieved of around RM250 million as of end-December 2004.

FIGURE 5: PRICE MOVEMENT, 5-DAY SMA AND 14-DAY RSI OF RB LAND

