MTSH Monitoring Report (No. 2)

Summary

MTSH had changed the financial year end from March to September, in accordance with the legislation enacted by the parliament. In association with this change, the company announced its FY2019 first half（Oct.2019-Mar.2020） financial statement.

The statement reports positive earnings thanks especially to the Thilawa Special Economic Zone development project, which is running smoothly. Sales grew by +114.9% in comparison with the previous year to 1,756 mil kyat, while gross profit margin grew by +53% to 753 mil kyat. On the other hand, operating profits fell by -8.6% to 4,974 mil kyat, while gross profits suffered a decline of -44.8% to 2,921 mil kyat. The major decline in gross profits was due to foreign exchange losses incurred when the value of the kyat rose against the dollar. Earnings per share were at 77 kyat, representing a major decline in comparison to the previous fiscal year.

As for the future outlook, in the short-term, a slowdown in sales is unavoidable due to the effects of stagnant economic activity associated with the spread of the COVID-19 virus, but in the long-term, considering the fact that demand remains strong on the part of corporations with an interest in moving into the Thilawa Special Economic Zone, the company's subsidiary, Thilawa Property Development Limited (TPD), which handles commercial and residential development, is expected to see growth in sales in the future. Meanwhile, stable dividends are expected in the future from Myanmar Japan Thilawa Development limited (MJTD). We therefore believe that a positive assessment can be given to the company's business activity.

1. FY 2019 First Half （Oct.2019-Mar.2020）Results

MTSH had changed the financial year end from March to September, in accordance with the legislation enacted by the parliament. In association with this change, the company announced its FY2019 first half（Oct.2019-Mar.2020） financial statement.

The statement reports positive earnings thanks especially to the Thilawa Special Economic Zone development project, which is running smoothly. Sales grew by +114.9% in comparison with the previous year to 1,756 mil kyat. Areas contributing to sales included sales and rental of commercial space and housing under development in the commercial and residential area of the Thilawa Special Economic Zone, and usage fees for facilities in the zone. Gross profit margin grew by +53% to 753 mil kyat. On the other hand, operating profits fell by -8.6% to 4,974 mil kyat. This is because dividends from Myanmar Japan Thilawa Development limited (MJTD), in which the company has ownership of 41%, declined from 6,043 mil kyat during the previous fiscal year to 5,414 mil kyat.

However, the decline in dividends from MJTD is not considered to be a matter of concern for the future, considering the fact that demand remains strong on the part of corporations with an interest in moving into the Thilawa Special Economic Zone. Gross profits suffered a decline of -44.8% to 2,921 mil kyat due to foreign exchange losses of 2,498 mil kyat incurred when the value of the kyat rose against the dollar. The foreign exchange loss occurred due to the fact that a portion of the company's assets were held in the form of dollar deposits. Considering the fact that Myanmar's economy is still vulnerable, it is unlikely that the kyat will be unilaterally high against the dollar in the future. It is also our opinion that continuing to hold a portion of assets in the form of dollar deposits is an appropriate choice. Earnings per share were at 77 kyat, representing a major decline in comparison to the previous fiscal year's 152 kyat.

Summary of Income statement

	Oct.2019-Mar.2020 (in million Kyat)	Oct.2018-Mar.2019 (in million Kyat)	change %
Revenue	1,756	817	114.9
Cost of Sales	(1,003)	(324)	209.6
Gross Profit	753	493	52.7
Selling & administrative expenses	(1,193)	(1,094)	9.0
Share of profit of associate	5,414	6,043	(10.4)
Operating profit	4,974	5,442	(8.6)
Income/expense from non-operating activities	(2,053)	(156)	1,216.0
Profit before tax	2,921	5,287	(44.8)
Tax Expense	(5)	527	―
Net Profit after Tax	2,916	5,813	(49.8)
Gross profit margin（%）	43	60	(28.3)
Earning per share（MMK）	77	152	(49.3)

Note: Amounts presented as comparative in income statement may not be entirely comparable because the comparative income statement for the six month period from Oct.2018-Mar.2019 represents the second half of preceding financial year （FY 2018-19） which contains year-end adjustments and audit adjustments.

Source: MTSH Annual Report; compiled by YSX.

2. Outlook for the future of MTSH earnings

MTSH's major source of earnings is dividend income from MJTD, which is handling the development of the Thilawa Special Economic Zone, as well as income from its subsidiary, Thilawa Property Development Limited (TPD), which handles commercial and residential development of the Thilawa Special Economic Zone. For this reason, MTSH's future earnings depend on how the development of the Thilawa Special Economic Zone is going, and how it progresses in the future. As of June 1, 2020, there was a total of 111 companies that had completed land lease reservation contracts in the Thilawa Special Economic Zone (including 5 from companies in the rental business).

Total investment associated with these contracts was 1.9 billion dollars – the pace of development is moving along more quickly than expected. The number of companies by national origin is as follows: Japan 55, Thailand 16, Korea 8, and Taiwan 7. Japan had the largest share of contracts. As for business orientation, approximately 60% of the companies are oriented toward the domestic market in Myanmar, while 40% are export oriented. A broad range of industries are represented, including construction materials, packaging & containers, food & beverages, apparel, electric, agriculture, automobiles, medical, and resin molding.

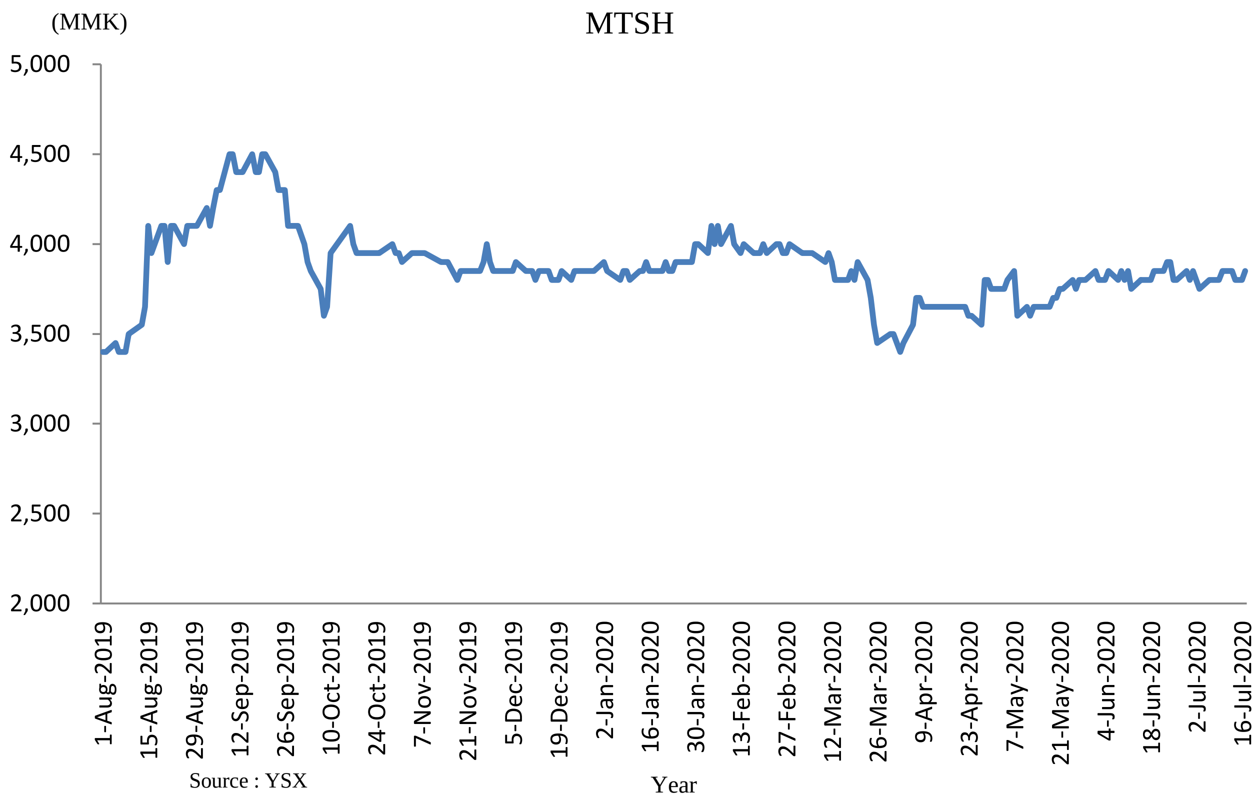
Company site preparation is advancing in order of zones. First Zone A (370 hectares) and then Zone B (262 hectares). These two zones are now near completion, and plans are to continue development of Zone C and Zone D in the future. Site preparation has been completed in just under 30% of the total area planned for development (2,400 hectares), so there is still plenty of room left for future development.

Especially notable regarding future development is active investment on the part of the automobile industry, including Toyota Motor Corporation in factory construction, and Suzuki Motor Industry in expansion of its production capacity. Since the automobile industry includes a broad range of related businesses, associated companies that do business with Toyota and Suzuki will likely follow and set up business in the Thilawa Special Economic Zone in the future.

Meanwhile, development of infrastructure in the areas surrounding the Thilawa Special Economic Zone (including improvement of port facilities, road work, bridge building, and installation of electricity, gas and water lines) is being carried out with ODA assistance. This is also important for MTSH. Improvements in infrastructure will make access to the Thilawa Special Economic Zone more convenient, and would encourage more companies to move in. Growth in the number of resident companies would of course also mean increased demand for office rentals, employee housing, banks, hotels, and shopping malls, etc. And this would benefit MTSH subsidiaries such as TPD, which is involved in the development of these kinds of facilities.

Once the turmoil associated with the COVID-19 pandemic subsides and economic activity heads toward recovery, corporations will begin moving into the Thilawa Special Economic Zone again, and work on infrastructure will recommence. Demand for commercial and residential space will also likely increase. Considering this situation, MTSH earnings, MJTD dividends, and TPD income are expected to maintain stable growth in the future.

3. Change Over Time in MTSH Stock Price



Source : YSX

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