

26 November 2019

IOI Properties Group Bhd

Within Expectations

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1QFY20 CNP of RM188.7m came in within expectations, representing 29% of our full-year forecast and 28% of consensus number. The better YoY performance was attributable to higher property development earnings and over-provision of expenses in the previous financial year. Reiterate OP with a slightly lower TP of RM1.55 (from RM1.65) as we switch to adjusted P/BV valuation method.

1QFY20 off to a steady start. 1QFY20 CNP came in at RM188.7m, which accounted for 29% of our FY20 forecast and 28% of consensus number. The better YoY performance was lifted by higher contributions from property development projects (particularly in China and Klang Valley), higher share of profit in JV mainly from Singapore and over-provision of expenses in the previous financial year. No dividend was declared in 1QFY20 as expected.

Result highlights. QoQ, the Group's CNP came in stronger, mainly attributable to higher property development contributions, as 4QFY19 performance was dragged by an impairment loss of RM42.8m in a JV project. Reported net profit of RM136.6m in 1QFY20 was broadly flat QoQ as 4QFY19 benefited from a fair value gain on investment properties amounting to RM93.4m.

Cautiously optimistic. IOIPG's strategy is to focus on the affordable housing segment and clearing inventory of unsold properties in Malaysia while the Group is also targeting to launch RM1.7b/RMB2.9b worth of projects in Xiamen, China (although the on-going US-China trade war may disrupt its short-term plan).

Keeping our earnings forecasts. We are maintaining our forward earnings as sequential quarterly earnings could be slightly softer arising from lower share of profit from JV projects in Singapore.

Reiterate OUTPERFORM with a lower TP of RM1.55 (from RM1.65 previously), as we switch to the more conservative P/BV valuation method (from RNAV). This represents a better gauge on the trough valuations of property stocks amid the prevailing market down-cycle. Our TP is derived from a P/BV of 0.47x (minus 0.5SD of its 3-year historical band) on an adjusted BV/share of RM3.25 (after imputing a 40% discount to its latest available inventory level of completed properties). While the property sector outlook remains challenging, we reckon the stock (down 25% YTD) has been oversold given its current depressed P/BV valuations.

Risks include: (i) weaker-than-expected property sales arising from a prolonged US-China trade war, (ii) margin compressions, (iii) changes in real estate policies/lending environments, and (iv) M&A/privatisation/cash-calls.

OUTPERFORM ↔

Price : RM1.15
Target Price : RM1.55 ↓

Share Price Performance



KLCI 1,591.35
YTD KLCI chg -5.9%
YTD stock price chg -25.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOIPG MK EQUITY
Market Cap (RM m)	6,332.1
Shares Outstanding	5,506.1
52-week range (H)	1.71
52-week range (L)	1.03
3-mth avg daily vol:	2,738,657
Free Float	19%
Beta	1.2

Major Shareholders

Vertical Capacity Sdn Bhd	62.9%
Employee Provident Fund Board	7.2%
Amanah Saham Bumiputera	4.5%

Summary Earnings Table

FYE Jun (RM m)	2019A	2020E	2021E
Turnover	2,198	2,228	2,286
EBIT	944	811	894
PBT	1,086	963	1,004
Net Profit (NP)	661	640	693
Core NP	660	640	693
Consensus (CNP)	N.A.	673.1	717.5
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	12.0	11.6	12.6
Core EPS growth (%)	(0.2)	(3.0)	8.2
NDPS (sen)	3.0	5.0	5.0
BV/Share (RM)	3.33	3.41	3.48
Core PER (x)	9.6	9.9	9.1
Price/BV (x)	0.35	0.34	0.33
Net Gearing (x)	0.51	0.56	0.58
Dividend Yield (%)	2.6	4.3	4.3

*CNP excludes Fair Value/Revaluation (FV) adjustments, one-off PPE write-off from property investment, unrealized FOREX gains/losses, share of impairment loss,

** Note that subsidiary sales figure does not include JCE project sales (e.g. South Beach, Sentosa Cove, PJ Midtown)



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OTHER POINTS

Result Highlights

FYE Jun (RM'm)	1Q20	4Q19	QoQ	1Q19	YoY	1Q20	1Q19	YoY
Turnover	540.3	497.8	9%	552.8	-2%	540.3	552.8	-2%
EBIT	243.1	165.6	47%	221.6	10%	243.1	221.6	10%
Interest inc/(exp)	15.8	14.4	10%	17.1	-8%	15.8	17.1	-8%
Associates/JV	48.8	(21.3)	n.m.	7.0	598%	48.8	7.0	598%
Exceptional items	0.0	93.4	-100%	0.0	-	0.0	0.0	-
Forex gain/(loss)	(52.1)	(24.2)	116%	(43.5)	20%	(52.1)	(43.5)	20%
Pretax profit	255.6	227.9	12%	202.2	26%	255.6	202.2	26%
Taxation	(119.1)	(88.4)	35%	(89.1)	34%	(119.1)	(89.1)	34%
Profit after tax	136.5	139.5	-2%	113.0	21%	136.5	113.0	21%
Minority interest	0.1	0.3	-67%	(1.1)	n.m.	0.1	(1.1)	n.m.
PATAMI	136.6	139.8	-2%	112.0	22%	136.6	112.0	22%
Core PATAMI	188.7	70.6	167%	155.5	21%	188.7	155.5	21%
DPS (sen)	0.0	3.0	-100%	0.0	-	0.0	0.0	-
EBIT margin	45.0%	33.3%		40.1%		45.0%	40.1%	
Pretax margin	47.3%	45.8%		36.6%		47.3%	36.6%	
EPS (sen)	2.5	2.5	-2%	2.0	22%	2.5	2.0	22%
Core EPS(sen)	3.4	1.3	167%	2.8	21%	3.4	2.8	21%
BV/share (RM)	3.40	3.42	-1%	3.32	2%	3.40	3.32	2%
Net gearing (x)	0.51	0.52		0.53		0.51	0.53	
Effective tax	46.6%	38.8%		44.1%		46.6%	44.1%	

Segmental Breakdown

FYE Jun (RM'm)	1Q20	4Q19	QoQ	1Q19	YoY	1Q20	1Q19	YoY
Revenue								
Property Development	398.9	356.6	12%	415.6	-4%	398.9	415.6	-4%
Property Investment	90.3	90.0	0%	85.0	6%	90.3	85.0	6%
Hospitality & Leisure	50.1	48.8	3%	49.3	2%	50.1	49.3	2%
Other Operations	1.0	2.4	-60%	2.9	-67%	1.0	2.9	-67%
Total	540.3	497.8	9%	552.8	-2%	540.3	552.8	-2%
Operating Profit (bef EI, FX, Assoc/JV)								
Property Development	181.6	107.4	69%	162.9	11%	181.6	162.9	11%
Property Investment	55.0	53.1	4%	50.1	10%	55.0	50.1	10%
Hospitality & Leisure	6.2	3.4	84%	6.6	-5%	6.2	6.6	-5%
Other Operations	0.3	1.7	-85%	2.0	-87%	0.3	2.0	-87%
Total	243.1	165.6	47%	221.6	10%	243.1	221.6	10%
Op Margin (bef EI, FX, Assoc/JV)								
Property Development	45.5%	30.1%		39.2%		45.5%	39.2%	
Property Investment	60.9%	58.9%		58.9%		60.9%	58.9%	
Hospitality & Leisure	12.5%	7.0%		13.3%		12.5%	13.3%	
Other Operations	26.9%	70.6%		69.0%		26.9%	69.0%	
Total	45.0%	33.3%		40.1%		45.0%	40.1%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.10	401.6	Y	12/2019	-34.7%	1.3%	-83.6%	30.5%	16.8	102.5	78.5	0.6	0.6	0.5%	0.0%	0.890	UP	
ECO WORLD DEVELOPMENT GROUP	0.645	1,899.1	Y	10/2019	-1.7%	-16.9%	3.6%	21.5%	11.5	10.9	9.1	0.5	0.5	4.6%	1.4%	0.750	OP	
HUA YANG BHD	0.335	117.9	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	14.4	16.3	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.15	6,332.1	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	9.6	9.9	9.1	0.3	0.3	3.5%	4.3%	1.55	OP	
LBS BINA GROUP BHD	0.495	766.1	Y	12/2019	34.1%	1.5%	-18.1%	10.6%	9.1	11.7	10.7	0.5	0.5	5.1%	2.7%	0.520	MP	
MAGNA PRIMA BHD	0.880	292.7	Y	12/2019	-19.6%	13.0%	-162.4%	-105.9%	N.A.	N.A.	N.A.	0.8	0.9	-5.2%	0.0%	0.695	UP	
MAH SING GROUP BHD	0.720	1,747.9	Y	12/2019	-0.1%	10.3%	-16.4%	14.1%	10.6	12.6	11.2	0.5	0.5	4.5%	5.6%	1.00	OP	
MALAYSIAN RESOURCES CORP BHD	0.750	3,309.0	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	43.6	931.9	32.2	0.7	0.7	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.765	5,202.6	Y	12/2019	127.9%	3.9%	7861.6%	-2.3%	744.3	9.3	9.6	0.6	0.5	5.9%	4.3%	1.10	OP	
SP SETIA BHD	1.25	5,053.1	Y	12/2019	5.5%	24.3%	15.6%	57.6%	24.2	20.9	13.3	0.4	0.4	1.7%	3.4%	1.80	OP	
SUNSURIA BHD	0.655	586.8	Y	09/2019	-2.7%	7.3%	-4.0%	4.8%	4.4	4.6	4.4	0.6	0.6	14.5%	0.0%	0.760	MP	
SUNWAY BHD	1.77	8,687.9	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	14.8	16.1	14.6	1.0	1.0	6.3%	3.3%	1.60	MP	
UEM SUNRISE BHD	0.740	3,357.7	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	10.3	9.7	11.9	0.5	0.5	4.8%	2.1%	0.835	OP	
UOA DEVELOPMENT BHD	1.93	3,794.4	Y	12/2019	0.6%	-0.4%	4.4%	0.8%	10.7	10.2	10.1	0.8	0.7	7.4%	7.3%	2.15	MP	
Simple Average					6.4%	8.1%	546.3%	200.8%	75.8	89.6	17.8	0.6	0.6	4.0%	2.4%			
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.365	284.2	Y	04/2020	12.9%	38.7%	12.4%	96.4%	19.3	17.2	8.7	0.3	N.A.	1.6%	2.5%	0.375	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.92	1,579.8	Y	03/2020	4.4%	18.2%	6.1%	8.5%	7.2	6.8	6.3	1.1	1.0	16.1%	6.8%	2.28	BUY	
PARAMOUNT CORP BHD	1.32	800.8	Y	12/2019	N.A.	N.A.	N.A.	N.A.	8.7	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.760	329.4	Y	12/2019	-11.1%	3.8%	-21.2%	-0.1%	5.9	7.5	7.6	0.5	0.5	6.7%	5.9%	0.780	N.A	
TITIJAYA LAND BHD	0.295	372.6	Y	06/2020	8.4%	20.9%	28.3%	21.5%	11.2	8.7	7.2	0.4	0.3	2.9%	42.7%	0.280	N.A	
YONG TAI BHD	0.200	143.8	Y	06/2020	132.7%	8.3%	-3768.9%	-134.2%	N.A.	N.A.	N.A.	0.3	0.3	-1.9%	0.0%	0.230	N.A	

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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