

26 February 2020

IOI Properties Group Bhd

Earnings On Track

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1HFY20 CNP of RM363.2m (+1% YoY) came within expectations, representing 56%/54% of our/consensus full-year expectations. The slight drop in property development contribution in the first-half was offset by better performance by the property investment and hotel & leisure divisions. Reaffirm OUTPERFORM call with a slightly lower target price of RM1.45 (from RM1.55) based on adjusted P/BV multiple of 0.44x.

1HFY20 on track. 1HFY20 CNP came in at RM363.2m, which represented 56% of our full-year estimate and 54% of consensus expectation. At the operating profit level (before forex, interest and associate/JV), the lower earnings from property development (-5%) was offset by higher contributions from property investment (+3%) and hotel & leisure (+69%). No dividend was declared in 2QFY20, as expected.

Result highlights. 2QFY20 CNP of RM174.4m was down 8% QoQ and 14% YoY, dragged by lower property earnings (which posted operating profit before forex, interest and associate/JV of RM172.0m (-23% QoQ/-32% YoY), as China contribution came in weaker during the quarter. This was mitigated by higher contribution of RM13.1m from hotel & leisure (+145% QoQ/+121% YoY).

3QFY20 may be slightly weak. Essentially, IOIPG's operation in China could be affected by the ongoing Covid-19 outbreak, which is expected to lead to deferment of property launches and construction progress. To cushion this impact, the Group intends to focus on aggressive marketing and promotion initiatives on the affordable homes segment in Malaysia.

Earnings forecasts intact. We are keeping our forward earnings as sequential quarterly earnings could come in marginally weaker due to the slower momentum in China.

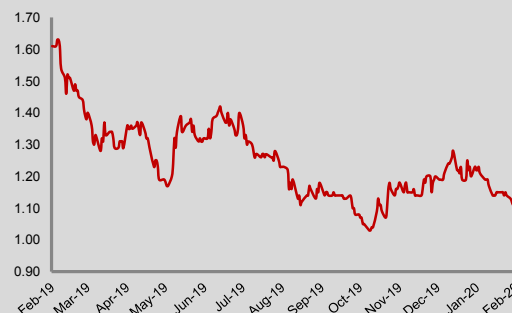
Still an OUTPERFORM with a slightly lower TP of RM1.45 (from RM1.55 previously). This is derived from a P/BV multiple of 0.44x (minus 0.5SD below its 3-year historical band) on an adjusted BV/share of RM3.28 (after imputing a 40% discount to its latest available inventory level of completed properties). While the property sector outlook remains challenging, we believe the stock is oversold, currently trading at depressed P/BV valuations.

Risks include: (i) weaker-than-expected property sales arising from a prolonged US-China trade war and Covid-19 pandemic, (ii) margin compressions, (iii) changes in real estate policies/lending environments, and (iv) M&A/privatisation/cash-calls.

OUTPERFORM ↔

Price : **RM1.07**
Target Price : **RM1.45** ↓

Share Price Performance



KLCI 1,500.88
YTD KLCI chg -5.5%
YTD stock price chg -13.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOIPG MK EQUITY
Market Cap (RM m)	5,891.6
Shares Outstanding	5,506.1
52-week range (H)	1.65
52-week range (L)	1.03
3-mth avg daily vol:	1,989,660
Free Float	19%
Beta	1.2

Major Shareholders

Vertical Capacity Sdn Bhd	63.0%
Employee Provident Fund Board	7.5%
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.	668	710
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)	8.9	9.2	8.5
Price/BV (x)	0.32	0.31	0.31
Net Gearing (x)	0.51	0.56	0.58
Dividend Yield (%)	2.8	4.7	4.7

*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)	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
Turnover	564.1	540.3	4%	659.2	-14%	1,104.4	1,212.0	-9%
EBIT	219.5	243.1	-10%	286.9	-24%	462.6	508.5	-9%
Interest inc/(exp)	11.8	15.8	-25%	17.7	-33%	27.7	34.8	-21%
Associates/JV	29.7	48.8	-39%	38.6	-23%	78.5	45.6	72%
Forex gain/(loss)	25.4	(52.1)	n.m.	11.9	113%	(26.8)	(31.7)	-15%
Pretax profit	286.3	255.6	12%	355.0	-19%	542.0	557.2	-3%
Taxation	(85.4)	(119.1)	-28%	(140.4)	-39%	(204.6)	(229.5)	-11%
Profit after tax	200.9	136.5	47%	214.6	-6%	337.4	327.6	3%
Minority interest	(1.1)	0.1	n.m.	0.3	n.m.	(1.0)	(0.8)	n.m.
PATAMI	199.7	136.6	46%	214.9	-7%	336.4	326.8	3%
Core PATAMI	174.4	188.7	-8%	203.0	-14%	363.2	358.5	1%
DPS (sen)	0.0	0.0	-	0.0	-	0.0	0.0	-
EBIT margin	38.9%	45.0%		43.5%		41.9%	42.0%	
Pretax margin	50.8%	47.3%		53.9%		49.1%	46.0%	
EPS (sen)	3.6	2.5		3.9		6.1	5.9	
Core EPS(sen)	3.2	3.4		3.7		6.6	6.5	
Effective tax	29.8%	46.6%		39.6%		37.7%	41.2%	

Segmental Breakdown

FYE Jun (RM'm)	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
Revenue								
Property Development	410.9	398.9	3%	512.2	-20%	809.8	927.8	-13%
Property Investment	95.3	90.3	6%	91.3	4%	185.6	176.3	5%
Hospitality & Leisure	54.7	50.1	9%	53.1	3%	104.8	102.4	2%
Other Operations	3.3	1.0	245%	2.6	29%	4.3	5.5	-22%
Total	564.1	540.3	4%	659.2	-14%	1,104.4	1,212.0	-9%
Operating Profit (bef EI, FX, Assoc/JV)								
Property Development	172.0	222.6	-23%	254.6	-32%	394.6	416.9	-5%
Property Investment	62.7	63.8	-2%	63.0	-1%	126.4	122.2	3%
Hospitality & Leisure	13.1	5.4	145%	5.9	121%	18.5	10.9	69%
Other Operations	1.3	0.3	397%	1.9	-33%	1.5	3.9	-61%
Total	249.1	291.9	-15%	325.5	-23%	541.1	554.0	-2%
Op Margin (bef EI, FX, Assoc/JV)								
Property Development	41.9%	55.8%		49.7%		48.7%	44.9%	
Property Investment	65.8%	70.6%		69.0%		68.1%	69.3%	
Hospitality & Leisure	24.0%	10.7%		11.2%		17.6%	10.7%	
Other Operations	38.7%	26.9%		73.8%		36.1%	71.3%	
Total	44.2%	54.0%		49.4%		49.0%	45.7%	

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	1.20	438.1	Y	12/2019	-34.7%	1.3%	-83.6%	30.5%	18.3	111.8	85.7	0.6	0.6	0.5%	0.0%	0.890	UP	
ECO WORLD DEVELOPMENT GROUP	0.640	1,884.4	Y	10/2020	-19.2%	25.6%	8.0%	7.8%	9.4	8.6	8.0	0.4	0.4	4.8%	1.7%	0.750	MP	
IOI PROPERTIES GROUP BHD	1.07	5,891.6	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	8.9	9.2	8.5	0.3	0.3	3.5%	4.7%	1.45	OP	
LBS BINA GROUP BHD	0.475	727.1	Y	12/2019	34.1%	1.5%	-18.1%	10.6%	8.7	10.6	9.6	0.5	0.5	5.1%	2.2%	0.520	MP	
MAGNA PRIMA BHD	0.755	251.1	Y	12/2020	7.7%	8.4%	-136.3%	-115.2%	N.A.	N.A.	N.A.	0.5	0.5	-4.3%	0.0%	0.545	UP	
MAH SING GROUP BHD	0.650	1,578.0	Y	12/2019	-17.5%	6.5%	-36.9%	7.0%	9.6	15.2	14.2	0.5	0.4	3.4%	6.2%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.655	2,889.9	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	38.1	813.9	28.2	0.6	0.6	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.765	5,202.6	Y	12/2019	129.2%	11.0%	9700.0%	-4.4%	765.0	7.6	8.0	0.6	0.5	7.3%	5.2%	1.00	OP	
SP SETIA BHD	1.28	5,174.4	Y	12/2019	5.5%	24.3%	15.6%	57.6%	24.8	21.4	13.6	0.4	0.4	1.7%	3.3%	1.80	OP	
SUNSURIA BHD	0.595	533.1	Y	09/2020	-2.7%	7.3%	-4.0%	4.8%	4.2	4.0	3.8	0.6	0.5	14.5%	0.0%	0.575	N.R	
SUNWAY BHD	1.78	8,726.8	Y	12/2019	11.5%	8.8%	0.8%	9.3%	13.5	13.6	12.5	1.0	0.9	6.6%	3.7%	1.75	MP	
UEM SUNRISE BHD	0.635	2,881.3	Y	12/2020	-17.5%	-0.9%	-9.3%	-13.8%	9.2	10.2	11.8	0.4	0.4	3.9%	1.6%	0.720	OP	
UOA DEVELOPMENT BHD	1.91	3,755.1	Y	12/2019	-0.5%	-6.4%	9.2%	-8.7%	10.6	9.7	10.6	0.8	0.7	7.7%	7.3%	2.15	OP	
Simple Average					3.2%	12.6%	718.3%	214.3%	76.8	86.6	18.1	0.6	0.5	4.3%	2.7%			
*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	0.350	272.1	Y	04/2020	11.9%	40.2%	22.6%	85.9%	18.5	15.1	8.1	0.2	N.A.	1.7%	2.6%	0.385	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.91	1,571.6	Y	03/2020	7.3%	9.1%	5.8%	4.8%	7.2	6.8	6.5	1.0	1.0	15.9%	6.4%	2.28	BUY	
PARAMOUNT CORP BHD	1.34	813.0	Y	12/2019	N.A.	N.A.	N.A.	N.A.	8.9	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.665	288.2	Y	12/2019	-11.3%	4.0%	-21.7%	-1.0%	5.2	6.6	6.7	0.5	0.5	6.6%	6.0%	0.840	N.A	
TITIJAYA LAND BHD	0.280	354.6	Y	06/2020	-21.3%	8.5%	-35.0%	15.7%	10.6	16.4	14.2	0.3	0.3	1.7%	45.0%	0.305	N.A	
YONG TAI BHD	0.105	99.8	Y	06/2020	128.4%	8.6%	-3718.7%	-130.6%	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.183	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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