

25 September 2020

Eco World Dev. Group

9MFY20 Above Expectations

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9MFY20 CNP of RM134.1m came in above our (85%) and consensus (94%) expectations on stronger-than-expected margins. YTD, ECOWLD sales of RM1.58b for 10-month period is within (79% of FY20 estimate), while EWINT (27%-owned associate) sales of RM1.09b* is deemed broadly within forecast with sales expected to pick up in the 4Q. No dividends, as expected. All in, we increase FY20-21E CNP by 41-30% on better margins from cost control efforts and product mix. Upgrade to OP (from MP) on a higher TP of RM0.490 (based on PBV of 0.34x) from RM0.440.

9MFY20 CNP of RM134.1m came in above our and consensus expectations at 85% and 94%, respectively. Top-line came in within our expectation at 75%, but the earnings deviation from estimates were due to slightly higher-than-expected CNP margin of 9.9% (vs. our expectation of 8.7%) due to better-than-expected product mix and pricing power. For the year, the Group has achieved sales of RM1.58b as at Aug-2020 (10-month period) making up 79% of FY20 target of RM2.0b which is within expectation. EWINT (27% associate) recorded RM1.09b* sales (49% of FY20E sales target for RM2.2b) which is deemed broadly within expectation given expected stronger momentum in the coming months with a potential BtR sale to be concluded by year-end. No dividends, as expected.

Results' highlights. YoY-Ytd, top-line was down by 13% due to the multiple MCO phases that continued to impact the Group's operations in 3QFY20. However, CNP was up by 10% post accounting for one-off write-down of inventories of RM65m. QoQ, top-line was up by 38% on increased work progress in 3QFY20 vs. 2QFY20 as the MCO began to ease. As a result, CNP was up by 270% on similar reasons mentioned above as well as increased associate and JV contributions. Meanwhile, net gearing stood at 0.64x as of end-July 2020.

Outlook. FY20 sales target of RM4.2b is maintained and is in line with management's target, while FY21 sales target is RM6.0b. Details of maiden dividends for FY20 have yet to be decided pending more clarity on the Covid-19 situation. There were delays for resumption of physical work and construction in local sites, which only fully resumed in mid-June 2020. We have accounted for this in our estimates previously, expecting a gradual resumption of work progress.

Increase FY20-21E CNP by 41-30% to RM221-240m. We increase CNP estimates post increasing FY20-21E CNP margins to 12.2-13.0% (from 8.7-10.0%) vs. current level of 9.9% on expectations of better product mix as well as cost control efforts going forward. Unbilled sales of RM4.4b provide over two years' visibility.

Upgrade to OUTPERFORM (from MP) and increase TP to RM0.490 (from RM0.440) post increasing the PBV valuation to 0.34x (-1.5SD) from 0.29x (-2.0SD) on an adjusted BV/share of RM1.46 after imputing a 40% discount to its latest available inventory level of completed properties, in view of the prevailing market down-cycle and the pre-existing challenging property climate. We increase our valuations on expectations of better margins in coming quarters as the Group continues to focus on cost control efforts and assuming there are no further hiccups in work progress. We think an improving economy in the coming months should also be positive for sales momentum.

Risks to our call include: (i) weaker-than-expected property sales, and (ii) higher-than-expected overheads/finance.

OUTPERFORM ↑

Price : **RM0.405**
Target Price : **RM0.490** ↑

Share Price Performance



KLCI	1,500.80
YTD KLCI chg	-5.5%
YTD stock price chg	-45.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ECW MK EQUITY
Market Cap (RM m)	1,192.5
Shares Outstanding	2,944.4
52-week range (H)	0.83
52-week range (L)	0.30
3-mth avg daily vol:	6,738,575
Free Float	21%
Beta	1.7

Major Shareholders

SinarMas Harta Sdn Bhd	32.9%
Sin Liew Kee	9.4%
Eco World Development	8.9%

Summary Earnings Table

FYE Oct (RM m)	2019A	2020E	2021E
Turnover	2,462	1,807	1,844
EBIT	223	301	306
PBT	266	299	315
Net Profit (NP)	203	221	240
Core NP	201	221	240
Consensus (CNP)	n.a.	143	175
Earnings Revision	n.a.	+41%	+30%
Core EPS (sen)	6.8	7.5	8.1
Core EPS growth (%)	21	10%	8%
NDPS (sen)	0.0	1.1	1.2
BVPS (RM)	1.50	1.63	1.70
Core PER (x)	5.9	5.4	5.0
Price/BV (x)	0.3	0.2	0.2
Net Gearing (x)	0.72	0.67	0.69
Dividend Yield (%)	0.0	2.8	3.0

25 September 2020

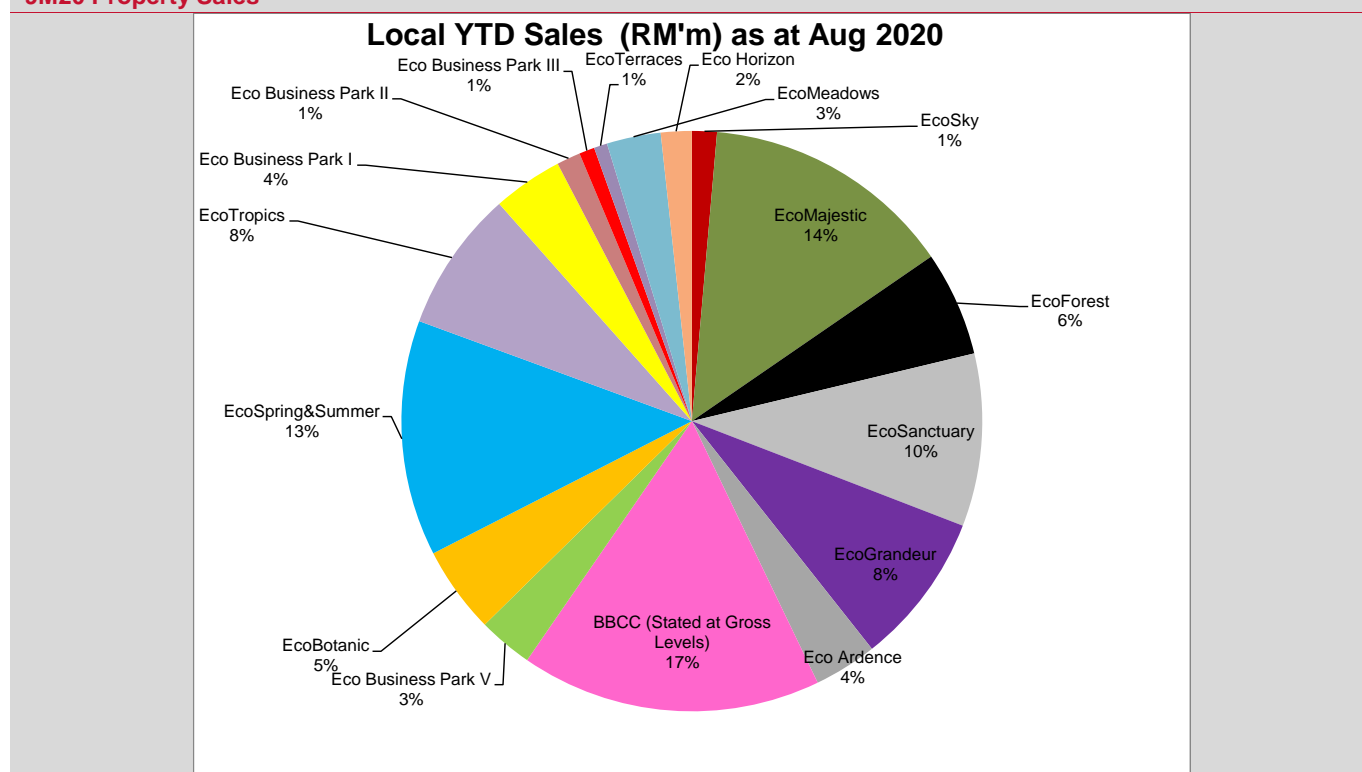
OTHER POINTS

*Before accounting for ECOWLD's effective stake of 27% in EWINT

Results Highlights								
FYE: Oct (RM m)	3Q20	2Q20	QoQ	3Q19	YoY	9MFY19	9MFY20	Ytd-YoY
Revenue	477.9	345.4	38%	521.4	-8%	1555.8	1361.2	-13%
Op costs w/o depn/amort	-466.1	-315.9	48%	-474.4	-2%	-1410.9	-1287.0	-9%
Other Op Income	15.5	14.9	4%	13.4	15%	40.0	44.5	11%
EBITDA	27.3	44.4	-39%	60.4	-55%	184.9	118.7	-36%
EBIT	21.3	38.6	-45%	52.1	-59%	160.3	100.8	-37%
Finance Cost	-24.0	-24.5	-2%	-24.5	-2%	-74.8	-75.0	0%
Associate + JV	27.1	16.3	66%	37.8	-28%	76.0	69.2	-9%
FV/one-offs	0.0	0.0	n.a.	0.0	n.a.	0.0	0.2	n.a.
Pretax profit	24.4	30.4	-20%	65.3	-63%	161.5	95.2	-41%
Taxation	-10.5	-9.0	18%	-14.9	-29%	-39.6	-26.4	-33%
Minority Interests	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net profit	13.8	21.4	-35%	50.5	-73%	122.0	68.9	-44%
Core net profit	79.2	21.4	270%	50.5	57%	122.0	134.1	10%
EPS (sen)	2.69	0.73	270%	1.71	57%	4.14	4.56	10%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
NTA/share (RM)	1.57	1.56		1.50		1.50	1.57	
Net gearing/(cash) (x)	0.64	0.68		0.75		0.75	0.64	
EBITDA margin	5.7%	12.9%		11.6%		11.9%	8.7%	
EBIT Margin	4.5%	11.2%		10.0%		10.3%	7.4%	
Pretax margin	5.1%	8.8%		12.5%		10.4%	7.0%	

Source: Company, Kenanga Research

9M20 Property Sales



Source: Company, Kenanga Research

25 September 2020

Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				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.			
PROPERTY DEVELOPERS UNDER COVERAGE																		
ECO WORLD DEVELOPMENT GROUP	0.405	1,192.5	Y	10/2020	-26.6%	2.1%	10.0%	8.4%	5.9	5.4	5.0	0.3	0.2	4.8%	2.8%	0.490	OP	
IOI PROPERTIES GROUP BHD	0.900	4,955.5	Y	06/2021	-2.2%	-1.6%	10.3%	1.2%	8.0	7.3	7.1	0.3	0.3	3.7%	3.3%	1.29	OP	
LBS BINA GROUP BHD	0.390	626.8	Y	12/2020	-43.3%	22.6%	-44.1%	81.6%	9.1	15.6	8.9	0.4	0.4	2.8%	1.8%	0.330	UP	
MAGNA PRIMA BHD	0.750	249.5	Y	12/2020	-13.0%	33.9%	-186.3%	-178.9%	N.A.	N.A.	N.A.	0.5	0.5	-5.2%	0.0%	0.520	N.R	
MAH SING GROUP BHD	0.685	1,663.0	Y	12/2020	-21.5%	41.9%	-45.9%	89.8%	15.2	28.5	14.9	0.5	0.5	1.7%	4.4%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.480	2,117.8	Y	12/2020	-19.8%	36.0%	58.1%	110.2%	N.A.	43.6	20.9	0.4	0.4	1.0%	0.4%	0.750	OP	
SIME DARBY PROPERTY BHD	0.565	3,842.5	Y	12/2019	-49.3%	6.6%	-52.4%	27.2%	5.4	11.4	9.0	0.4	0.4	3.5%	2.7%	0.700	OP	
SP SETIA BHD	0.740	3,002.0	Y	12/2020	-41.6%	68.4%	-67.2%	361.9%	11.7	35.2	7.7	0.2	0.2	0.6%	0.8%	0.680	UP	
SUNWAY BHD	1.38	6,763.9	Y	12/2020	-14.9%	32.5%	-34.1%	43.5%	10.6	16.1	11.2	0.7	0.7	4.4%	3.1%	1.68	OP	
UEM SUNRISE BHD	0.375	1,701.5	Y	12/2020	-47.6%	19.9%	-83.1%	104.8%	5.5	6.0	7.0	0.2	0.2	0.8%	0.0%	0.555	OP	
UOA DEVELOPMENT BHD	1.58	3,355.6	Y	12/2020	6.6%	15.7%	-9.0%	13.3%	8.5	8.8	7.7	0.6	0.6	7.0%	8.9%	1.82	OP	
Simple Average					-24.9%	25.3%	-40.4%	60.3%	8.9	17.8	9.9	0.4	0.4	2.3%	2.6%			

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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