

25 June 2021

Eco World Dev. Group

Upgrade on Stronger Rebound Outlook

By Lum Joe Shen | lumjs@kenanga.com.my

1HFY21 CNP of RM105m is deemed below expectations due to our overly bullish estimate for EWINT as well as the FMCO imposed which would impact progress billing in 3QFY21. That said, ECOWLD's 7MFY21 sales of RM2.53b outperformed our RM2.875b target. Despite cutting FY21E/FY22E earnings by 26%/14%, we upgrade ECOWLD to **OUTPERFORM** with a higher TP of RM0.85 on strong recovery prospects coupled with its ability to adapt in this challenging market to drive sales and earnings.

Below expectations. 2QFY21 CNP of RM42.3m brought 1HFY21 CNP to RM105m, accounting for 43%/48% of our consensus full-year estimates. This is deemed below forecast as we foresee the FMCO to impact progress billings in the upcoming quarter (from May – July). In addition to that, we may have been overly optimistic on our EWINT estimates earlier as well. The 2.0 sen interim dividend declared was a positive surprise against our 2.1 sen estimate as we had only expected a final dividend in 4QFY21.

ECOWLD's sales outperformed. In the three months from March-May 21, ECOWLD racked up sales of RM1.62b, bringing 7MFY21 total to RM2.53b – almost hitting our/management's full-year target of RM2.875b at 88%. This strong performance is attributable to their attractively priced and appealing products being targeted to the M40 segment. We believe another key reason their sales outperforming other developers during this period is due to their robust online sales infrastructure which they have built - enabling them reach out to potential customers and convert sales virtually during this pandemic period. Consequent to the strong local sales, we upgrade our FY21 sales target to RM3.2b.

Meanwhile, EWINT's 7MFY21 sales of RM753m* lag behind our/management's target of RM2.2b as UK borders are only opened to specific "green list" countries and no BtR projects (which are typically lumpy) were concluded. In the absence of foreign sales contributions for EWINT in the near term, we trim our FY21 sales target for EWINT to RM1.5b.

Highlights. 2QFY21 CNP of RM42.3m came off 32% **QoQ** due to: (i) lower revenue of 17% as 1QFY21 had higher sales of completed products which were immediately recognisable in P&L, (ii) lower GP margins (-2ppt) as further discounts were offered for completed/near completion inventories, and (iii) lower contribution from 27% EWINT JV as there were lower number of unit handovers for "Yarra One" project in Australia. **YoY**, 1HFY21 CNP of RM105m increased 81% mainly because 1HFY20 was affected by MCO 1.0.

Cut FY21E/FY22E CNP by 26%/14% to RM181m/RM223m after factoring (i) FMCO, and (ii) lower contributions from EWINT. Unbilled sales of RM4.2b provide c.2 years' visibility.

Despite the results underperformance, we choose to **upgrade ECOWLD to OP (from MP) with a higher TP of RM0.85** (from RM0.66) after rolling valuation base year forward on higher PBV of 0.51x (pegged at -0.5SD below 5-year mean) from 0.4x (at -1.0SD). **Our rationale for such upgrade** is premised on its ability to adapt and drive sales amidst the weak climate. In addition, their existing townships have matured and are highly appealing to its target market – allowing for easier sales with less marketing moving forward in our view. ECOWLD has also exhibited financial discipline in which net gearing has consecutively fallen QoQ since 1QFY19 from 0.79x to 0.55x as of 2QFY21. In line with this, dividend visibility is also clearer. All in all, with a leaner cost structure coming out from the pandemic, we believe earnings would rebound the fastest compared to peers – this explains our -0.5SD PBV ascribed to ECOWLD – the highest in our coverage where the rest ranges from -2.0SD to -1.0SD.

OUTPERFORM ↑

Price : **RM0.660**
Target Price : **RM0.850** ↑

Share Price Performance



KLCI 1,555.71
YTD KLCI chg -4.4%
YTD stock price chg 34.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ECW MK EQUITY
Market Cap (RM m)	1,943.3
Shares Outstanding	2,944.4
52-week range (H)	0.76
52-week range (L)	0.36
3-mth avg daily vol:	7,540,178
Free Float	27%
Beta	1.5

Major Shareholders

Sinarmas Harta Sdn Bhd	32.9%
Sin Liew Kee	9.4%
Eco World Development	8.1%

Summary Earnings Table

FYE Oct (RM m)	2020A	2021E	2022E
Turnover	1996.7	1846.8	2393.6
EBIT	277.0	358.0	393.9
PBT	172.9	238.0	293.9
Net Profit (NP)	138.2	180.8	223.3
Core NP	243.0	180.8	223.3
Consensus (CNP)	n.a.	217	220
Earnings Revision	n.a.	-26%	-14%
Core EPS (sen)	8.25	6.14	7.59
Core EPS growth (%)	21%	-25.6%	23.5%
NDPS (sen)	2.0	3.0	3.0
BVPS (RM)	1.59	1.62	1.67
Core PER (x)	8.0	10.7	8.7
Price/BV (x)	0.42	0.41	0.40
Net Gearing (x)	0.62	0.54	0.52
Dividend Yield (%)	3.0	4.5	4.5

25 June 2021

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

OTHER POINTS

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

Results Highlights								
FYE Oct (RM m)	2Q21	1Q21	QoQ	2Q20	YoY	1H21	1H20	YoY
Revenue	420.5	507.4	-17%	345.4	22%	927.8	883.3	5%
COGS	-344.9	-406.3	-15%	-276.7	25%	-751.2	-709.0	6%
GP	75.5	101.0	-25%	68.7	10%	176.6	174.3	1%
Other income	13.0	14.2	-9%	14.9	-13%	27.2	30.2	-10%
Selling and marketing	-9.1	-8.4	8%	-6.2	47%	-17.6	-15.0	17%
Admin	-38.3	-47.7	-20%	-38.8	-1%	-86.0	-95.4	-10%
OP	41.1	59.1	-30%	38.6	7%	100.2	94.0	7%
JV - Malaysia	38.6	19.7	96%	12.2	217%	58.3	34.7	68%
JV - International	9.5	21.9	-56%	4.5	111%	31.4	8.0	292%
Associate	-0.1	-0.4	-68%	-0.4	-65%	-0.6	-0.6	4%
EBIT	89.1	100.2	-11%	54.8	62%	189.3	136.1	39%
Finance costs	-31.9	-27.1	18%	-24.5	30%	-59.0	-61.5	-4%
PBT	57.2	73.1	-22%	30.4	88%	130.3	74.6	75%
Taxation	-14.9	-10.7	39%	-9.0	66%	-25.5	-16.7	53%
PAT	42.3	62.4	-32%	21.4	98%	104.8	57.9	81%
MI	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
PATAMI	42.3	62.4	-32%	21.4	98%	104.8	57.9	81%
Exceptional	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
CNP	42.3	62.4	-32%	21.4	98%	104.8	57.9	81%
DPS (sen)	2.0	0.0	n.a.	0.0	n.a.	2.0	0.0	n.a.
Net Gearing	0.55	0.55		0.68		0.55	0.68	
GP margin	18%	20%		20%		19%	20%	
OP margin	10%	12%		11%		11%	11%	
EBIT margin	21%	20%		16%		20%	15%	
Pretax margin	14%	14%		9%		14%	8%	
PAT margins	10%	12%		6%		11%	7%	
CNP margin	10%	12%		6%		11%	7%	
Effective tax	-26%	-15%		-30%		-20%	-22%	

Source: Company, Kenanga Research

This section is intentionally left blank.

25 June 2021

Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>STOCKS UNDER COVERAGE</u>														
ECO WORLD DEVELOPMENT GROUP	0.660	1,943.3	Y	10/2021	8.3	8.3	7.3	0.4	0.4	3.7%	3.2%	0.850	OP	
IOI PROPERTIES GROUP BHD	1.27	6,992.8	Y	06/2021	11.3	10.2	10.1	0.4	0.4	3.7%	2.4%	1.32	MP	
MAH SING GROUP BHD	0.865	2,100.0	Y	12/2021	61.8	13.1	9.8	0.6	0.6	5.3%	3.5%	1.05	OP	
MALAYSIAN RESOURCES CORP BHD	0.430	1,921.0	Y	12/2021	N.A.	33.1	28.7	0.4	0.4	0.2%	2.3%	0.650	OP	
SIME DARBY PROPERTY BHD	0.615	4,182.5	Y	12/2021	N.A.	14.6	10.6	0.5	0.4	3.0%	2.1%	0.610	MP	
SP SETIA BHD	1.07	4,340.7	Y	12/2021	87.7	17.7	8.5	0.4	0.4	1.8%	3.6%	1.19	OP	
SUNWAY BHD	1.73	8,457.8	Y	12/2021	28.4	50.1	25.4	0.9	0.9	2.1%	0.8%	1.95	MP	
UEM SUNRISE BHD	0.410	2,074.0	Y	12/2021	N.A.	54.7	34.3	0.3	0.3	0.5%	0.0%	0.400	UP	
UOA DEVELOPMENT BHD	1.69	3,589.2	Y	12/2021	11.3	12.1	11.3	0.7	0.7	3.2%	7.7%	1.76	MP	
Simple Average					34.8	23.8	16.2	0.5	0.5	2.6%	2.8%			

Source: Kenanga Research

25 June 2021

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

