

17 June 2022

Eco World Dev. Group

1HFY22 Within expectations

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1HFY22 CNP of RM109m and a 2.0 sen came within expectations. 7MFY22 sales of RM2.17b is also considered inline as rising interest rates is likely to slow sales momentum for the rest of the year. With share price coming off 30% since April, ECOWLD's current dividend yield of 5.9% has turned appealing against peers' average of 3.5%. Moreover, we foresee the company withstanding industry headwinds and defend its margins better against peers with its landed products and nimble cost structure. Hence, we turn positive and upgrade to OP (from MP) with marginally reduced TP of RM0.83 after switching our primary valuations to 60% discount to RNAV (from PBV).

Within expectations. 2QFY22 CNP of RM45.7m led 1HFY21 CNP to RM109m - within our/consensus expectations at 46%/47% of full-year estimates. A 2.0 sen interim dividend was also in line with our 4.0 sen estimate. We expect the remaining 2.0 sen dividend to be announced in 4Q quarterly announcement.

Sales also within. In the 3 months from March-May 22, ECOWLD raked in sales of RM0.894b which led 7MFY22 sales to RM2.17b. This is broadly within our RM3.3b target (at 66%) as we anticipate sales momentum for the rest of the year to be weaker on – rising interest rates and lower new launches. Company reiterate their sales target of RM3.5b. Meanwhile, EWINT's (ECOWLD's 27% JV) 7MFY22 sales of RM1.142b is within ours/company's target of RM2.0b. As of May-22, unbilled sales stood at RM3.93b.

Highlights. 2QFY22 CNP of RM45.7m came off 28% QoQ mainly due to higher share of losses (+8.9x) at its EWINT JV. EWINT took an impairment during the quarter as they lower selling prices for some on their Central London products (at EW-Ballymore).

YoY, 1HFY22 CNP of RM109m was marginally stronger by 4% on higher revenue (+12%) and stronger GP margins (+3ppt) which were more than enough to offset the weaker contributions from EWINT.

Outlook. Despite the rising construction costs, we think that Ecowld would able to defend their operating margins relatively well through product innovation (higher PSF but smaller area), prudent marketing expense and its lean workforce. That said we do expect the rising OPR to pose headwinds towards sales. Meanwhile, the company guides that the ongoing labour shortages are manageable and work at sites have been progressing as planned.

Balance sheet wise, its net gearing continues to improve for the 14th consecutive quarter and currently stands at 0.36x (net debt of RM1.7b). The well managed cash levels assure us that our dividend targets are sustainable.

Keep FY22/23E earnings post earnings.

Upgrade to OUTPERFORM with marginally lower TP of RM0.83 (from RM0.85). Given the 30% slide in share price since end-April, current dividend yield of 5.9% has turned appealing against our coverages' average of 3.5%. Coupled with the company's ability to manoeuvre current headwinds and defend margins, we upgrade Ecowld to OUTPERFORM (from MP) on marginally reduced TP of RM0.83 (previously RM0.85) after switching our primary valuation methodology to 60% discount to RNAV (from 0.51x PBV).

OUTPERFORM ↑

Price : **RM0.675**
Target Price : **RM0.830** ↓

Share Price Performance



KLCI	1,472.77
YTD KLCI chg	-6.0%
YTD stock price chg	-20.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ECW MK EQUITY
Market Cap (RM m)	1,987.4
Shares Outstanding	2,944.4
52-week range (H)	1.25
52-week range (L)	0.62
3-mth avg daily vol:	3,763,775
Free Float	27%
Beta	0.8

Major Shareholders

Sinarماس Harta Sdn Bhd	32.9%
Liew Kee Sin	9.4%
Eco World Development	7.5%

Summary Earnings Table

FYE Oct (RM m)	2021A	2022E	2023E
Turnover	2042.8	2392.7	2339.0
EBIT	351.4	411.6	411.2
PBT	239.3	311.6	311.2
Net Profit (NP)	182.7	236.9	236.5
Core NP	240.0	236.9	236.5
Consensus (CNP)	n.a.	230	242
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	8.15	8.04	8.03
Core EPS growth (%)	-1.2%	-1.3%	-0.1%
NDPS (sen)	4.0	4.0	4.0
BVPS (RM)	1.61	1.65	1.69
Core PER (x)	8.3	8.4	8.4
Price/BV (x)	0.42	0.41	0.40
Net Gearing (x)	0.45	0.41	0.35
Dividend Yield (%)	5.9%	5.9%	5.9%



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

OTHER POINTS**Results Highlights**

FYE Oct (RM m)	2Q22	1Q22	QoQ	2Q21	YoY	1H22	1H21	YoY
Revenue	506.9	533.4	-5%	420.5	21%	1040.3	927.8	12%
COGS	-390.0	-419.0	-7%	-344.9	13%	-809.0	-751.2	8%
GP	116.9	114.4	2%	75.5	55%	231.3	176.6	31%
Other income	19.1	14.1	36%	13.0	48%	33.2	27.2	22%
Selling and marketing	-8.5	-8.5	1%	-9.1	-7%	-17.0	-17.6	-3%
Admin	-35.0	-41.9	-17%	-38.3	-9%	-76.9	-86.0	-11%
OP	92.6	78.1	19%	41.1	125%	170.6	100.2	70%
JV - Malaysia	16.3	28.8	-43%	38.6	-58%	45.2	58.3	-23%
JV - International	-15.6	-1.6	898%	9.5	-263%	-17.1	31.4	-155%
EWINT Impairment Loss	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Associate	-3.0	-1.8	63%	-0.1	1994%	-4.8	-0.6	721%
EBIT	90.3	103.5	-13%	89.1	1%	193.9	189.3	2%
Finance costs	-26.2	-24.3	8%	-31.9	-18%	-50.4	-59.0	-15%
PBT	64.2	79.3	-19%	57.2	12%	143.4	130.3	10%
Taxation	-18.5	-15.9	16%	-14.9	24%	-34.4	-25.5	35%
PAT	45.7	63.4	-28%	42.3	8%	109.0	104.8	4%
MI	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
PATAMI	45.7	63.4	-28%	42.3	8%	109.0	104.8	4%
Exceptional	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
CNP	45.7	63.4	-28%	42.3	8%	109.0	104.8	4%
DPS (sen)	2.0	0.0	n.a.	2.0	0%	2.0	2.0	0%
Net Gearing	0.36	0.40		0.55		0.36	0.55	
GP margin	23%	21%		18%		22%	19%	
OP margin	18%	15%		10%		16%	11%	
EBIT margin	18%	19%		21%		19%	20%	
Pretax margin	13%	15%		14%		14%	14%	
PAT margins	9%	12%		10%		10%	11%	
CNP margin	9%	12%		10%		10%	11%	
Effective tax	-29%	-20%		-26%		-24%	-20%	

Source: Company, Kenanga Research

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RNAV					
	Project		Remaining Land Bank (acres)	GDV left (RM m)	NPV of profits (effective)
	<u>Subsidiary</u>				
Central	EcoSky	100%	0	9	0
Central	Saujana Glenmarie	100%			
Central	Eco Majestic	100%	353	7522	173
Central	Eco Forest	100%	242	2657	71
Central	Eco Sanctuary	100%	63	5359	98
South	Eco Botanic & Eco Botanic 2	100%	202	2899	144
South	Eco Spring and Summer	100%	163	3408	62
South	Eco Tropics	100%	457	2062	38
South	Eco Business Park 1, 2, 3	100%	722	3626	97
North	Eco Terraces	100%	0	18	1
North	Eco Meadows	100%	33	418	24
	<u>Joint Venture</u>				
Central	Eco Grandeur	60%	1137	10378	77
Central	Eco Business Park 5	60%	336	3068	23
Central	Eco Ardence	50%	161	5758	53
Central	BBCC	40%	7	7083	35
North	Eco Horizon&Sun	60%	246	6741	50
				61006	946
	<u>EWINT (27% JV)</u>				
International	London City Island	20.25%		258	4
International	Embassy Gardens	20.25%		1476	21
International	Wardian London	20.25%		539	8
International	Millbrook Park	18.90%		224	3
International	Kensal Rise&Maida Hill/Third and Caird	18.90%		22	0
International	Lampton	9.45%		129	1
International	Oxbow/Aberfeldy Village	9.45%		4214	28
International	Verdo/Kew Bridge	18.90%		1633	22
International	Quayside Barking/Barking Wharf	18.90%		0	0
International	Woking	18.90%		2031	27
International	West Village	27.00%		54	1
International	Yarra One	27.00%		208	3
				10790	119
	<u>Unbilled Sales</u>				
	ECOWLD (effective)	100%		3870	292
	Shareholders Fund (FY21)				4765.3
	Total RNAV (RM m)				6122.3
	Number of shares				2944
	RNAV/share				2.08
	Discount to RNAV				60%
	Target Price				0.83
	BV/share (1 yr Fwd)				1.65
	EPS (1yr Fwd)				0.08
	ROE				4.87%
	Implied PBV (x)				0.50

Source: Company, Kenanga Research

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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	0.675	1,987.4	Y	10/2022	8.3	8.4	8.4	0.4	0.4	4.9%	5.9%	0.830	OP	
IOI PROPERTIES GROUP BHD	0.985	5,423.6	Y	06/2022	8.6	8.5	7.6	0.3	0.3	3.4%	2.8%	1.65	OP	
MAH SING GROUP BHD	0.590	1,432.3	Y	12/2022	13.5	9.6	10.2	0.4	0.4	4.9%	5.1%	0.650	MP	
MALAYSIAN RESOURCES CORP BHD	0.360	1,608.3	Y	12/2022	N.A.	30.0	72.0	0.3	0.3	1.1%	2.8%	0.375	MP	
SIME DARBY PROPERTY BHD	0.445	3,026.4	Y	12/2022	21.6	12.8	12.1	0.3	0.3	2.5%	2.9%	0.725	OP	
SP SETIA BHD	0.700	2,847.7	Y	12/2022	17.5	10.6	12.5	0.2	0.2	2.9%	5.4%	0.900	UP	
SUNWAY BHD	1.69	8,262.5	Y	12/2022	27.3	21.1	12.6	0.9	0.9	4.4%	1.8%	2.05	OP	
UEM SUNRISE BHD	0.320	1,618.7	Y	12/2022	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.400	OP	
UOA DEVELOPMENT BHD	1.80	4,187.6	Y	12/2022	12.0	12.9	12.0	0.7	0.7	3.9%	5.6%	1.76	MP	
Simple Average					15.6	14.2	18.3	0.4	0.4	3.0%	3.5%			

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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