

24 March 2023

Eco World Dev. Group

Buoyed by Industrial Land Sale

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ECOWLD's 1QFY23 results met expectations. Its 4MFY23 sales of RM1.35b indicated that it is on track to meet its full-year target of RM3.5b. The sales were anchored by the sale of a 92-acre land in Eco Business Park II (EBP II) to China-based industrial equipment maker Haitian International Holding Ltd (Haitian) which may draw its suppliers and customers to EBP II. We maintain our FY23F earnings, TP of RM0.83 and OUTPERFORM call.

Within expectations. 1QFY23 core net profit of RM57m met expectations at 23% each of both our full-year forecast and the full-year consensus estimate.

Highlights. 1QFY23 core net profit decreased by 10% mainly due to wider associate losses (from its 10%-owned BBCC mall), higher financing costs (+25%) on higher interest rates and a higher effective tax rate (+9ppts).

The key takeaways from its post-results briefing are as follows:

1. ECOWLD achieved RM1.35b sales in 4MFY2 which is on track to meet its FY23 sales target as well as our FY23F sales assumption of RM3.5b. Industrial products contributed to the lion's share at RM616m, on the back of a 92-acre land sale in EBP II to Haitian (HKEX-listed with a market cap of RM17.3b). This land sale is strategic to ECOWLD as Haitian, a leading industrial equipment manufacturer from China, may draw its suppliers and customers to EBP II too (99 acres of land are still available).
2. For the subsequent quarters, the group has earmarked several launches for its "duduk" products (high-rise residential for first-time house buyers) across its matured townships. These products will be key sales drivers for the rest of the year. Its recent launch of Hana (its second "duduk" product at Eco Ardence) in mid-March 2023 attracted a strong 45% take-up rate within a span of only two weeks.
3. It reiterated its plans to acquire land within the Klang Valley and Johor regions. The ideal size is <300 acres with immediate development potential that can last for 8-10 years. Its healthy balance sheet with a net gearing of 0.33x as at end-Jan 2023 can comfortably meet the financial requirements.
4. Its 27%-owned joint-venture EWINT achieved 4MFY23 sales of RM335m and is on track to meet its internal sales target of RM1.4b. EWINT intends to distribute RM900m dividends to its shareholders (ECOWLD's effective share would be RM243m) if its RM1.4b sales target is met. As of 1QFY23, EWINT's net cash level stood at RM436m.

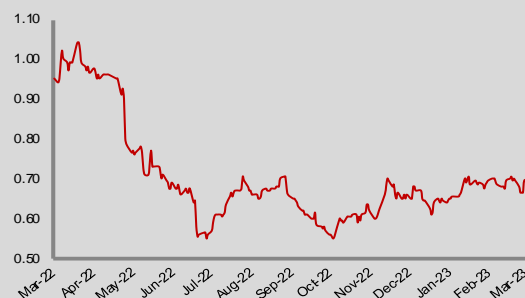
Forecasts. We maintain our FY23F earnings and introduce our FY24F earnings of RM247m backed by sales of RM3.5b.

We continue to like ECOWLD for its ability to manoeuvre the current headwinds and defend margins given its strong branding and nimble cost structure. Consequently, this translates to strong cash flows generation, underpinning consistent dividends. We keep our TP of RM0.83 based on 60% discount to RNAV – in line with peers' discount range of 60%-65%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5). Maintain **OUTPERFORM**.

OUTPERFORM ↔

Price : **RM0.710**
Target Price : **RM0.830** ↔

Share Price Performance



KLCI 1,410.98
YTD KLCI chg -5.7%
YTD stock price chg 10.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ECW MK Equity
Market Cap (RM m)	2,090.5
Shares Outstanding	2,944.4
52-week range (H)	1.07
52-week range (L)	0.55
3-mth avg daily vol:	2,540,294
Free Float	29%
Beta	1.0

Major Shareholders

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

Summary Earnings Table

FYE Oct (RM m)	2022A	2023F	2024F
Turnover	2043.6	2543.1	2482.6
EBIT	322.6	420.2	405.0
PBT	225.8	320.2	325.0
Net Profit (NP)	157.2	243.3	247.0
Core NP	238.2	243.3	247.0
Consensus (CNP)	n.a.	252	256
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	8.09	8.26	8.39
Core EPS growth (%)	-0.8	2.2	1.5
NDPS (sen)	5.0	5.0	6.0
BVPS (RM)	1.64	1.68	1.70
Core PER (x)	8.8	8.6	8.5
Price/BV (x)	0.43	0.42	0.42
Net Gearing (x)	0.41	0.35	1.35
Dividend Yield (%)	7.0	7.0	8.5

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Risks to our call include: (i) a prolonged downturn in the local property market, (ii) rising mortgage rates hurting affordability, (iii) rising construction cost, and (iv) risks associated with overseas operations.

Results Highlights								
FYE Oct (RM m)	1Q23	4Q22	QoQ	1Q22	YoY	1Q23	1Q22	YoY
Revenue	484.7	559.3	-13%	533.4	-9%	484.7	533.4	-9%
COGS	-358.4	-404.5	-11%	-419.0	-14%	-358.4	-419.0	-14%
GP	126.3	154.8	-18%	114.4	10%	126.3	114.4	10%
Other income	21.6	22.9	-5%	14.1	54%	21.6	14.1	54%
Selling and marketing	-6.3	-10.5	-40%	-8.5	-25%	-6.3	-8.5	-25%
Admin	-43.1	-68.3	-37%	-41.9	3%	-43.1	-41.9	3%
OP	98.6	98.8	0%	78.1	26%	98.6	78.1	26%
JV - Malaysia	23.4	44.1	-47%	28.8	-19%	23.4	28.8	-19%
JV - International	-5.2	-13.9	-63%	-1.6	235%	-5.2	-1.6	235%
EWINT Impairment Loss	0.0	-81.0	-100%	0.0	n.a.	0.0	0.0	n.a.
Associate	-6.6	-3.6	82%	-1.8	264%	-6.6	-1.8	264%
EBIT	110.1	44.4	148%	103.5	6%	110.1	103.5	6%
Finance costs	-30.3	-21.3	42%	-24.3	25%	-30.3	-24.3	25%
PBT	79.8	23.0	247%	79.3	1%	79.8	79.3	1%
Taxation	-22.8	-21.3	7%	-15.9	43%	-22.8	-15.9	43%
PAT	57.0	1.8	3104%	63.4	-10%	57.0	63.4	-10%
MI	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Profit	57.0	1.8	3104%	63.4	-10%	57.0	63.4	-10%
Exceptional	0.0	-81.0	-100%	0.0	n.a.	0.0	0.0	n.a.
Core Net Profit	57.0	82.8	-31%	63.4	-10%	57.0	63.4	-10%
DPS (sen)	0.0	2.0	-100%	0.0	n.a.	0.0	0.0	n.a.
Net Gearing	0.33	0.31		0.40		0.33	0.40	
GP margin	26%	28%		21%		26%	21%	
OP margin	20%	18%		15%		20%	15%	
EBIT margin	23%	8%		19%		23%	19%	
Pretax margin	16%	4%		15%		16%	15%	
PAT margins	12%	0%		12%		12%	12%	
CNP margin	12%	15%		12%		12%	12%	
Effective tax	-29%	-92%		-20%		-29%	-20%	

Source: Company, Kenanga Research

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ECOWLD's RNAV and TP					
Location	Project	Stake (%)	Remaining Area (acres)	Remaining GDV (RM m)	NPV of profits (effective)
Subsidiary					
Central	EcoSky	100	0	9	0
Central	Saujana Glenmarie	100			
Central	Eco Majestic	100	353	7,522	173
Central	Eco Forest	100	242	2,657	71
Central	Eco Sanctuary	100	63	5,359	98
South	Eco Botanic & Eco Botanic 2	100	202	2,899	144
South	Eco Spring and Summer	100	163	3,408	62
South	Eco Tropics	100	457	2,062	38
South	Eco Business Park 1, 2, 3	100	722	3,626	97
North	Eco Terraces	100	0	18	1
North	Eco Meadows	100	33	418	24
Joint Venture					
Central	Eco Grandeur	60	1,137	10,378	77
Central	Eco Business Park 5	60	336	3,068	23
Central	Eco Ardence	50	161	5,758	53
Central	BBCC	40	7	7,083	35
North	Eco Horizon&Sun	60	246	6,741	50
				61,006	946
EWINT (27% JV)					
International	London City Island	20.25		258	4
International	Embassy Gardens	20.25		1,476	21
International	Wardian London	20.25		539	8
International	Millbrook Park	18.9		224	3
International	Kensal Rise&Maida Hill/Third and Caird	18.9		22	0
International	Lampton	9.45		129	1
International	Oxbow/Aberfeldy Village	9.45		4,214	28
International	Verdo/Kew Bridge	18.9		1,633	22
International	Quayside Barking/Barking Wharf	18.9		0	0
International	Woking	18.9		2,031	27
International	West Village	27		54	1
International	Yarra One	27		208	3
				10,790	119
Unbilled Sales					
ECOWLD (effective)		100		3,870	292
Shareholders Fund (FY21)					4,765.3
Total RNAV					6,122.3
Number of shares (m)					2,944
RNAV/share (RM)					2.08
Discount to RNAV (%)					60
TP (RM)					0.83
BV/share (1 yr Fwd) (RM)					1.65
EPS (1yr Fwd) (RM)					0.08
ROE (%)					4.87
Implied PBV (x)					0.5

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core Earnings Growth		PER (x) - Core Earnings		PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div. (sen) 1-Yr. Fwd.	Net Div.Yld. (%) 1-Yr. Fwd.
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
ECO WORLD DEVELOPMENT GROUP	OP	0.710	0.830	16.90%	2,090.5	Y	10/2023	8.3	8.4	2.1%	1.5%	8.9	7.9	0.4	5.0%	5.0	7.0%
IOI PROPERTIES GROUP BHD	OP	1.11	1.60	44.14%	6,111.8	N	06/2023	13.5	14.3	4.2%	5.9%	8.2	7.8	0.3	4.0%	3.0	2.7%
MAH SING GROUP BHD	OP	0.600	0.700	16.67%	1,456.6	Y	12/2023	6.6	7.0	1.9%	6.9%	9.1	8.5	0.4	4.6%	4.0	6.7%
MALAYSIAN RESOURCES CORP BHD	MP	0.335	0.340	1.49%	1,496.6	Y	12/2023	0.7	1.3	-32.7%	84.1%	47.2	25.4	0.3	0.7%	1.0	3.0%
SIME DARBY PROPERTY BHD	OP	0.505	0.550	8.91%	3,434.4	Y	12/2023	4.1	4.6	-16.5%	11.3%	12.3	11.0	0.4	3.0%	2.0	2.6%
SP SETIA BHD	UP	0.610	0.380	-37.70%	2,486.0	Y	12/2023	2.9	2.0	15.5%	-31.9%	21.0	30.5	0.2	1.8%	1.5	6.2%
UOA DEVELOPMENT BHD	MP	1.63	1.75	7.36%	3,924.1	Y	12/2023	10.6	11.7	-2.7%	10.2%	11.6	10.9	0.6	4.5%	10.0	8.0%
Simple Average					28,627.1					-1.2%	5.6%	16.0	15.1	0.4	3.7%		4.8%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★	☆	
	Accessibility & Transparency	★	★	★	☆	
	Corruption-Free Pledge	★	★	★	☆	
	Carbon-Neutral Initiatives	★	★	★	☆	
SPECIFIC	Digital Transformation	★	★	★	★	☆
	Adoption of Green Financing	★	★	★		
	Waste Management	★	★	★		
	Flora and Fauna Preservation	★	★	★	☆	
	Green Building Planning	★	★	★	☆	
	Supply Chain Auditing	★	★	★	☆	
OVERALL		★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

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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