

22 September 2023

Eco World Dev. Group

On Track to Meet RM3.5b Sales Target

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ECOWLD's 9MFY23 results met expectations. Its 9MFY23 core net profit grew 20% YoY on improved margins and reduced overseas losses. On track to meet its FY23 sales target of RM3.5b with RM3.06b achieved in 10MFY23, it will maintain focus on residential townships and industrial products. We keep our forecasts and TP of RM1.03, but downgrade it to MARKET PERFORM from OUTPERFORM after the recent run-up in its share price.

Within expectations. 9MFY23 net profit of RM186.0m came in at 76% of our full-year forecast and 74% of consensus full-year estimate.

YoY, revenue in 9MFY23 dropped by 7% due to higher turnover in the prior year from the completion of larger parcels. However, a more favourable product mix resulted in an improved gross margin of 26.3% (+3.7ppts). Higher interest income contributed to a 33% increase in other income, consequently resulted in a 19% growth in operating profit. Overall, together with a significantly lower losses attributed by EWINT on better forex performance, ECOWLD's 9MFY23 net profit grew 20%.

Briefing highlights. Although the group appears to be much within in meeting its sales target of RM3.5b for FY23 (10MFY23 at RM3.06), they sought to keep its FY24 expectations for now.

- EWINT, its 27%-owned joint-venture is on track to achieve its full-year sales target of RM1.4b. It has achieved RM1.0b in sales in 10MFY23 but will remain cautious with future launches amidst challenging conditions in UK property market. Similarly on a group-level, priority is placed on sustainable profits as opposed to aggressive top line expansion.
- The RM792m dividends declared by EWINT would translate to RM214m income to the ECOWLD group, which it aims to bolster its land acquisition pipeline.
- YTD, "Duduk," a product line contributing to 4% of total sales, will likely see a growing proportion thanks to the 6.92-acre land acquired in Kajang to develop Se.Duduk D'Kajang with an estimated GDV of RM500m. Duduk is known for lifestyle-oriented offerings located in matured townships and is preparing for their upcoming launches of new Duduk apartments in Iskandar Malaysia and Penang.
- With regards to the Johor market, the group emphasized that its properties are mostly supported by local buyers or Malaysian working in Singapore and likely for own-stay purposes as opposed for investment. They have not actively marketed to foreigners given the already strong domestic demand but do not discount the possibility of exploring opportunities here.
- On industrial products, Eco Business Park I, II, and III continued to see strong take-up. The group are acquiring a 404-acre land in Kulai, Iskandar Malaysia to develop its fifth business park, named Eco Business Park VI to cope with the rising demand. The acquisition should be completed in early-2024 and will grow the group's industrial land holdings to 2,416 acres with an estimated GDV of RM1.58b.

Forecasts. Maintained.

We also maintain our TP based on an unchanged 50% discount to RNAV (vs. an average of 55% for its peers) given the group's solid ability to push product launches. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

MARKET PERFORM ↓

Price : **RM1.10**
Target Price : **RM1.03** ↔

Share Price Performance



KLCI 1,448.21
YTD KLCI chg -3.2%
YTD stock price chg 70.5%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker ECW MK Equity
Market Cap (RM m) 3,238.8
Shares Outstanding 2,944.4
52-week range (H) 1.10
52-week range (L) 0.55
3-mth avg daily vol 5,892,751
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

FY Oct (RM m)	2022A	2023F	2024F
Turnover	2,043.6	2,543.1	2,482.6
Operating Profit	322.6	420.2	405.0
Profit Before Tax	225.8	320.2	325.0
Net Profit	157.2	243.3	247.0
Core Net Profit	238.2	243.3	247.0
Consensus (NP)	-	251.3	263.5
Earnings Revision	-	-	-
Core EPS (sen)	8.09	8.26	8.39
Core EPS growth (%)	-0.8	2.2	1.5
Dividends (sen)	5.0	5.0	6.0
NTA per Share (RM)	1.64	1.68	1.70
PER (x)	13.6	13.3	13.1
Price to NTA (x)	0.67	0.66	0.65
Return on Equity (%)	5.0	5.0	4.9
Net Gearing (x)	0.40	0.36	0.35
Net Div. Yield (%)	4.5	4.5	5.5

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We continue to like ECOWLD for: (i) its strong branding attached to its products' high quality, strong resale value, and well received contemporary designs, (ii) strong responsiveness to cater to market conditions with a highly flexible product portfolio (i.e. affordable homes, aspirational-priced homes), and (iii) timely presence to tap into Johor's booming industrial scene. There is a good chance for a special dividend (we project to the tune of 7.0 sen/share assuming a 60% payout) following a lumpy dividend of RM214m from EWINT. However, its valuations have become fair after the recent run-up in its share price. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

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

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Oct (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	476.9	420.8	13.3%	444.0	7.4%	1,382.4	1,484.3	-6.9%
Cost of Sales	-347.3	-313.2	10.9%	-339.6	2.3%	-1,018.9	-1,148.7	-11.3%
Gross Profit	129.6	107.6	20.4%	104.3	24.2%	363.5	335.6	8.3%
Other income	24.3	22.5	8.0%	18.1	34.3%	68.4	51.3	33.4%
Selling and marketing	-9.0	-8.1	10.2%	-7.2	25.1%	-23.4	-24.1	-2.9%
Administrative expenses	-42.3	-35.8	18.2%	-43.3	-2.3%	-121.2	-120.2	0.8%
EWINT Impairment Loss	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Operating Profit	102.6	86.2	19.1%	71.9	42.6%	287.3	242.6	18.5%
JV - Malaysia	23.0	24.1	-4.2%	27.2	-15.4%	70.5	72.4	-2.6%
JV - International	-0.9	0.3	-424.5%	-12.0	-92.5%	-5.8	-29.2	-80.0%
Associate	-3.0	-2.9	4.9%	-2.7	10.7%	-12.5	-7.5	66.5%
Finance costs	-30.4	-28.8	5.5%	-25.1	21.0%	-89.4	-75.5	18.4%
Pre-tax Profit	91.3	78.8	15.9%	59.3	54.0%	250.0	202.7	23.3%
Taxation	-25.0	-16.1	55.1%	-12.9	93.7%	-63.9	-47.3	35.2%
Minority Interests	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net Profit	66.3	62.7	5.8%	46.4	43.0%	186.0	155.4	19.7%
Exceptional	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Core Net Profit	66.3	62.7	5.8%	46.4	43.0%	186.0	155.4	19.7%
Dividend Per Share (sen)	2.0	2.0	0.0%	1.0	100.0%	4.0	3.0	33.3%
Net Gearing	0.37	0.41		0.35		0.37	0.35	
Gross Profit margin	27.2%	25.6%		23.5%		26.3%	22.6%	
Operating Profit margin	21.5%	20.5%		16.2%		20.8%	16.3%	
Pretax margin	19.2%	18.7%		13.4%		18.1%	13.7%	
Core net profit margin	13.9%	14.9%		10.4%		13.5%	10.5%	
Effective tax rate	-27.4%	-20.5%		-21.8%		-25.6%	-23.3%	

Source: Company, Kenanga Research

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ECOWLD's RNAV and TP					
Location	Project	Stake (%)	Remaining Area (acres)	Remaining GDV (RM b)	NPV of profits (effective)
	<u>Subsidiary</u>				
Central	EcoSky	100%			
Central	Saujana Glenmarie	100%			
Central	Eco Majestic	100%	331.9	7.19	106.5
Central	Eco Forest	100%	136.0	2.55	52.6
Central	Eco Sanctuary	100%	37.1	5.12	63.0
South	Eco Botanic & Eco Botanic 2	100%	99.6	2.33	344.7
South	Eco Spring and Summer	100%	88.1	3.05	63.1
South	Eco Tropics	100%	417.0	1.80	40.7
South	Eco Business Park 1, 2, 3	100%	394.9	2.70	236.8
North	Eco Terraces	100%	0.0	0.02	3.0
North	Eco Meadows	100%	15.4	0.40	2.4
	<u>Joint Venture</u>				
Central	Eco Grandeur	60%	799.3	9.35	46.7
Central	Eco Business Park 5	60%	398.7	1.54	48.3
Central	Eco Ardence	50%	122.6	5.28	85.4
Central	BGCC	40%	7.6	6.66	37.6
North	Eco Horizon & Sun	60%	208.2	6.34	35.2
			3,056.4	54	1,166.0
	EWINT (27% JV)				8.7
	Unbilled Sales				
	ECOWLD (effective)		37.1	2,399	181.3
	Shareholders Fund (FY22)				4,738.5
	Total RNAV (RM m)				6,094.4
	Number of shares				2,944.4
	RNAV/share				2.07
	Discount to RNAV				50%
	Target Price				1.03
	BV/share (1 yr Fwd)				1.68
	EPS (1yr Fwd)				0.08
	ROE				4.93%
	Implied PBV (x)				0.62

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PROPERTY DEVELOPERS																	
ECO WORLD DEVELOPMENT GROUP	MP	1.10	1.03	-6.4%	3,238.8	Y	10/2023	8.3	8.4	2.1%	1.5%	13.3	13.1	0.6	5.0%	5.0	4.5%
IOI PROPERTIES GROUP BHD	OP	1.64	1.75	6.7%	9,030.1	N	06/2024	14.1	14.4	23.5%	2.0%	11.6	11.4	0.4	3.4%	4.5	2.7%
MAH SING GROUP BHD	MP	0.850	0.800	-5.9%	2,063.5	Y	12/2023	8.0	8.2	13.2%	3.6%	10.7	10.3	0.6	5.3%	4.0	4.7%
S P SETIA BHD	UP	0.970	0.680	-29.9%	3,965.6	Y	12/2023	3.3	5.7	29.8%	73.9%	29.5	17.0	0.3	1.8%	2.0	2.1%
SIME DARBY PROPERTY BHD	MP	0.740	0.660	-10.8%	5,032.6	Y	12/2023	4.1	4.6	-16.5%	11.3%	17.9	16.1	0.5	3.0%	2.0	2.7%
SUNWAY BHD	OP	2.04	2.27	11.3%	10,107.5	Y	12/2023	14.6	15.1	44.5%	3.2%	14.0	13.5	0.7	5.6%	5.0	2.5%
UOA DEVELOPMENT BHD	MP	1.72	1.77	2.9%	4,283.5	Y	12/2023	8.9	10.2	-2.7%	14.4%	19.3	16.8	0.7	3.8%	10.0	5.8%
SECTOR AGGREGATE					37,721.7					16.7%	8.2%	14.7	13.6	0.6	4.0%		3.6%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★	★	☆
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★	☆	
	Green Building	★	★	★	☆	
	Supply Chain Management	★	★	★	☆	
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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