

07 December 2023

IOI Properties Group

Buying W Hotel KL for RM270m

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IOIPG is acquiring W Hotel, KL from Tropicana Residences Sdn Bhd (TROP) for RM270m cash. We believe the price tag is fair towards IOIPG and the addition of the hotel would bolster its hospitality portfolio, especially with the returning tourism sector. We maintain our forecasts, TP of RM1.75 and MARKET PERFORM call.

IOIPG (via its indirect subsidiaries IOI PFCC Hotel Sdn Bhd and Flora Development Berhad) signed a sale and purchase agreement with TROP to acquire W KL and its assets for RM270m. The agreement was reached on a willing-buyer-willing selling basis and is expected to be completed by 1QCY24. W KL is a 5-star hotel that features 25-storey, 150-room together with hotel facilities and 346 parking spaces.

Fairly priced. The acquisition cost of RM270m (translating to RM1.8m/key) is slightly above 1.0x of W KL's net book value of RM265.1m (or RM1.77m/key). While hotel asset transactions are infrequent within Kuala Lumpur, we gathered that TROP had in 2016 intended to dispose of W KL for RM360m (c.RM2.4m/key) when market value likely lingered towards RM1.6m-RM1.8m. Supporting this was the disposal of Renaissance Hotel KL (also in 2016) by IGB Corporation for RM765m (@RM1.88m/key for 406 rooms). By these accounts, we deem IOIPG's acquisition cost to be fair.

Strong addition to IOIPG's portfolio. Given the above, we are overall positive with the acquisition given W KL's strategic location and the anticipated full recovery of Malaysia's tourism sector by next year surpassing pre-Covid 19 levels. This has the potential to contribute to the long-term earnings of IOIPG. Based on its 1QFY24 earnings, the hospitality segment made up 8% of group revenue.

Forecasts. The acquisition may only slightly increase IOIPG's net gearing of 0.70x to 0.71x. That said, details on the profitability of W Hotel is still outstanding and hence we abstain from incorporating model updates for now.

We maintain our RNAV-TP of RM1.75 based on a 60% discount to its RNAV (see Page 3), in-line with our assumption for the property sector. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

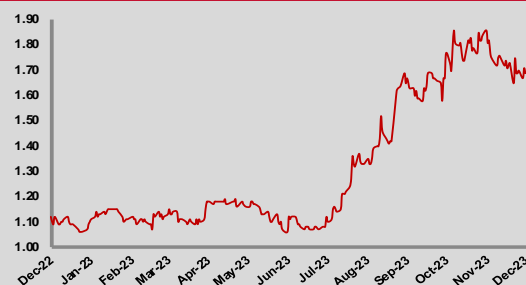
We continue to like IOIPG due to: (i) its focus on high-value products at matured townships with its well-diversified products, (ii) its expanding investment property portfolio which provides recurring incomes, and (iii) its presence in the vibrant property sector in Singapore. However, its valuations have become rich after the recent run-up in its share prices. Maintain **MARKET PERFORM**.

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.

MARKET PERFORM ↔

Price : RM1.69
Target Price : RM1.75 ↔

Share Price Performance



KLCI 1,445.82
YTD KLCI chg -3.3%
YTD stock price chg 59.4%

Stock Information

Shariah Compliant No
Bloomberg Ticker IOIPG MK Equity
Market Cap (RM m) 9,305.4
Shares Outstanding 5,506.1
52-week range (H) 1.86
52-week range (L) 1.06
3-mth avg daily vol: 5,310,744
Free Float 13%
Beta 0.9

Major Shareholders

Vertical Capacity Sdn Bhd 65.7%
Employee Provident Fund Board 6.8%
Amanah Saham Nasional 6.4%

Summary Earnings Table

FYE Jun (RM m)	2023A	2024F	2025F
Turnover	2,593	2,670	2,613
Operating Profit	1,276	789	810
Core Operating Profit	706	789	810
Profit Before Tax	1,620	1,024	1,045
Net Profit (NP)	1,393	778	794
Core NP	630	778	794
Consensus (CNP)	-	759	880
Earnings Revision	-	-	-
Core EPS (sen)	11.4	14.1	14.4
Core EPS growth (%)	-22.1	23.5	2.0
NDPS (sen)	5.0	4.5	4.5
BV/Share (RM)	4.05	4.14	4.24
Core PER (x)	14.8	12.0	11.7
Price/BV (x)	0.42	0.41	0.40
Net Gearing (x)	0.68	0.67	0.69
Dividend Yield (%)	3.0	2.7	2.7

Adjustments include: (i) fair value gains of RM716.8m; (ii) inventory written down of RM18.5m; (iii) impairment of assets at RM128.3m cumulatively; and (iv) reversal of JV inventories of RM192.7m.



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Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2021A	2022A	2023A	2024F	2025F	FY Jun	2020A	2021A	2022A	2023F	2024F
Revenue	2,489	2,590	2,593	2,670	2,613	Growth					
Gross Profit	1,185	1,073	1,095	1,148	1,150	Revenue	18%	4%	0%	3%	-2%
Operating Profit	714	928	1,276	789	810	Operating Profit	-7%	30%	38%	-38%	3%
Associates, JV	285	167	297	205	205	Profit Before Tax	14%	2%	47%	-37%	2%
Net Finance Income	34	8	47	30	30	Net Profit	31%	4%	103%	-44%	2%
Profit Before Tax	1,078	1,103	1,620	1,024	1,045	Core Net Profit	-10%	29%	-22%	23%	2%
Taxation	-415	-415	-219	-246	-251	Profitability					
Minority Interest	3	-1	-7	0	0	Operating margin	29%	36%	49%	30%	31%
Net Profit	660	687	1,393	778	794	Pretax margin	43%	43%	62%	38%	40%
Exceptionals	32	122	-763	0	0	Net profit margin	27%	27%	54%	29%	30%
Core Net Profit	628	809	630	778	794	Core net profit margin	25%	31%	24%	29%	30%
Balance Sheet						Effective Tax Rate	-38%	-38%	-14%	-24%	-24%
FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F	ROE	3.2%	4.0%	2.8%	3.4%	3.4%
Fixed Assets	16,426	18,833	21,661	20,000	21,500	ROA	1.9%	2.0%	1.5%	1.8%	1.8%
Intangibles	11	11	11	11	11	Leverage					
JVA	4,509	4,390	4,230	4,230	4,230	Debt/Equity (x)	0.56	0.82	0.80	0.78	0.76
NC Inventories (Land)	5,170	9,077	5,607	5,607	5,607	Net Debt/(Cash)	9162	15201	15152	15178	16132
Inventories	4,637	3,052	2,414	4,401	4,401	Net Debt/Equity (x)	0.47	0.74	0.68	0.67	0.69
Receivable+Con.Asset	575	901	550	550	550	Valuations					
Other Assets	255	1,622	5,439	5,439	5,439	Core EPS (sen)	11.4	14.7	11.4	14.1	14.4
Cash	1,848	1,616	2,711	2,685	1,732	NDPS (sen)	2.0	4.0	5.0	4.5	4.5
Total Assets	33,433	39,501	42,624	42,925	43,471	BV/share (RM)	3.55	3.71	4.05	4.14	4.24
Payables	1,306	1,274	1,531	1,301	1,301	Core PER (x)	14.8	11.5	14.8	12.0	11.7
ST Borrowings	334	13,486	15,035	15,035	15,035	Net Div. Yield (%)	1.2%	2.4%	3.0%	2.7%	2.7%
LT Borrowings	10,676	3,331	2,829	2,829	2,829	PBV (x)	0.48	0.45	0.42	0.41	0.40
Other Liabilities	1,398	800	789	789	789						
Total Liabilities	13,714	18,891	20,183	19,954	19,954						
Net Assets	33,433	20,611	22,441	22,971	23,518						
Share Cap & Reserves	9,902	10,220	10,889	10,889	10,889						
Retained Earnings	9,656	10,233	11,403	11,934	12,480						
Shareholder's Equity	19,558	20,453	22,292	22,823	23,369						
Perps	160	158	148	148	148						
MI	19,719	20,611	22,441	22,971	23,518						
Total Equity	16,426	18,833	21,661	20,000	21,500						
Cashflow Statement											
FY Jun (RMm)	2020A	2021A	2022F	2023F	2024F						
Operating CF	1,019	694	1,594	-1,469	764						
Investing CF	-287	-5,246	-214	1,661	-1,500						
Financing CF	-398	5,038	-1,057	-218	-218						
Net Change in Cash	334	486	322	-26	-953						

Source: Kenanga Research

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IOIPG's RNAV			
Project	Remaining Land Bank (acres)	Outstanding GDV (RM b)	NPV of profits (RM m)
Malaysia	5,341	51,400	1,528
Singapore	2	8,907	914
China	1	1,400	130
Total	5,344	61,707	2,573
Unbilled Sales (as of FY23)		623	94
Shareholders Fund (FY23)			22,292
Total RNAV			24,958
Number of shares (m shares)			5,506
RNAV/share (RM)			4.53
Discount to RNAV (%)			60
TP (RM)			1.75

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	1.02	1.03	1.0%	3,003.3	Y	10/2023	8.3	8.4	2.1%	1.5%	12.3	12.2	0.6	5.0%	5.0	4.9%
IOI PROPERTIES GROUP BHD	MP	1.69	1.75	3.6%	9,305.4	N	06/2024	14.1	14.4	23.5%	2.0%	12.0	11.7	0.4	3.4%	4.5	2.7%
MAH SING GROUP BHD	OP	0.785	1.00	27.4%	1,905.7	Y	12/2023	8.0	8.2	13.2%	3.6%	9.9	9.5	0.5	5.3%	4.0	5.1%
MKH BERHAD	OP	1.41	2.11	49.6%	814.2	Y	09/2024	18.0	20.1	41.8%	11.2%	7.8	7.0	0.4	5.3%	6.0	4.3%
S P SETIA BHD	UP	0.740	0.680	-8.1%	3,222.4	Y	12/2023	3.3	5.7	29.8%	73.9%	22.5	12.9	0.2	1.8%	2.0	2.7%
SIME DARBY PROPERTY BHD	OP	0.600	0.690	15.0%	4,080.5	Y	12/2023	5.5	5.5	12.1%	-1.2%	10.8	11.0	0.4	4.0%	2.2	3.7%
SUNWAY BHD	OP	1.95	2.27	16.4%	9,979.1	Y	12/2023	10.3	14.3	22.9%	38.0%	18.9	13.7	0.9	5.3%	5.0	2.6%
UOA DEVELOPMENT BHD	MP	1.75	1.77	1.1%	4,358.2	Y	12/2023	8.9	10.2	-2.7%	14.4%	19.6	17.1	0.8	3.8%	10.0	5.7%
SECTOR AGGREGATE					36,668.7												
										17.0%	14.9%	13.8	12.0	0.5	4.3%		3.9%

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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