

31 May 2024

IOI Properties Group

China Property Slowdown Weighs

By **Clement Chua** | clement.chua@kenanga.com.my

IOIPG's 9MFY24 results met expectations. Its 9MFY24 core net profit fell 3% as a lumpy land sale in Kulai was negated by a soft property market in China. We expect good response to its high-value projects in Singapore while its property investment and hospitality assets are fetching decent yields. We maintain our forecasts, TP of RM1.75 and maintain our UNDERPERFORM call.

Its 9MFY24 core net profit of RM516.2m made up only 66% and 69% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the results within expectations as we expect a bumper 4Q with lumpy profits from its high-end projects in Singapore.

YoY, its 9MFY24 revenue rose 12% driven mainly by RM211m land sale in Kulai. However, its core net profit eased 3% weighed down by: (i) a significant slowdown in China (of which products typically command higher margins) and (ii) lower JV contributions due to higher property tax on the hotel operations in Singapore. These were partially cushioned by higher rental incomes from the malls and improved occupancy rates for its hotels and resorts.

QoQ, its 3QFY24 revenue rose 49%, similarly, driven by the lumpy land sale. Its core net profit jumped by a steeper 81%, underpinned by lumpy land sale gain and higher rental incomes and sustained occupancy rates at its investment properties.

The key takeaways from its results briefing are as follows:

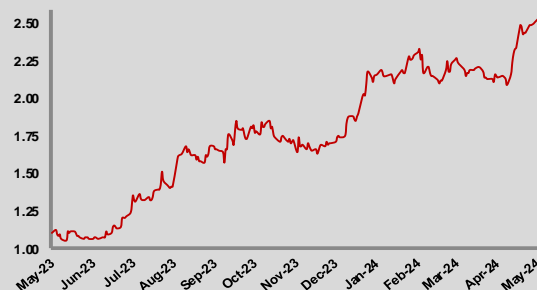
1. On Marina View Residence in Singapore, the group is prioritizing its planned launch for this year. Although construction has not commenced, the completion deadline is set at 84 months post-launch. The focus is on initiating the property's launch, with expectations of long-term earnings.
2. IOI Central Boulevard is set to receive the final phase of Temporary Occupation Permit in September CY24, in which will allow tenants to come in for renovations once received. The group has already secured leases with internationally renowned companies spanning various industries, including technology, financial services, asset management, FMCG, and legal firms with secured tenancy close to 50%. The focus lies on completing construction and increasing the occupancy rate of the project, which is expected to contribute based on uptake. The construction phase is estimated to last for approximately 3-4 years, resulting in long-term earnings.
3. The occupancy rate of IOI City Mall continues to be remarkable, maintaining an average of 97% across the group's entire mall portfolio. Currently, careful market analysis is being conducted to prevent overcrowding from excessive retail spaces.
4. In the hospitality and leisure sector, the group continues to capitalise on tourism activities with additional contributions from their new Moxy Hotel and W Kuala Lumpur which came onboard in CY2024. These additions have enhanced the group's portfolio, increased occupancy rates, and strengthened its market presence in key tourist destinations.

Forecasts. Maintained.

UNDERPERFORM ↔

Price : RM2.44
Target Price : RM1.75 ↔

Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	39.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOIPG MK EQUITY
Market Cap (RM m)	13,435.0
Shares Outstanding	5,506.1
52-week range (H)	2.54
52-week range (L)	1.06
3-mth avg. daily vol.	9,033,003
Free Float	16%
Beta	0.9

Major Shareholders

Vertical Capacity Sdn Bhd	65.7%
Employee Provident Fund Board	6.5%
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)	-	754.3	825.3
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)	13.7	11.1	10.9
Price/BV (x)	0.39	0.38	0.37
Net Gearing (x)	0.68	0.67	0.69
Dividend Yield (%)	2.9	2.6	2.6

31 May 2024

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

Investment case. We 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 **UNDERPERFORM**.

Risks to our call include: (i) a stronger-than-expected recovery in the property market in China, (ii) mortgage rates ease, boosting affordability, (iii) benign construction cost, and (iv) good management of risks associated with overseas operations.

Result Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Jun (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	902.2	606.9	48.7%	564.7	59.8%	2,157.1	1,926.6	12.0%
Cost of Sales	-555.7	-338.6	64.1%	-320.7	73.2%	-1,276.3	-1,049.7	21.6%
Gross Profit	346.5	268.3	29.1%	243.9	42.1%	880.8	876.9	0.4%
Operating Income	26.5	26.5	0.3%	23.9	11.0%	76.6	548.4	-86.0%
Marketing and Selling Expenses	-24.6	-19.9	24.0%	-21.6	14.3%	-63.3	-57.4	10.2%
Administrative Expenses	-65.5	-61.8	6.0%	-61.2	7.0%	-186.4	-177.5	5.0%
Other Operating Expenses	-56.6	-43.0	31.7%	-48.7	16.2%	-139.4	-165.8	-15.9%
Operating Profit	226.4	170.2	33.0%	136.4	66.0%	568.4	1,024.6	-44.5%
Core Operating Profit	226.4	170.2	33.0%	136.4	66.0%	568.4	589.1	-3.5%
Associate Contribution	0.3	0.4	-28.3%	0.1	78.2%	1.0	0.8	17.9%
JV Contribution	16.6	-0.9	N.M	4.7	253.2%	55.0	256.7	-78.6%
Interest Income/Expenses	10.6	9.9	7.2%	12.5	-15.7%	34.4	34.6	-0.6%
Exceptional Items	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Profit Before Tax	253.8	179.5	41.4%	153.7	65.1%	658.7	1,316.7	-50.0%
Taxation	-32.1	-54.8	-41.4%	-36.7	-12.4%	-135.9	-154.1	-11.8%
Minority Interest	-1.4	-3.2	-55.7%	-1.7	-15.3%	-6.6	-5.0	33.4%
Net Profit	220.2	121.5	81.3%	115.4	90.9%	516.2	1,157.6	-55.4%
Core Net Profit	220.2	121.5	81.3%	115.4	90.9%	516.2	529.4	-2.5%
Key Operating Metrics:								
Gross Profit Margin	38.4%	44.2%		43.2%		38.4%	43.2%	
Core Operating Margin	25.1%	28.0%		24.1%		26.3%	30.6%	
Pretax Margin	28.1%	29.6%		27.2%		30.5%	68.3%	
Core Net Margin	24.4%	20.0%		20.4%		23.9%	27.5%	
Effective Tax Rate	-12.7%	-30.5%		-23.9%		-243.2%	-32.4%	

* Core Adjustments account for: (i) fair value gains/(losses) on investment properties; (ii) one-off impairments; and (iii) one-off write downs

~ Includes adjustment for reversals in JV operations

Source: Company, Kenanga Research

31 May 2024

Segmental Breakdown

FYE Jun (RM m)	3Q FY24	2Q FY24	QoQ Chg	3Q FY23	YoY Chg	9M FY24	9M FY23	YoY Chg
Revenue								
Property Development	668.9	395.2	69.3%	375.4	78.2%	1,515.5	1,386.2	9.3%
Property Investment	154.9	150.7	2.8%	135.1	14.7%	449.9	371.4	21.2%
Hospitality	74.3	57.6	29.0%	51.3	44.9%	180.6	159.6	13.2%
Other Operations	4.1	3.5	19.6%	2.9	41.1%	11.1	9.5	16.4%
Total Revenue	902.2	606.9	48.7%	564.7	59.8%	2,157.1	1,926.6	12.0%
Core Operating Profit								
Property Development	148.3	89.6	65.4%	78.6	88.8%	339.2	409.6	-17.2%
Property Investment	76.1	74.5	2.1%	51.7	47.2%	222.2	155.9	42.6%
Hospitality	-3.4	-0.1	5519.7%	-2.2	57.2%	-7.8	1.7	-553.7%
Other Operations	5.4	6.1	-10.8%	8.3	-34.8%	14.8	21.9	-32.3%
Total Core Operating Profit	226.4	170.2	33.0%	136.4	66.0%	568.4	589.1	-3.5%
Operating Margin								
Property Development	22.2%	22.7%		20.9%		22.4%	29.6%	
Property Investment	49.1%	49.4%		38.2%		49.4%	42.0%	
Hospitality	-4.6%	-0.1%		-4.3%		-4.3%	1.1%	
Other Operations	131.3%	176.2%		284.0%		133.9%	230.2%	
Total Operating Margin	25.1%	28.0%		24.1%		26.3%	30.6%	

Source: Company, Kenanga Research

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

31 May 2024

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)		
								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.	1-Yr. Fwd.	1-Yr. Fwd.	
PROPERTY DEVELOPERS																				
ECO WORLD DEVELOPMENT GROUP	UP	1.60	1.27	-20.6%	4,711.0	Y	10/2024	9.7	10.0	5.2%	3.6%	16.5	15.9	1.0	5.9%	6.0	3.8%			
IOI PROPERTIES GROUP BHD	UP	2.44	1.75	-28.3%	13,435.0	N	06/2024	14.1	14.4	23.5%	2.0%	17.3	16.9	0.6	3.4%	4.5	1.8%			
MAH SING GROUP BHD	OP	1.71	1.87	9.4%	4,377.8	Y	12/2024	10.2	11.0	14.6%	8.5%	16.8	15.5	1.1	6.5%	4.0	2.3%			
MKH BERHAD	OP	1.31	2.11	61.1%	756.4	Y	09/2024	18.0	20.1	41.8%	11.2%	7.3	6.5	0.4	5.3%	6.0	4.6%			
S P SETIA BHD	UP	1.50	0.800	-46.7%	7,121.0	Y	12/2024	5.9	6.1	16.0%	2.7%	25.4	24.8	0.4	1.9%	5.5	3.7%			
SIME DARBY PROPERTY BHD	MP	1.24	1.08	-12.9%	8,433.0	Y	12/2024	6.3	6.5	7.1%	3.8%	19.8	19.0	0.8	4.1%	3.0	2.4%			
SUNWAY BHD	UP	3.62	2.47	-31.8%	20,383.3	Y	12/2024	14.6	14.7	26.0%	1.2%	24.9	24.6	1.4	6.0%	6.0	1.7%			
UOA DEVELOPMENT BHD	MP	1.98	1.79	-9.6%	4,931.0	Y	12/2024	10.6	10.4	19.3%	-2.1%	18.7	19.1	0.8	4.5%	6.5	3.3%			
SECTOR AGGREGATE					64,148.6					18.8%	2.7%	20.0	19.5	0.8	4.7%		2.9%			

Source: Kenanga Research

This section is intentionally left blank

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.**

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. Kenanga Investment Bank Berhad being a full-service investment bank offers investment banking products and services and acts as issuer and liquidity provider with respect to a security that may also fall under its research coverage.

Published 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

