

11 June 2024

Eco World Dev. Group Sells Johor Land for RM402.3m

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ECOWLD is disposing 123.1 acres of its land in Eco Business Park VI in Kulai, Johor, for RM402.3m. We estimate that it will report a gross gain of RM202.7m (based on its 60% stake in the land). We raise our FY25F earnings forecast by 2%, lift our TP by 8% to RM1.37 (from RM1.27) but maintain our UNDERPERFORM call.

ECOWLD is disposing of its industrial land measuring 123.1 acres in Kulai, Iskandar Malaysia to Microsoft Payments (M) Sdn Bhd for RM402.3m, which is located within its Eco Business Park VI (EBP VI) development. It anticipates the land sale to be finalized in 2HCY25.

At RM75 per sq ft (psf), we believe ECOWLD is selling the land at a significant premium to asking prices of about RM35psf in the area, we believe, given attributes of the land that could be conducive for the development of a data centre (for instance, its close proximity to utilities). Based on ECOWLD's acquisition cost of RM12 psf in Sep 2023, we estimate that it will report a gross gain of RM202.7m (based on its 60% stake in the land).

Overall, we are positive on the land sale as the presence of an internationally recognised technology leader choosing to set up a sizeable data centre here will further drive demand for EBP VI's other industrial products. Additionally, its nearby residential products are likely to benefit significantly from the spill-over effect of increased job opportunities within the Eco Business Parks, driving heightened interest and potentially higher property values in its area.

The proceeds will reduce its net gearing of 0.28x as at end-1QFY24 to 0.2x.

Forecasts. We raise our FY25F earnings forecast by 2% to reflect interest savings from the proceeds.

Valuations. We also raise our TP by 8% to RM1.37 (from RM1.27), having factored in the gains from this land sale and revised up the potential earnings for the remaining 280.6-acre land in the same project. The discount to RNAV we accord to ECOWLD is unchanged at 50%, which is slightly lower than an average of 55% for its peers to reflect stronger realisability of its projects. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

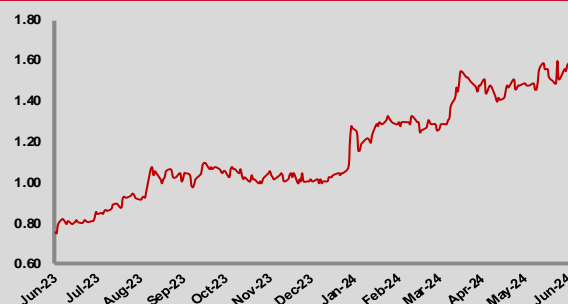
Investment case. We like ECOWLD for: (i) its strong branding attached to its products' high quality, strong resale value, and well received contemporary designs, (ii) strong responsiveness to cater to market conditions with a highly flexible product portfolio (i.e. affordable homes, aspirational-priced 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 sen/share assuming a 60% payout) following a lumpy dividend of RM214m from EWINT. However, its valuations are rich. Maintain UNDERPERFORM.

Risks to our call include: (i) recovery in the local property market, (ii) easing mortgage rates improving affordability, (iii) lower construction cost, and (iv) better overseas operations.

UNDERPERFORM ↔

Price: RM1.65
Target Price: RM1.37 ↑

Share Price Performance



KLCI	1,615.00
YTD KLCI chg	11.0%
YTD stock price chg	61.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ECW MK Equity
Market Cap (RM m)	5,007.0
Shares Outstanding	2,945.3
52-week range (H)	1.65
52-week range (L)	0.80
3-mth avg. daily vol.	7,441,667
Free Float	28%
Beta	1.0

Major Shareholders

Mayang Teratai Sdn Bhd	32.9%
Amanah Saham Nasional	9.4%
Bank of Singapore Limited	7.5%

Summary Earnings Table

FY Oct (RM m)	2023A	2024F	2025F
Turnover	2,226.9	2,352.0	2,512.5
Operating Profit	305.8	423.4	452.3
Profit Before Tax	270.0	380.5	402.6
Net Profit	189.3	285.4	302.0
Core Net Profit	271.3	285.4	302.0
Consensus (NP)	-	271.9	299.4
Earnings Revision	-	+0.1%	+2.4%
Core EPS (sen)	9.2	9.7	10.3
Core EPS Growth (%)	13.9	5.2	5.8
NDPS (sen)	6.0	6.0	6.0
BVPS (RM)	1.6	1.7	1.7
PER (x)	17.9	17.0	16.1
PBV (x)	1.0	1.0	1.0
Net Gearing (x)	0.4	0.4	0.3
Net Div. Yield (%)	3.6	3.6	3.6

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ECOWLD's RNAV and TP					
Location	Project	Stake (%)	Remaining Area (acres)	Remaining GDV (RM b)	NPV of Profit (RM m)
<u>Subsidiary</u>					
Central	EcoSky	100	-	-	-
Central	Saujana Glenmarie	100	-	-	-
Central	Eco Majestic	100	301.8	6.89	356.1
Central	Eco Forest	100	136.0	1.51	110.3
Central	Eco Sanctuary	100	36.1	4.00	262.0
Central	Se.Duduk D'Kajang	100	6.9	0.50	36.5
South	Eco Botanic & Eco Botanic 2	100	77.5	2.10	142.5
South	Eco Botanic 3	100	240.2	3.88	236.9
South	Eco Spring and Summer	100	66.0	2.16	146.6
South	Eco Tropics	100	380.5	2.16	146.6
South	Eco Business Park 1, 2, 3	100	367.6	1.80	117.9
North	Eco Terraces	100	-	0.02	1.6
North	Eco Meadows	100	15.4	0.48	36.4
<u>Joint Venture</u>					
Central	Eco Grandeur	60	796.3	7.75	265.2
Central	Eco Business Park 5	60	296.8	2.09	82.1
Central	Eco Business Park 6	60	280.7	1.58	462.0
Central	Eco Ardence	50	122.6	5.06	154.5
Central	BBCC	40	7.6	6.39	156.1
North	Eco Horizon&Sun	60	198.5	4.81	164.6
			3,330.4	53.18	2,480.1
	EWINT (27% JV)		246.3		26.1
	Unbilled Sales				
	ECOWLD (effective)	100%		2,481	187.5
	Shareholders Fund (FY23)				4,796.0
	Total RNAV (RM m)				7,489.8
	Gains from 123.1 acres land sale (EBP VI)				202.7
	Number of shares (m)				2,944.4
	RNAV/share (RM)				2.75
	Discount to RNAV				50%
	Target Price (RM)				1.37

Source: Company, Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	2,043	2,044	2,227	2,352	2,513	Growth					
Operating Profit	185	239	283	400	429	Turnover	2.3%	0.0%	9.0%	5.6%	6.8%
Depreciation	-24	-22	-22	-23	-23	EBITDA	12.0%	24.8%	17.4%	38.4%	6.8%
Interest Inc/(Exp)	-112	-97	-123	-117	-109	Operating Profit	14.9%	29.0%	18.7%	41.2%	7.2%
Associate Earnings	143	62	87	97	82	PBT	21.8%	-5.7%	19.6%	40.9%	3.6%
Profit Before Tax	239	226	270	380	403	Core Net Profit	14.1%	-0.8%	13.9%	5.2%	3.6%
Taxation	-57	-69	-81	-95	-101	Profitability					
Minority Interest	0	0	0	0	0	Operating Margin	9.1%	11.7%	12.7%	17.0%	17.1%
Net Profit	238	120	212	285	302	PBT Margin	11.7%	11.0%	12.1%	16.2%	16.0%
Core Net Profit	240	238	271	285	302	Core Net Margin	11.8%	11.7%	12.2%	12.1%	12.0%
Balance Sheet						Effective Tax Rate	23.6%	30.4%	29.9%	25.0%	25.0%
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	ROA	4.9%	1.3%	2.3%	3.2%	3.3%
Fixed Assets	166	150	144	121	98	ROE	5.0%	2.5%	4.5%	5.9%	6.1%
Intangible Assets	0	0	0	0	0	Leverage					
Other Fixed Assets	6,763	6,337	5,522	5,522	5,522	Debt/Asset (x)	0.3	0.3	0.3	0.3	0.2
Inventories	1,275	958	990	1,205	1,194	Debt/Equity (x)	0.6	0.6	0.5	0.5	0.4
Receivables	615	427	618	680	712	Net (Cash)/Debt	2,071	1,467	1,798	1,808	1,644
Other Current Assets	145	212	895	895	895	Net Debt/Equity (x)	0.4	0.3	0.4	0.4	0.3
Cash	785	1,316	734	723	526	Valuations					
Total Assets	9,749	9,400	8,903	9,147	8,946	Core EPS (sen)	8.2	8.1	9.2	9.7	10.3
Payables	921	835	790	926	961	NDPS (sen)	4.0	5.0	6.0	6.0	6.0
ST Borrowings	1,543	1,056	731	731	369	BV/sh (RM)	1.6	1.6	1.6	1.7	1.7
LT Borrowings	844	664	531	531	531	PER (x)	20.2	20.4	17.9	17.0	16.1
Other Liabilities	1,313	1,727	1,801	1,801	1,801	Div. Yield	2.4%	3.0%	3.6%	3.6%	3.6%
Total Liabilities	363	378	277	277	277	PBV (x)	1.0	1.0	1.0	1.0	1.0
Net Assets	4,765	4,738	4,774	4,882	5,008	EV/EBITDA (x)	12.9	113.3	10.9	10.1	10.4
Shareholders' Equity	4,765	4,738	4,774	4,882	5,008						
Minority Interests	0	0	0	0	0						
Total Equity	4,765	4,738	4,774	4,882	5,008						
Cashflow Statement											
FY Dec (RMm)	2021A	2022A	2023A	2024F	2025F						
Operating CF	971	936	572	186	367						
Investing CF	-63	-218	-691	97	82						
Financing CF	-578	-237	-442	-294	-647						
Net Change in Cash	329	481	-560	-11	-198						
Free CF	971	936	572	186	367						

Source: 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.	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	1.65	1.37	-17.0%	4,859.8	Y	10/2024	9.7	10.3	5.2%	5.8%	17.0	16.1	1.0	5.9%	6.0	3.6%				
IOI PROPERTIES GROUP BHD	UP	2.40	1.75	-27.1%	13,214.7	N	06/2024	14.1	14.4	23.5%	2.0%	17.0	16.6	0.6	3.4%	4.5	1.9%				
MAH SING GROUP BHD	OP	1.85	1.87	1.1%	4,736.3	Y	12/2024	10.2	11.0	14.6%	8.5%	18.2	16.8	1.2	6.5%	4.0	2.2%				
MKH BHD	OP	1.34	2.11	57.5%	773.7	Y	09/2024	18.0	20.1	41.8%	11.2%	7.4	6.7	0.4	5.3%	6.0	4.5%				
S P SETIA BHD	UP	1.48	0.800	-45.9%	7,032.6	Y	12/2024	5.9	6.1	16.0%	2.7%	25.1	24.4	0.4	1.9%	5.5	3.7%				
SIME DARBY PROPERTY BHD	MP	1.32	1.08	-18.2%	8,977.1	Y	12/2024	6.3	6.5	7.1%	3.8%	21.1	20.3	0.9	4.1%	3.0	2.3%				
SUNWAY BHD	UP	3.55	2.47	-30.4%	20,001.9	Y	12/2024	14.6	14.7	26.0%	1.2%	24.4	24.1	1.4	6.0%	6.0	1.7%				
UOA DEVELOPMENT BHD	MP	2.06	1.79	-13.1%	5,130.3	Y	12/2024	10.6	10.4	19.3%	-2.1%	19.4	19.8	0.9	4.5%	6.5	3.2%				
SECTOR AGGREGATE					64,726.4					18.8%	2.9%	20.2	19.6	0.8	4.7%		2.9%				

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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