

24 July 2024

IOI Properties Group

Buying Tropicana Mall for RM680m

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IOIPG is acquiring Tropicana Gardens Mall from Tropicana Indah Sdn Bhd, a 70%-owned unit of TROP (Not Rated) for RM680m cash. We believe the acquisition is a good opportunity for IOIPG, i.e. buying a loss-making mall at a discount to its asset value with the intention to turn it around. We maintain our forecasts, TP of RM1.75 and UNDERPERFORM call.

IOIPG is buying Tropicana Gardens Mall in Kota Damansara from Tropicana Indah Sdn Bhd for RM680m cash. The 4-year-old mall has a 7-storey retail podium with 457 stores and 2,190 car park bays. It encompasses a gross lettable area of almost 3m sq ft and is located on leasehold land expiring on 25 April 2106.

The mall was only profitable for one year since opening in Mar 2020. It made RM0.5m in FY21 (Dec), but was in the red in FY20 (-RM30.1m), FY22 (-RM11.9m) and FY23: (-RM16.0m).

We believe the move is opportunistic as IOIPG is getting the asset at a 28% discount to book value/replacement cost of RM943.6m and the intention to turn it around is backed by the group's multi-decade experience in developing and managing shopping malls.

The acquisition will increase IOIPG's net gearing of 0.73x as at end-Mar 2024 to 0.76x, which is still manageable.

Forecasts. Maintained. While we expect the mall to remain in the red over the immediate term, it is unlikely to put a significant dent on IOIPG's profits.

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 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).

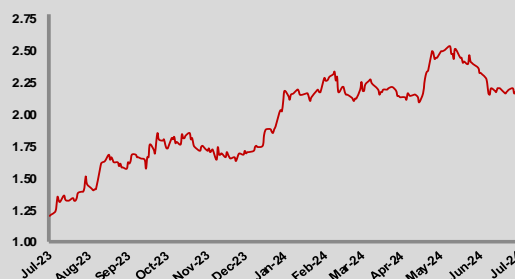
Investment case. We continue to like IOIPG due to: (i) its focus on high-value products in matured townships with its well-diversified products, (ii) its expanding investment property portfolio which provides recurring incomes, and (iii) its presence in the vibrant property sector in Singapore. However,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

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

UNDERPERFORM ↔

Price : **RM2.14**
Target Price : **RM1.75 ↔**

Share Price Performance



KLCI	1,622.62
YTD KLCI chg	11.5%
YTD stock price chg	22.3%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	IOIPG MK Equity
Market Cap (RM m)	11,783.2
Shares Outstanding	5,506.1
52-week range (H)	2.54
52-week range (L)	1.24
3-mth avg. daily vol:	9,171,895
Free Float	16%
Beta	0.9

Major Shareholders

Vertical Capacity Sdn Bhd	65.7%
Employee Provident Fund Board	7.2%
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)	-	718	838
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)	19.0	15.3	15.0
Price/BV (x)	0.54	0.52	0.51
Net Gearing (x)	0.68	0.67	0.69
Dividend Yield (%)	2.3	2.1	2.1

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	2,663	2,722	Growth					
Gross Profit	894	1,040	706	705	725	Revenue	18%	4%	0%	3%	-2%
Operating Profit	-42	-50	-63	-70	-70	Operating Profit	-7%	30%	38%	-38%	3%
Associates, JV	34	8	47	40	23	Profit Before Tax	14%	2%	47%	-37%	2%
Net Finance Income	35	2	4	4	4	Net Profit	31%	4%	103%	-44%	2%
Profit Before Tax	1,078	1,103	1,620	961	982	Core Net Profit	-10%	29%	-22%	23%	2%
Taxation	-415	-415	-219	-192	-196	Profitability					
Minority Interest	-3	-1	-7	-2	-2	Operating margin	36%	40%	27%	26%	27%
Net Profit	660	687	1,393	767	783	Pretax margin	43%	43%	62%	36%	36%
Exceptionals	795	652	630	767	783	Net profit margin	32%	25%	24%	29%	29%
Core Net Profit	2,489	2,590	2,593	2,663	2,722	Core net profit margin	38%	38%	14%	20%	20%
Balance Sheet						Effective Tax Rate	4%	2%	3%	2%	2%
FY Jun (RM m)	2020A	2021A	2022A	2023F	2024F	ROE	3%	3%	7%	3%	4%
Fixed Assets	1,531	3,054	3,296	3,226	3,156	ROA	36%	40%	27%	26%	27%
Intangibles	11	11	11	11	11	Leverage					
JVA	24,761	29,497	28,445	28,445	28,445	Debt/Equity (x)	0.3	0.4	0.4	0.4	0.4
NC Inventories (Land)	2,412	3,052	2,414	2,732	2,845	Net Debt/(Cash)	0.56	0.82	0.80	0.78	0.85
Inventories	412	723	366	520	559	Net Debt/Equity (x)	0.47	0.71	0.71	0.69	0.83
Receivable+Con.Asset	2,457	813	6,060	6,060	6,060	Valuations					
Other Assets	1,848	2,351	2,031	2,018	302	Core EPS (sen)	14.4	11.8	11.4	13.9	14.2
Cash	33,433	39,501	42,624	43,013	41,378	NDPS (sen)	2.0	4.0	5.0	4.5	45.0
Total Assets	1,081	1,117	1,442	1,312	1,372	BV/share (RM)	3.6	3.7	4.0	4.1	3.8
Payables	334	13,486	15,035	15,035	15,035	Core PER (x)	15.6	19.0	19.7	16.2	15.8
ST Borrowings	876	231	86	86	86	Net Div. Yield (%)	0.9%	1.8%	2.2%	2.0%	2.1%
LT Borrowings	10,676	3,331	2,829	2,829	2,829	PBV (x)	0.6	0.6	0.6	0.5	0.6
Other Liabilities	747	726	791	791	791						
Total Liabilities	13,714	18,891	20,183	20,054	20,114						
Net Assets	19,719	20,611	22,441	22,959	21,265						
Share Cap & Reserves	19,558	20,453	22,292	22,811	21,116						
Retained Earnings	9,656	10,233	11,403	11,922	10,227						
Shareholder's Equity	29,214	30,685	33,695	34,733	31,343						
Perps	160	158	148	148	148						
MI	29,375	30,843	33,844	34,881	31,492						
Total Equity	1,531	3,054	3,296	3,226	3,156						
Cashflow Statement											
FY Jun (RMm)	2020A	2021A	2022F	2023F	2024F						
Operating CF	1,019	694	1,556	190	735						
Investing CF	-287	-5,246	-176	4	4						
Financing CF	-398	5,038	-1,057	-207	-2,455						
Net Change in Cash	334	486	322	-14	-1,716						

Source: Kenanga Research

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IOIPG's RNAV			
Project	Remaining Land Bank (acres)	Outstanding GDV (RM b)	NPV of profit (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.	1-Yr. Fwd.	1-Yr. Fwd.		
PROPERTY DEVELOPERS																					
ECO WORLD DEVELOPMENT GROUP	UP	1.68	1.41	-16.1%	4,953.9	Y	10/2024	9.7	10.0	5.2%	3.6%	17.3	16.7	1.0	5.9%	6.0	3.6%				
IOI PROPERTIES GROUP BHD	UP	2.17	1.75	-19.4%	11,948.3	N	06/2024	14.1	14.4	23.4%	2.1%	15.4	15.0	0.3	2.3%	4.5	2.1%				
MAH SING GROUP BHD	MP	1.91	1.88	-1.6%	4,889.9	Y	12/2024	10.2	11.0	14.6%	8.5%	18.8	17.3	1.2	6.5%	4.0	2.1%				
MKH BERHAD	OP	1.34	1.83	36.6%	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	1.71	0.850	-50.3%	8,143.8	Y	12/2024	5.9	6.1	17.0%	2.5%	28.7	28.0	0.4	1.9%	4.5	2.6%				
SIME DARBY PROPERTY BHD	UP	1.61	1.08	-32.9%	10,949.4	Y	12/2024	6.3	6.5	7.1%	3.8%	25.7	24.7	1.0	4.1%	3.0	1.9%				
SUNWAY BHD	UP	4.28	2.66	-37.9%	24,165.3	Y	12/2024	14.6	14.7	26.0%	1.2%	29.4	29.1	1.6	6.0%	6.0	1.4%				
UOA DEVELOPMENT BHD	UP	1.90	1.79	-5.8%	4,731.8	Y	12/2024	10.6	10.4	19.3%	-2.1%	17.9	18.3	0.8	4.5%	6.5	3.4%				
SECTOR AGGREGATE					70,556.0					18.8%	2.7%	22.0	21.4	0.9	4.6%		2.7%				

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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