

20 September 2019

Eco World Dev. Group

9M19 Below Expectations

By Marie Vaz | msvaz@kenanga.com.my

9M19 CNP of RM122m came below our (67%) and consensus (64%) expectations. 10M19 local sales of RM1.9b (64% of FY19E) and 27%-owned associate EWINT's overseas sales of RM773m* are deemed below expectation. No dividends, as expected. Both ECOWLD and EWINT are maintaining sales target of RM12b* over FY19-20. We lower our FY19-20E CNP by 5%-3% to RM172-209m. Maintain OP with a lower TP of RM0.750.

Below expectations. 9M19 CNP of RM122m came in below our (67%) and consensus (64%) expectations. Top-line came in within, but bottom-line missed our expectations on lower-than-expected associate/JV contributions (58% of our expectations), as we were more bullish on contributions from the Malaysia joint-venture projects and EWINT. 10M19 sales of RM1.94b was also below forecast at 64% of our FY19E local sales target of RM3.01b. EWINT (27% associate), recorded RM773m* sales over 10M19, which we also deem as below our FY19E target of RM2.38b*, but we believe the bulk of sales may be back loaded to FY20 as it is expected to be lumpy from London build-to-rent (BtR) projects, and also given the challenging London market prior to the Brexit outcome. No dividends, as expected.

Result highlight. YoY-Ytd, top-line was up marginally by 2% on increased recognitions. However, bottom-line increased by 51% on the back of: (i) higher other operating income (+51%), (ii) higher associate/JCE contributions (+335%) from increased contributions from the Malaysian projects such as Eco Grandeur & Eco Business Park V, Eco Horizon, Eco Ardence and Bukit Bintang City Centre (BBCC), as well as a jump in contributions from EWINT (vs. loss making previously), and (iii) a lower effective tax rate of 24.5% (vs. 31.4%). **QoQ**, top-line was down by 4% on slightly lower recognitions this quarter. However, bottom-line was up by 23% mainly from increased contributions from associate/JCE contributions (172%) and on the back of lower effective tax rate of 22.8% (vs. 26.4%).

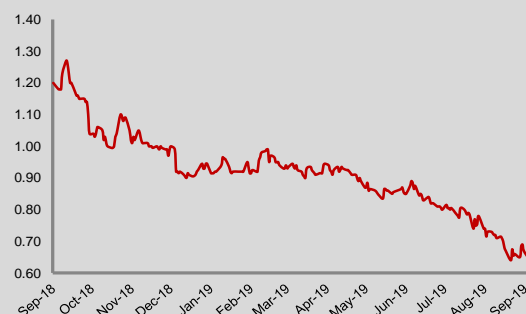
Outlook. The Group is maintaining its 2-year sales target of RM12.0b* over FY19-20, where ECOWLD targets RM6.0b local sales in FY19-20, while EWINT is also targeting RM6.0b* international sales over the same period. Going forward, we expect stronger earnings in coming quarters driven by healthy contributions from ongoing projects as well as JCE projects, especially from EWINT in 4Q19 onwards. Both ECOWLD and EWINT may look to declare their first maiden dividends in FY19, although details on pay-out ratios and dividend policies will only be made known towards the later part of FY19. **Lower FY19-20E CNP by 5%-3% to RM172-209m. Unbilled sales of RM5.9b provide 2-3 years' visibility.**

Maintain OUTPERFORM but on a lower Target Price of RM0.750 (from RM1.15). Our TP implies a higher FD SoP discount of 67% (from 64%) and on a lower FD SoP of RM2.28 (from RM3.18) as we lower project margins closer to current levels. Our applied discount is pegged at the -2.0SD levels to its historical average which is at the lower-end compared to our universe's applied discount levels (which are between -1.0SD to -2.0SD) given its thinner margins and high net gearing. The increased discount is also in line with weaker sentiment attached to the property sector which has caused the KLPRP to decline by 10%. However, we believe this is a good time to accumulate ECOWLD as it has been a laggard amongst peers declining by 31% YTD while comparable peers have only declined by 10% on average and is trading at a PBV of 0.4x vs. peers of 0.4-0.6x. We are comfortable with our OP call as we expect earnings to kick in mostly in FY20, while a commitment to dividends via a policy would affirm our call as well as act as confirmation for better earnings ahead.

OUTPERFORM ↔

Price : RM0.645
Target Price : RM0.750 ↓

Share Price Performance



KLCI 1,596.28
YTD KLCI chg -5.6%
YTD stock price chg -28.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ECW MK Equity
Market Cap (RM m)	1,899.1
Shares Outstanding	2,944.4
52-week range (H)	1.28
52-week range (L)	0.63
3-mth avg daily vol:	3,554,452
Free Float	27%
Beta	0.8

Major Shareholders

Sinarماس Harta Sdn Bhd	32.9%
Liew Tian Xiong	17.1%
Eco World Developmen Holdings Sdn Bhd	7.5%

Summary Earnings Table

FYE Oct (RM m)	2018A	2019E	2020E
Turnover	2,172	2,135	1,775
EBIT	260	255	192
PBT	217	233	282
Net Profit (NP)	166	207	209
Core NP	166	172	209
Consensus (CNP)	n.a.	180	212
Earnings Revision	n.a.	-5%	-3%
Core EPS (sen)	5.6	5.9	7.1
Core EPS growth (%)	46%	4%	21%
NDPS (sen)	0.0	0.9	1.1
BVPS (RM)	1.27	1.32	1.38
Core PER (x)	11.5	11.0	9.1
Price/BV (x)	0.4	0.4	0.4
Net Gearing (x)	0.75	0.70	0.65
Dividend Yield (%)	0.0%	1.4%	1.6%

20 September 2019

OTHER POINTS

Lower FY19-20E CNP by 5%-3% to RM172-209m. We lower our FY19E CNP as we push back our sales and recognitions to FY20 for the Malaysian joint-venture projects, and on lower JCE contributions due to lower-than-expected EWINT sales and recognitions. Additionally, we lower margins closer to current levels of 11% PBT margins (from 13% previously). All in, we reduced FY19 sales target to RM2.7b (from RM3.0b) and increase FY20E sales to RM3.3b (from RM3.0b). Note that ECOWLD is maintaining its sales target of RM6b* over FY19-20 and as such we believe sales would be back loaded to FY20. Unbilled sales of RM5.9b provide 2-3 years' visibility.

EWINT's results highlights. EWINT registered sales of RM773m in 10M19 that came in below expectation, at 33% of our FY19 target of RM2.38b* while management is targeting RM6b* collectively in FY19-20 (note that individual year's sales targets were not provided) as challenging market conditions in London and political uncertainties surrounding Brexit have caused potential buyers to defer purchases. 9M19 CNP of RM68.7m* (38% of our FY19E of RM181m) is deemed below as we were expecting strong contributions in 2H19 from the delivery of London City Island (LCI)'s remaining residential blocks from mid-FY19 and Embassy Gardens Block A05 in 2H19 but reckon that part of these recognitions may be pushed to FY20.

YoY-Ytd, EWINT has turned profitable to RM68.7m* from a CNL of RM23.8m* in 9M18 on revenue commencement and profit recognition from its United Kingdom projects namely London City Island following the completion and handover of units sold to customers and profit recognition of EcoWorld London's Built-to-Rent (BtR) sales.

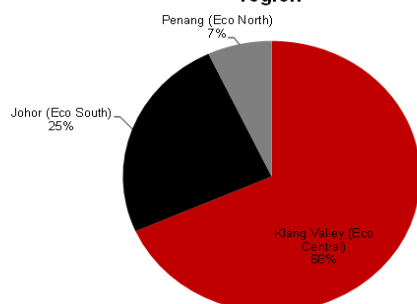
Going forward, due to tough market conditions in the United Kingdom, the Group plans to expand its BtR footprint and is in talks with big funds from US, UK and Malaysia to help lock-in sales at an earlier stage prior to completion of construction. This would help EWINT to quickly achieve its sales targets. We trim EWINT's FY19E earnings by 29% to RM131m on slower sales to RM2.1b (from RM2.38b) due to the challenging market and the wait-and-see approach taken prior to Brexit, and lower recognitions in FY19 mainly from Embassy Gardens which would materialise mostly in FY20 vs. our expectation of FY19 previously. As a result, we increase FY20E earnings by 4% to RM496m on the back of higher sales target of RM3.4b (from RM3.0b). This is on the back of a lower forex rate of £1:RM5.02 FY19-20 closer to current levels, (from RM5.35).

Risks to our call include: (i) weaker-than-expected property sales, (ii) higher-than-expected overheads/finance costs, (iii) timing of EWI project deliveries, and (iv) changes in real estate policies/lending environment.

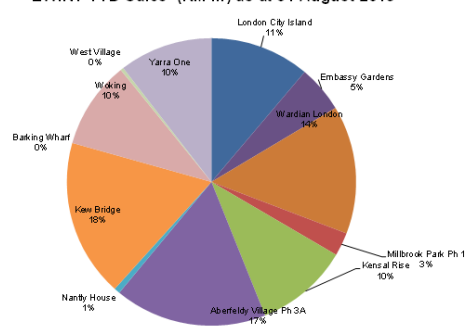
*Before accounting for ECOWLD's effective stake of 27% in EWINT

10M19 ECOWLD Local and EWINT Sales Composition

Local YTD Sales (RM'm) as at August 2019 by region



EWINT YTD Sales (RM'm) as at 31 August 2019



Source: Company, Kenanga Research

20 September 2019

Results Highlights

FYE: 31st Oct (RMm)	3Q19	2Q19	QoQ	3Q18	YoY	9M18	9M19	Ytd-YoY
Revenue	521.4	543.2	-4%	454.6	15%	1523.6	1555.8	2%
Op costs w/o depn/amort	-474.4	-480.2	-1%	-417.7	14%	-1360.3	-1410.9	4%
Other Op Income	13.4	14.0	-4%	8.2	64%	26.5	40.0	51%
EBITDA	60.4	77.0	-22%	45.2	34%	189.7	184.9	-3%
EBIT	52.1	67.0	-22%	37.2	40%	169.7	160.3	-6%
Finance Cost	-24.5	-24.9	-2%	-23.9	3%	-69.7	-74.8	7%
Associate + JCE	37.8	13.9	172%	20.3	86%	17.5	76.0	335%
FV/one-offs	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Pretax profit	65.3	56.0	17%	33.6	94%	117.5	161.5	37%
Taxation	-14.9	-14.8	1%	-5.9	153%	-36.9	-39.6	7%
Minority Interests	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net profit	50.5	41.2	23%	27.7	82%	80.6	122.0	51%
Core net profit	50.5	41.2	23%	27.7	82%	80.6	122.0	51%
EPS (sen)	1.71	1.40	22%	0.94	82%	2.44	4.14	70%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	n.a.
NTA/share (RM)	1.50	1.49		1.46		1.46	4.47	
Net gearing/(cash) (x)	0.75	0.78		0.79		0.79	0.75	
EBIT Margin	10.0%	12.3%		8.2%		11.1%	10.3%	
Pretax margin	12.5%	10.3%		7.4%		7.7%	10.4%	
Effective tax rate	22.8%	26.4%		17.5%		31.4%	24.5%	

Source: Company, Kenanga Research

FD SOP

Projects	Location	Stake	Assumed Duration (Yrs)	Remaining GDV + Unbilled (RM'm)	Remaining Net Profit *** (RM'm)	WACC (%)	DCF Value (RM m)***
Eco Spring & Summer	Tebrau, Iskandar Malaysia	100%	7	5,235	299	11%	201.4
Eco Business Park I	Tebrau, Iskandar Malaysia	100%	4	3,310	189	11%	146.7
Eco Business Park II	Senai, Iskandar Malaysia	100%	3	3,010	172	11%	140.1
Eco Business Park III	Pasir Gudang, Iskandar Malaysia	100%	3	1,930	110	11%	89.8
Eco Tropics	Pasir Gudang, Iskandar Malaysia	100%	7	2,982	170	11%	114.7
Eco Botanic	Nusajaya, Iskandar Malaysia	100%	4	2,777	159	11%	123.1
Eco Majestic	Semenyih, Klang Valley	100%	10	10,077	576	11%	339.2
Eco Sky	Taman Wahyu, KL, Klang Valley	100%	3	651	37	11%	30.3
Eco Sanctuary	Kota Kemuning, Klang Valley	100%	7	7,767	444	11%	298.8
Saujana Glenmarie	Glenmarie, Klang Valley	100%	2	13	1	11%	0.6
Eco Terraces	Paya Terubong, Eco North, Penang	100%	2	407	23	11%	19.9
Eco Meadows	Eco North, Penang	100%	3	882	50	11%	41.0
Eco Macalister	Eco North, Penang	100%	4	192	11	11%	7.7
Eco Forest - Purchase land on "en-bloc" basis	Semenyih near Eco Majestic, ULU LANGAT, Selangor	100%	6	3,500	200	11%	127.1
BBCC (excl. Retail Portfolio)	Bukit Bintang, (Pudu Jail)	40%	7	6,765	122	11%	82.0
BBCC - Retail Portfolio (excl. implied land cost of Retail Portfolio)	Bukit Bintang, (Pudu Jail)	12%	5	1,600	9	11%	6.4
Eco Ardence	Mukim Bukit Raja	50%	8	8,431	237	11%	152.5
Eco Grandeur/EBP V	Kuala Selangor	60%	13	15,096	509	11%	264.5
Eco Horizon/Sun	Batu Kawan Penang	60%	7	7,762	262	11%	176.3
EWI		27%	0	28,589	838	10%	408.7
Shareholder's Funds (@ 4Q16)							3,786.7
Placement (Announced Apr 2016, placed post Oct 2016)							268.2
Property RNAV							6,825.8
Dilution Impact							1,092.8
FD SOP							7,918.6
FD SOP/share (RM)							MYR 2.28
FD No. of shs ('m)							3,469.9
Property RNAV Discount (excl. warrants effect)							-78%
Implied SOP Discount							-67%
TP (RM)							MYR 0.750

Source: Kenanga Research

20 September 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	(RM)	
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.06	387.0	Y	12/2019	-22.4%	-3.1%	-75.5%	-3.8%	16.2	65.9	68.5	0.5	0.5	0.8%	0.0%	1.00	UP	
ECO WORLD DEVELOPMENT GROUP	0.645	1,899.1	Y	10/2019	-1.7%	-16.9%	3.6%	21.5%	11.5	11.0	9.1	0.4	0.4	4.6%	1.4%	0.750	OP	
HUA YANG BHD	0.340	119.7	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	14.6	16.5	0.2	0.2	1.4%	0.0%	0.335	UP	
IOI PROPERTIES GROUP BHD	1.15	6,332.1	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	9.6	9.9	9.1	0.3	0.3	3.5%	4.3%	1.65	OP	
LBS BINA GROUP BHD	0.510	792.8	Y	12/2019	31.3%	0.9%	-22.4%	9.5%	9.3	12.0	11.0	0.6	0.5	4.8%	2.5%	0.495	MP	
MAGNA PRIMA BHD	1.05	349.3	Y	12/2019	-5.6%	28.8%	-572.6%	-139.5%	N.A.	N.A.	N.A.	0.7	0.7	-2.0%	0.0%	0.710	UP	
MAH SING GROUP BHD	0.785	1,905.7	Y	12/2019	-0.1%	10.3%	-16.4%	14.1%	11.6	13.8	12.2	0.5	0.5	4.5%	5.1%	1.00	OP	
MALAYSIAN RESOURCES CORP BHD	0.735	3,242.9	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	42.8	913.3	31.6	0.7	0.7	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.870	5,916.7	Y	12/2019	127.9%	3.9%	7861.6%	-2.3%	846.5	10.6	10.9	0.6	0.6	5.9%	3.8%	1.10	OP	
SP SETIA BHD	1.47	5,942.4	Y	12/2019	5.5%	24.3%	27.2%	46.0%	27.0	21.3	14.6	0.4	0.4	1.9%	4.8%	1.85	MP	
SUNSURIA BHD	0.670	600.3	Y	09/2019	-2.7%	7.3%	-4.0%	4.8%	4.5	4.7	4.5	0.6	0.6	14.5%	0.0%	0.760	MP	
SUNWAY BHD	1.65	8,030.0	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	13.8	15.0	13.6	1.0	0.9	6.3%	3.6%	1.60	MP	
UEM SUNRISE BHD	0.695	3,153.5	Y	12/2019	37.0%	-14.3%	5.9%	-18.1%	9.7	9.1	11.1	0.5	0.5	4.8%	2.2%	0.835	OP	
UOA DEVELOPMENT BHD	1.99	3,912.4	Y	12/2019	0.6%	-0.4%	4.4%	0.8%	11.0	10.6	10.5	0.8	0.8	7.4%	7.0%	2.15	MP	
Simple Average																		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.370	288.1	Y	04/2020	12.9%	38.7%	14.1%	93.5%	19.6	17.1	8.9	0.3	N.A.	1.6%	2.4%	0.405	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.90	1,563.3	Y	03/2020	4.6%	3.2%	7.6%	7.5%	7.2	6.7	6.2	1.0	1.0	16.3%	6.8%	2.28	BUY	
PARAMOUNT CORP BHD	1.32	800.8	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	8.7	8.5	8.1	1.0	N.A.	7.2%	4.8%	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.760	329.4	Y	12/2019	-11.1%	1.5%	-21.2%	1.9%	5.9	7.5	7.4	0.5	0.5	6.7%	5.9%	0.863	BUY	
TITIJAYA LAND BHD	0.300	380.4	Y	06/2020	8.7%	20.9%	22.4%	21.5%	10.9	8.9	7.3	0.3	0.3	2.9%	42.0%	0.280	N.A	
YONG TAI BHD	0.210	144.7	Y	06/2020	132.7%	8.3%	-3768.9%	-134.2%	N.A.	N.A.	N.A.	0.3	0.3	-1.9%	0.0%	0.230	N.A	

Source: Kenanga Research

20 September 2019

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.

Published and printed 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

