

21 June 2024

Eco World Dev. Group

Robust Sales but Priced In

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ECOWLD's 1HFY24 results met expectations. Its 1HFY24 core net profit grew 17% YoY on better property sales and the turnaround of 27%-owned EWINT (Not Rated). It is on track to meet its FY24 sales target of RM3.5b with RM2.2b achieved in 1HFY24. We keep our forecasts but raise our TP by 3% to RM1.41 (from RM1.37). Maintain UNDERPERFORM.

ECOWLD's 1HFY24 core net profit of RM139.7m met expectations, coming in at 49% and 50% of our full-year forecast and the full-year consensus estimate, respectively.

YoY, its 1HFY24 revenue increased by 21% due to higher contributions from active and newly launched phases. Its core net profit grew slightly slower at 17% due to a softer gross margin (from a high base a year ago due to bumper profit recognition from a large number of completed units) and higher tax, partially cushioned by higher interest income and the turnaround in EWINT (on favourable forex movements).

QoQ, both its 2QFY24 revenue and net profit were flattish.

The key highlights from its analyst briefing are as follows:

1. It is keeping its FY24 sales target of RM3.5b, despite having already achieved RM2.2b during 1HFY24. Given the buffer from strong sales in 1HFY24, ECOWLD will focus on maximising margins in 2HFY24.
2. Similarly, 27%-owned EWINT reported strong sales of RM518.0m in 1HFY24, on track to meet its full-year target of RM850.0m. However, EWINT remains cautious on putting new launches onto the market given the still soft property market in the UK at present.
3. With the launch of Sa.Young 2 at Eco Botanic 2 in Iskandar Malaysia, ECOWLD's affordable "Duduk" series priced at below RM500k is now available across the Central, Northern, and Southern regions. Since 2020, they have launched seven Duduk projects, with two more to be rolled out in 2HFY24 in Eco Majestic and Kajang.
4. It registered RM420m sales of industrial products in 1HFY24, specifically from Eco Business Parks. It is riding on the strong demand for industrial products by launching Eco Business Park VI in Kulai, Johor, in FY25. Its recent land sale to Microsoft could open the door for more buyers, both local and international, as Microsoft's presence could help catalyse business activities in the surrounding areas.
5. It is on the lookout for new landbank, mainly in Klang Valley and Iskandar Malaysia, backed by a strong war chest with a net gearing of 0.24x.

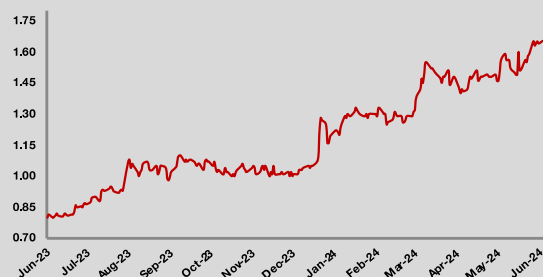
Forecasts. Maintained.

Valuations. Against an unchanged 50% discount to RNAV (vs. an average of 55% for its peers), we raise our TP by 3% to RM1.41 (from RM1.37) as we update our RNAV to account for the group's new sizeable additions to the group's pipeline, and updating our unbilled sales inputs given the group's strong success in pushing its product launches. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

UNDERPERFORM ↔

Price : RM1.58
Target Price : RM1.41 ↑

Share Price Performance



KLCI	1,591.49
YTD KLCI chg	9.4%
YTD stock price chg	50.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	ECW MK Equity
Market Cap (RM m)	4,653.6
Shares Outstanding	2,945.3
52-week range (H)	1.65
52-week range (L)	0.81
3-mth avg. daily vol.	7,943,939
Free Float	28%
Beta	1.0

Major Shareholders

Sinarماس Harta Sdn Bhd	32.9%
Liew Kee Sin	9.4%
Eco World Development	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	394.3
Net Profit	189.3	285.4	295.7
Core Net Profit	271.3	285.4	295.7
Consensus (NP)	-	277.5	307.9
Earnings Revision	-	-	-
Core EPS (sen)	9.2	9.7	10.0
Core EPS Growth (%)	13.9	5.2	3.6
NDPS (sen)	6.0	6.0	6.0
BVPS (RM)	1.6	1.7	1.7
PER (x)	17.1	16.3	15.7
PBV (x)	1.0	1.0	0.9
Net Gearing (x)	0.4	0.4	0.1
Net Div. Yield (%)	3.8	3.8	3.8

21 June 2024

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. However, its valuations have become fair after the recent run-up in its share price. Maintain **UNDERPERFORM**.

Risks to our call include: (i) a stronger-than-expected recovery in the local property market, (ii) easing mortgage rates improving affordability, (iii) lower construction cost, and (iv) improved contributions from overseas operations.

Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Oct (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	555.8	537.8	3.3%	420.8	32.1%	1,093.5	905.6	20.8%
Cost of Sales	-408.3	-409.4	-0.3%	-313.2	30.3%	-817.7	-671.6	21.8%
Gross Profit	147.5	128.3	14.9%	107.6	37.1%	275.8	233.9	17.9%
Other income	25.6	34.5	-25.6%	22.5	14.0%	60.1	44.1	36.2%
Selling and marketing	-8.5	-7.0	21.4%	-8.1	3.7%	-15.4	-14.5	6.7%
Administrative expenses	-41.9	-47.6	-12.0%	-35.6	17.7%	-89.5	-78.7	13.8%
EWINT Impairment Loss	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Operating Profit	122.8	108.2	13.4%	86.3	42.2%	231.0	184.9	24.9%
JV - Malaysia	12.7	18.6	-31.9%	24.1	-47.4%	31.2	47.4	-34.1%
JV - International	-1.2	1.3	-196.2%	0.3	-542.6%	0.0	-4.9	-101.0%
Associate	-4.4	-5.6	-21.1%	-2.9	52.8%	-10.0	-9.5	5.0%
Finance costs	-29.6	-30.1	-1.8%	-28.8	2.7%	-59.6	-59.1	1.0%
Impairment loss on financial instruments	-1.7	0.0	N.M	-0.2	777.9%	-1.7	-0.2	777.9%
Pre-tax Profit	98.5	92.4	6.6%	78.8	25.0%	191.0	158.6	20.4%
Taxation	-28.5	-22.8	24.9%	-16.1	76.6%	-51.3	-38.9	31.7%
Minority Interests	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Net Profit	70.0	69.6	0.6%	62.7	11.7%	139.7	119.7	16.7%
Exceptional	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Core Net Profit	70.0	69.6	0.6%	62.7	11.7%	139.7	119.7	16.7%
Dividend Per Share (sen)	2.0	0.0	N.M	2.0	0.0%	2.0	2.0	0.0%
Net Gearing	0.25	0.28		0.31		0.25	0.31	
Gross Profit margin	26.5%	23.9%		25.6%		25.2%	25.8%	
Operating Profit margin	22.1%	20.1%		20.5%		21.1%	20.4%	
Pretax margin	17.7%	17.2%		18.7%		17.5%	17.5%	
Core net profit margin	12.6%	12.9%		14.9%		12.8%	13.2%	
Effective tax rate	-28.9%	-24.7%		-20.5%		-26.9%	-24.5%	

Source: Company, Kenanga Research

21 June 2024

ECOWLD's RNAV and TP					
Location	Project	Stake (%)	Remaining Area (acres)	Remaining GDV (RM b)	NPV of Profits (RM m)
<u>Subsidiary</u>					
Central	EcoSky	100%	-	-	-
Central	Eco Majestic	100%	301.8	6.9	418.9
Central	Eco Forest	100%	136.0	1.5	108.8
Central	Eco Sanctuary	100%	36.1	4.0	260.0
Central	Se.Duduk D'Kajang	100%	6.9	0.5	39.4
Central	Eco Business Park 6	100%	280.7	1.6	107.2
South	Eco Botanic & Eco Botanic 2	100%	73.6	1.9	129.6
South	Eco Botanic 3	100%	240.3	3.9	254.1
South	Eco Spring and Summer	100%	63.0	1.9	132.3
South	Eco Tropics	100%	380.5	2.1	138.8
South	Eco Business Park 1, 2, 3	100%	367.6	1.7	108.1
North	Eco Terraces	100%	-	0.0	0.8
North	Eco Meadows	100%	15.4	0.5	36.4
<u>Joint Venture</u>					
Central	Eco Grandeur	60%	477.8	4.63	292.5
Central	Eco Business Park 5	60%	176.9	1.22	86.1
Central	Eco Ardence	50%	61.3	2.51	164.4
Central	BBCC	40%	3.1	2.54	179.1
North	Eco Horizon & Sun	60%	107.8	2.84	173.6
			2,728.7	40.1	2,630.1
EWINT (27% JV)			246.3		26.1
Unbilled Sales					
ECOWLD (effective)		100%		2,481	187.5
Shareholders Fund (FY23)					4,773.5
Total RNAV (RM m)					7,954.8
Gains from 123.1 acres land sale (EBP VI)					337.5
Number of shares (m shares)					2,944.4
RNAV/share (RM)					2.82
Discount to RNAV (%)					50%
Target Price (RM)					1.41

Source: Company, Kenanga Research

21 June 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)		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	1.58	1.41	-10.8%	4,653.6	Y	10/2024	9.7	10.0	5.2%	3.6%	16.3	15.7	1.0	5.9%	6.0	3.8%				
IOI PROPERTIES GROUP BHD	UP	2.33	1.75	-24.9%	12,829.3	N	06/2024	14.1	14.4	23.5%	2.0%	16.5	16.2	0.6	3.4%	4.5	1.9%				
MAH SING GROUP BHD	OP	1.75	1.87	6.9%	4,480.2	Y	12/2024	10.2	11.0	14.6%	8.5%	17.2	15.9	1.1	6.5%	4.0	2.3%				
MKH BHD	OP	1.32	2.11	59.8%	762.2	Y	09/2024	18.0	20.1	41.8%	11.2%	7.3	6.6	0.4	5.3%	6.0	4.5%				
S P SETIA BHD	UP	1.40	0.850	-39.3%	6,662.7	Y	12/2024	5.9	6.1	17.0%	2.5%	23.5	23.0	0.4	1.9%	4.5	3.2%				
SIME DARBY PROPERTY BHD	MP	1.37	1.08	-21.2%	9,317.2	Y	12/2024	6.3	6.5	7.1%	3.8%	21.9	21.0	0.9	4.1%	3.0	2.2%				
SUNWAY BHD	UP	3.72	2.47	-33.6%	20,961.5	Y	12/2024	14.6	14.7	26.0%	1.2%	25.6	25.3	1.4	6.0%	6.0	1.6%				
UOA DEVELOPMENT BHD	MP	2.03	1.79	-11.8%	5,055.5	Y	12/2024	10.6	10.4	19.3%	-2.1%	19.1	19.5	0.9	4.5%	6.5	3.2%				
SECTOR AGGREGATE					64,722.1					18.8%	2.7%	20.2	19.7	0.8	4.7%		2.8%				

Source: Kenanga Research

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21 June 2024

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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