

26 June 2024

IOI Properties Group

To Redevelop Singapore's Shenton House

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IOIPG has received a proposal from its CEO to redevelop Shenton House in Singapore, which he acquired for SGD538.0m (c.RM1.9b). IOIPG need to fork out another SGD476m (RM1.7b) for land premium, etc, in addition to the development cost. We take comfort in Shenton House's strategic location and Singapore's stature as a global financial centre. We maintain our forecasts, TP of RM1.75 and UNDERPERFORM call.

IOIPG has received a proposal from its CEO, Mr Lee Yeow Seng, to take part in the development of Shenton House, a commercial property in Singapore that has been successfully tendered for at SGD538.0m (c.RM1.9b). The building was bought by Shenton 101, a company owned by Mr. Lee. He pursued the bid via his private vehicle rather than through IOIPG due to the acquisition's size and the tight timeline set by its collective sales committee. The 3,377 sq m (i.e. 36,346 sq ft) Shenton House site appears to be intended for the development of a Grade A office with luxury-branded service residences, which is scheduled for construction at end-CY25 or 1HFY26. The current land lease of Shenton House has approximately 44 years remaining, with the potential to be extended to a fresh 99-year leasehold.

IOIPG will acquire Shenton 101 from Mr. Lee. In addition, IOIPG will have to fork out and additional SGD476m (RM1.7b) for land betterment premium, lease top-up premium and transaction expenses. This total outlay of SGD1,104m (RM3.55b) does not include the development cost.

We are mindful of the size of the investment outlay for IOIPG. The initial investment of SGD1,104m (RM3.55b) alone will increase its net debt and gearing of RM16.7b and 0.73x as at end-Mar 2024 to RM20.3b and 0.89x. Nonetheless, we take comfort in Shenton House's strategic location and Singapore's stature as one of the top financial centres in the world.

Forecasts. Maintained as contribution from the investment will not come in within our forecast period.

Valuation. Similarly, we maintain our TP as it is premature to put a value to the return from this investment. Our RNAV-based TP of RM1.75 is based on a 60% discount to its RNAV (see Page 3), vs. industry average of 55% as we include the above-mentioned development into our RNAV computation with an assumed development timeline of five years, typical of projects based in Singapore. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

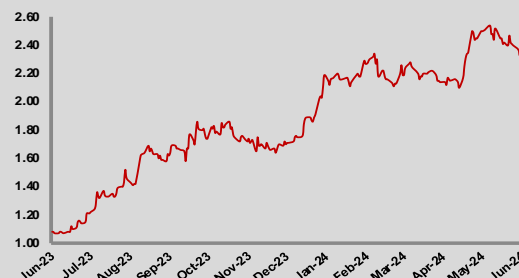
Investment case. We continue to like IOIPG due to: (i) its focus on high-value products at matured townships with its well-diversified products, (ii) its expanding investment property portfolio which provides recurring incomes, and (iii) its presence in the vibrant property sector in Singapore. However,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

Risks to our call include: (i) a 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 : RM2.25
Target Price : RM1.75

Share Price Performance



KLCI	1,586.59
YTD KLCI chg	9.1%
YTD stock price chg	22.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	IOIPG MK Equity
Market Cap (RM m)	11,838.2
Shares Outstanding	5,506.1
52-week range (H)	2.54
52-week range (L)	1.07
3-mth avg. daily vol.	8,042,889
Free Float	16%
Beta	0.9

Major Shareholders

Vertical Capacity Sdn Bhd	65.7%
Employee Provident Fund Board	6.7%
Amanah Saham Nasional	6.4%

Summary Earnings Table

FYE Jun (RM m)	2023A	2024F	2025F
Turnover	2,593	2,663	2,722
Operating Profit	770	775	795
Profit Before Tax	1,620	975	996
Net Profit	1,400	778	794
Core Net Profit	630	778	794
Consensus (NP)	-	722	847
Earnings Revision	-	-	-
Core EPS (sen)	11.4	14.1	14.4
Core EPS Growth (%)	(3.3)	23.3	2.1
NDPS (sen)	5.0	4.5	45.0
BVPS (RM)	4.0	4.1	3.8
PER (x)	19.7	15.9	15.6
PBV (x)	0.6	0.5	0.6
Net Gearing (x)	0.7	0.7	0.8
Net Div. Yield (%)	2.2	2.0	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 Growth	2021A	2022A	2023A	2024F	2025F
Revenue	2,489	2,590	2,593	2,663	2,722	Turnover	4%	4%	0%	3%	2%
Operating Profit	894	1,040	706	705	725	EBITDA	30%	16%	-29%	1%	3%
Depreciation	-42	-50	-63	-70	-70	Operating Profit	2%	16%	-32%	0%	3%
Interest Inc/(Exp)	34	8	47	54	37	PBT	4%	2%	47%	-40%	2%
Associate Earnings	35	2	4	4	4	Core Net Profit	29%	-18%	-3%	23%	2%
Profit Before Tax	1,078	1,103	1,620	975	996	Profitability					
Taxation	-415	-415	-219	-195	-199	Operating margin	36%	40%	27%	26%	27%
Minority Interest	-3	-1	-7	-2	-2	Pretax margin	43%	43%	62%	37%	37%
PATAMI	660	687	1,393	778	794	Core net profit margin	32%	25%	24%	29%	29%
Core PATAMI	795	652	630	778	794	Effective Tax Rate	38%	38%	14%	20%	20%
Balance Sheet						ROE	4%	2%	3%	2%	2%
FY Jun (RM m)	2021A	2022A	2023A	2024F	2025F	ROA	3%	3%	7%	3%	4%
Fixed Assets	1,531	3,054	3,296	3,226	3,156	Leverage					
Intangible Assets	11	11	11	11	11	Debt/Equity (x)	0.56	0.82	0.80	0.78	0.85
Other Fixed Assets	24761	29497	28445	28445	28445	Net Debt/(Cash)	9162	14466	15152	15155	16860
Inventories	2,412	3,052	2,414	2,732	2,845	Net Debt/Equity (x)	0.47	0.71	0.68	0.66	0.80
Receivables	412	723	366	520	559	Valuations					
Other Current Assets	2,457	813	5,380	5,380	5,380	Core EPS (sen)	14.4	11.8	11.4	14.1	14.4
Cash	1,848	2,351	2,711	2,709	1,004	NDPS (sen)	2.0	4.0	5.0	4.5	45.0
Total Assets	33,433	39,501	42,624	43,024	41,400	BV/sh (RM)	3.6	3.7	4.0	4.1	3.8
Payables	1,081	1,117	1,442	1,312	1,372	PER (x)	15.6	19.0	19.7	15.9	15.6
ST Borrowings	334	13,486	15,035	15,035	15,035	Div. Yield (%)	0.9%	1.8%	2.2%	2.0%	2.1%
Other ST Liability	876	231	86	86	86	PBV (x)	0.6	0.6	0.6	0.5	0.6
LT Borrowings	10,676	3,331	2,829	2,829	2,829	EV/EBITDA (x)	(3.7)	(8.5)	(12.2)	(13.6)	(15.7)
Other LT Liability	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	22,970	21,287						
Share Cap & Reserves	19,558	20,453	22,292	22,822	21,138						
Retained Earnings	9,656	10,233	11,403	11,933	10,249						
Shareholder's Equity	29,214	30,685	33,695	34,755	31,387						
MI	160	158	148	148	148						
Total Equity	29,375	30,843	33,844	34,903	31,536						
Cashflow Statement											
FY Jun (RMm)	2021A	2022A	2023A	2024F	2025F						
Operating CF	1,019	694	1,556	187	732						
Investing CF	-287	-5,246	-176	4	4						
Financing CF	-398	5,038	-1,057	-194	-2,441						
Net Change in Cash	334	486	322	-3	-1,704						

Source: Kenanga Research

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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

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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.
PROPERTY DEVELOPERS																	
ECO WORLD DEVELOPMENT GROUP	UP	1.53	1.41	-7.8%	4,507.6	Y	10/2024	9.7	10.0	5.2%	3.6%	15.8	15.2	0.9	5.9%	6.0	3.9%
IOI PROPERTIES GROUP BHD	UP	2.25	1.75	-22.2%	12,388.8	N	06/2024	14.1	14.4	23.4%	2.1%	15.9	15.6	0.4	2.3%	4.5	2.0%
MAH SING GROUP BHD	MP	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 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	1.33	0.850	-36.1%	6,332.4	Y	12/2024	5.9	6.1	17.0%	2.5%	22.4	21.8	0.3	1.9%	4.5	3.4%
SIME DARBY PROPERTY BHD	UP	1.31	1.08	-17.6%	8,909.1	Y	12/2024	6.3	6.5	7.1%	3.8%	20.9	20.1	0.8	4.1%	3.0	2.3%
SUNWAY BHD	UP	3.60	2.47	-31.4%	20,295.6	Y	12/2024	14.6	14.7	26.0%	1.2%	24.7	24.5	1.4	6.0%	6.0	1.7%
UOA DEVELOPMENT BHD	UP	1.83	1.79	-2.2%	4,557.5	Y	12/2024	10.6	10.4	19.3%	-2.1%	17.2	17.6	0.8	4.5%	6.5	3.6%
SECTOR AGGREGATE					62,227.7					18.8%	2.7%	19.4	18.9	0.8	4.6%		3.0%

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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