

21 August 2018 | 1QFY19 Results Review

Eastern & Oriental Berhad

Higher earnings driven by STP2A land sales

Maintain BUY

Unchanged Target Price (TP): RM2.37


INVESTMENT HIGHLIGHTS

- **1QFY19 earnings within expectations**
- **Higher earnings driven by STP2A land sales**
- **1QFY19 new sales at RM79.2m**
- **Maintain BUY with unchanged TP of RM2.37**

1QFY19 earnings within expectations. Eastern & Oriental Berhad (E&O) 1QFY19 core net income of RM23.4m came in within expectations, making up 21% and 23% of our and consensus full year estimates respectively. Note that we have excluded mainly forex loss (RM8.9m) in our core net income calculation.

Higher earnings driven by STP2A land sales. 1QFY19 core net income climbed +77%yoy to RM23.4m, mainly due to earnings recognition from the sale of 20% reclaimed land in Seri Tanjung Pinang (STP) 2A project to KWAP. Earnings in 1QFY19 were also driven by higher sales from the completed properties namely the Andaman Condominiums. Meanwhile, unbilled sales declined marginally to RM462.9m in 1QFY19 from RM480.7m in 4QFY18, providing less than 1 year of earnings visibility.

1QFY19 new sales at RM79.2m. E&O registered new property sales of RM79.2m in 1QFY19, lower than new sales of RM151.8m in 4QFY18. 64% of the total new sales in 1QFY19 were contributed by projects in Penang, 15% contributed by projects in Johor, 13% contributed by UK project, while the remaining was contributed by projects in Klang Valley. Meanwhile, new launches plan in the next one year include Conlay Tower (GDV: RM880m), The Peak (GDV: RM278m) and maiden launch of high-rise project on Plot 14 of STP2A (estimated in March - May 2019).

Maintain BUY with unchanged TP of RM2.37. We maintain our earnings forecast for FY19/20. Our TP is also unchanged at RM2.37, based on 58% discount to RNAV. We maintain our BUY call on E&O due to the firm prospect of STP2A where reclamation works are on track to be completed by end of 2018 while maiden project launches on STP2A to take place next year. Meanwhile, balance sheet of E&O is improving as net gearing level eased to 0.36x in 1QFY19 from 0.6x in FY18. 

RETURN STATS	
Price (20 Aug 2018)	RM1.52
Target Price	RM2.37
Expected Share Price Return	55.9%
Expected Dividend Yield	2.3%
Expected Total Return	58.2%
STOCK INFO	
KLCI	1,787.58
Bursa / Bloomberg	3417 / EAST MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	1,297.35
Market cap. (RM'm)	1,971.96
Price over NA	1.06
52-wk price Range	RM1.35-RM1.69
Beta (against KLCI)	0.83
3-mth Avg Daily Vol	0.52m
3-mth Avg Daily Value	RM0.82m
Major Shareholders (%)	
Sime Darby Bhd	11.78%
Paramount Spring SdnBhd	9.71%
Lembaga Tabung Haji	7.50%
KWAP	7.42%
Billford Holdings Ltd	7.03%
GKG Investment Holdings	5.99%
CIMB Group Holdings	5.98%

INVESTMENT STATISTICS

FYE Mar	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue	272	705	981.3	944	817
Core EBIT	45	147	266.4	198	172
Core PBT	35	117	202.5	155	129
Net Income	39	88	100.8	116	97
Core Net Income	20	78	106.0	116	97
EPS (sen)	3.09	3.93	7.7	8.92	7.45
Core EPS (sen)	1.59	6.24	8.2	8.92	7.45
Net DPS (sen)	2.00	2.00	3.0	3.52	2.94
Net Dvd Yield	1.3%	1.3%	2.0%	2.3%	1.9%
Core PER	95.7	24.3	18.6	17.0	20.4
NTA/share (RM)	1.32	1.35	1.42	1.48	1.52
P/NTA	1.15	1.12	1.07	1.03	1.00
Core ROE	1.2%	4.6%	5.7%	6.0%	4.9%
Core ROA	0.5%	2.0%	2.6%	2.8%	2.3%

Source: Company, MIDF Research Estimate

E&O: 1QFY19 RESULTS SUMMARY

FYE Mar (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	1QFY19	%YoY	%QoQ	FY19	%YoY
Revenue	200.0	15%	-29%	200.0	15%
Core EBIT	59.5	47%	-30%	59.5	47%
Core PBT	38.9	45%	-40%	38.9	45%
Net Income	14.1	-34%	-63%	14.1	-34%
Core Net Income	23.4	77.0%	-41%	23.4	77.0%
EPS (sen)	1.09	-35%	-63%	1.1	-35%
Core EPS (sen)	1.81	74%	-41%	1.8	74%
Net DPS (sen)	0.00	N/A	NA	0.0	N/A
NTA/share (RM)	1.43	0%	1%	1.4	0%
Net Gearing (x)	0.36	NA	NA	0.36	NA
Core EBIT Margin	29.7%	NA	NA	29.7%	NA
Core PBT Margin	19.4%	NA	NA	19.4%	NA

Source: Company

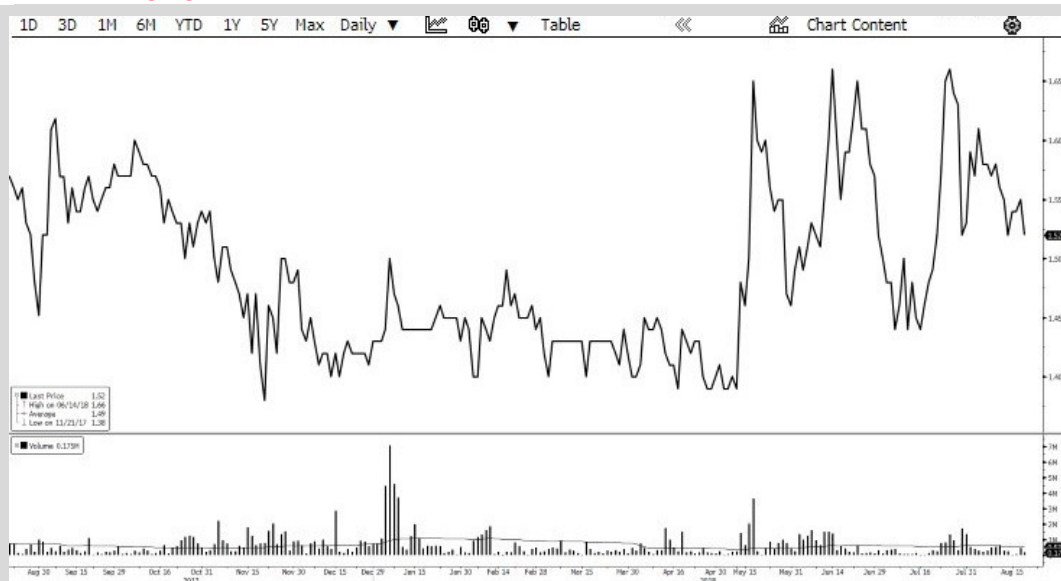
E&O RNAV

Landbank/Buildings	Location	Remaining GDV (RM m)	Methodology	Stake	Value (RM m)
Ongoing Projects					
Quayside Condomium	Penang	29	DCF @ WACC 10.2%	100%	2.9
Andaman Series	Penang	550	DCF @ WACC 10.2%	100%	50.4
Andorra	Penang	12	DCF @ WACC 10.2%	100%	1.2
Amaris	Penang	26	DCF @ WACC 10.2%	100%	2.6
Ariza	Penang	30	DCF @ WACC 10.2%	100%	3.0
Tamarind	Penang	48	DCF @ WACC 10.2%	100%	4.6
The Mews	KL	127	DCF @ WACC 10.2%	51%	6.2
Princes House	London	30	DCF @ WACC 10.2%	100%	2.7
Conlay Tower	KL	900	DCF @ WACC 10.2%	51%	38.2
The Peak	KL	300	DCF @ WACC 10.2%	100%	26.1
Avira Phase 2	Johor	100	DCF @ WACC 10.2%	50%	4.2

Other Landbank		Size (ac)		Price (RM/sqft)	Stake	Value (RM m)
Future reclamation land (Land value less reclamation cost)	Seri Tanjung Pinang Phase 2, Penang	760.0	33,105,600	327	63%	6819.8
Elmina West	Selangor	135.0	5,880,600	38	100%	223.0
Ukay Heights	Ulu Kelang, Selangor	9.4	409,464	33	100%	13.3
Kemensah Heights	Ulu Kelang, Selangor	309.5	13,481,820	46	100%	613.4
Gertak Sanggul	Penang	348.0	15,158,880	18	100%	272.9
Avira	Medini Iskandar, Johor	207.0	9,016,920	56	50%	252.5
Total Landbank Value						8336.9
Investment Properties						489.4
Fixed Assets						243.4
Cash						531.6
Total Liabilities (excl. deferred tax liabilities)						-1650.6
Total RNAV (RM m)						7950.7
No of shares (m)						1323.3
RNAV per share (RM)						6.01
Warrants, Exercise Price RM2.60						222.3
Proceed from disposal of 20% stake in STP2A						766.0
Fully Diluted No of shares (m)						1545.6
FD RNAV (RM)						5.64
Discount						58%
FD RNAV (RM)						2.37

Source: MIDF Estimate

DAILY PRICE CHART



Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.