

12 November 2018 | 2QFY19 Results Review

Eastern & Oriental Berhad

Earnings below expectations

Maintain BUY

Revised Target Price (TP): RM1.65
(Previously RM2.37)


INVESTMENT HIGHLIGHTS

- **1HFY19 earnings below expectations**
- **Earnings helped by STP2A land sales**
- **1HFY19 new sales at RM151m**
- **Maintain BUY with a revised TP of RM1.65**

1HFY19 earnings below expectations. Eastern & Oriental Berhad (E&O) 1HFY19 core net income of RM32.6m came in below expectations, making up 28% of our and consensus full year estimates. The negative deviation could be attributed to lower property sales and weaker project billing from projects in 2QFY19.

Earnings helped by STP2A land sales. 1HFY19 core net income increased by 12.7%yoy to RM32.6m, mainly helped by earnings recognition from the sale of 20% reclaimed land in Seri Tanjung Pinang (STP) 2A project to KWAP and sales of completed projects. That has helped mitigated the weaker earnings recognition from its on-going property projects. Meanwhile, unbilled sales declined to RM399m in 2QFY19 from RM462.9m in 1QFY19, providing less than 1 year of earnings visibility.

1HFY19 new sales at RM151m. E&O registered new property sales of RM71.8m in 2QFY19, lower than new sales of RM79.2m in 1QFY19. 59% of the total new sales in 1HFY19 were contributed by projects in Penang, 20% contributed by projects in Klang Valley, 14% contributed by projects in Johor while the remaining was contributed by projects in UK. Meanwhile, E&O plans to launch projects with total GDV of RM1.5b in the next two years. Projects in the pipeline are The Conlay (GDV: RM900m), The Peak (GDV: RM278m) and maiden launch of high-rise project on Plot 14 of STP2A (GDV: RM380m). Soft launch of The Conlay is expected to take place in 4QFY19.

Maintain BUY with a revised TP of RM1.65. We cut our FY19/20 earnings forecast by 18%/6% to take into account of the lower project billing. Correspondingly, we cut our TP for E&O to RM1.65 (previously: RM2.37) as we updated our RNAV figures to 2QFY19 figures and widen our RNAV discount to 65% from 58% in view of the weaker earnings visibility. Nevertheless, we maintain our BUY call on E&O due to deep value in STP2A. Prospect for STP2A project remains unchanged whereby STP2A island is 95% reclaimed while maiden project launches on STP2A would take place next year. 

RETURN STATS	
Price (9 Nov 2018)	RM1.12
Target Price	RM1.65
Expected Share Price Return	47.3%
Expected Dividend Yield	2.6%
Expected Total Return	49.9%
STOCK INFO	
KLCI	1,708.09
Bursa / Bloomberg	3417 / EAST MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	1,319.15
Market cap. (RM'm)	1,486
Price over NA	0.85
52-wk price Range	RM1.07-RM1.65
Beta (against KLCI)	1.08
3-mth Avg Daily Vol	0.35m
3-mth Avg Daily Value	RM0.45m
Major Shareholders (%)	
Sime Darby Bhd	11.81%
Paramount Spring SdnBhd	9.74%
Lembaga Tabung Haji	7.52%
KWAP	7.45%
Morning Crest Sdn Bhd	6.51%
CIMB Group Holdings Bhd	6.05%
GKG Investment Holdings	6.01%

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INVESTMENT STATISTICS

FYE Mar	FY16A	FY17A	FY18A	FY19F	FY20F
Revenue	272	705	981.3	802	778
Core EBIT	45	147	266.4	168	163
Core PBT	35	117	202.5	126	121
Net Income	39	88	100.8	95	91
Core Net Income	20	78	106.0	95	91
EPS (sen)	3.09	3.93	7.7	7.27	7.00
Core EPS (sen)	1.59	6.24	8.2	7.27	7.00
Net DPS (sen)	2.00	2.00	3.0	2.87	2.76
Net Dvd Yield	1.8%	1.8%	2.7%	2.6%	2.5%
Core PER	70.5	17.9	13.7	15.4	16.0
NTA/share (RM)	1.32	1.35	1.42	1.47	1.51
P/NTA	0.85	0.83	0.79	0.76	0.74
Core ROE	1.2%	4.6%	5.7%	5.0%	4.6%
Core ROA	0.5%	2.0%	2.6%	2.3%	2.2%

Source: Company, MIDF Research Estimate

E&O: 2QFY19 RESULTS SUMMARY

FYE Mar (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY19	%YoY	%QoQ	FY19	%YoY
Revenue	179.4	-8%	-10%	379.4	3%
Core EBIT	40.0	-5%	-33%	99.5	20%
Core PBT	22.5	-20%	-42%	61.4	11%
Net Income	18.8	-4%	33%	32.9	-19%
Core Net Income	9.1	-41.7%	-61%	32.6	12.7%
EPS (sen)	1.44	-3%	32%	2.5	-18%
Core EPS (sen)	0.70	-41%	-61%	2.5	14%
Net DPS (sen)	0.00	N/A	NA	0.0	N/A
NTA/share (RM)	1.44	5%	0%	1.4	5%
Net Gearing (x)	0.39	NA	NA	0.39	NA
Core EBIT Margin	22.3%	NA	NA	26.2%	NA
Core PBT Margin	12.6%	NA	NA	16.2%	NA

Source: Company

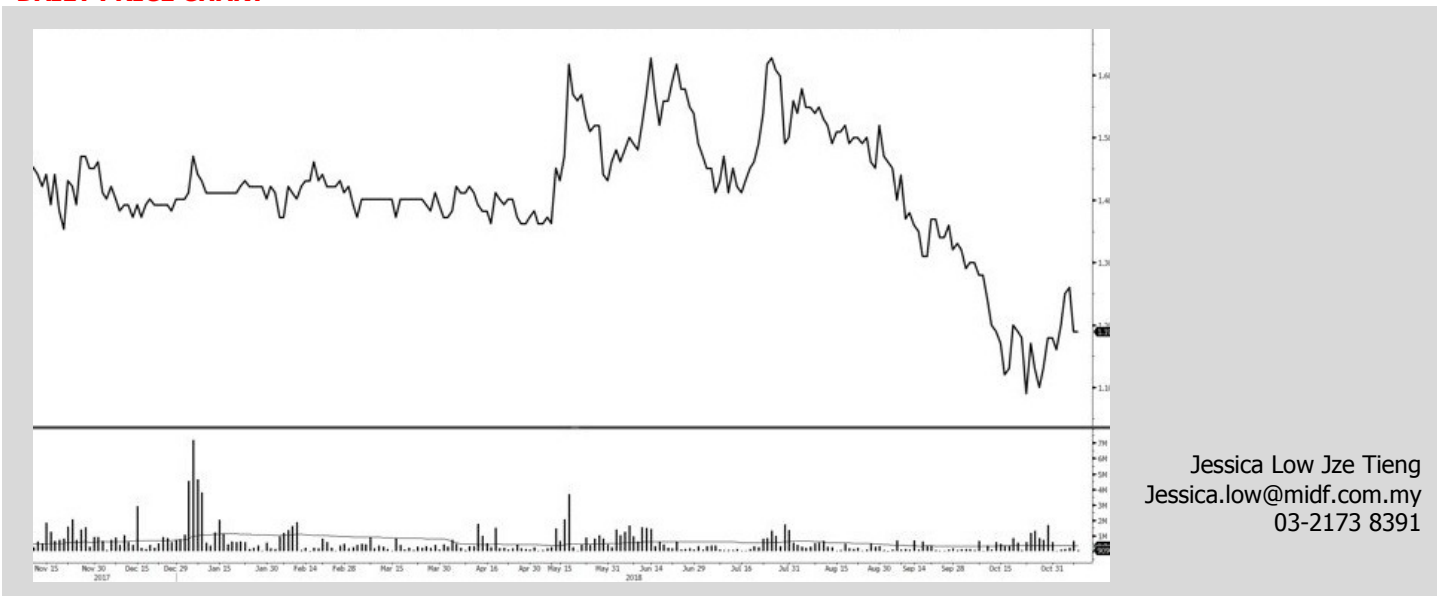
E&O RNAV

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)		Stake	Value (RM m)
Future reclamation land (Land value less reclamation cost)	Seri Tanjung Pinang Phase 2, Penang	760.0	33,105,600	63%	5996.3
Elmina West	Selangor	135.0	5,880,600	100%	223.0
Ukay Heights	Ulu Kelang, Selangor	9.4	409,464	100%	13.3
Kemensah Heights	Ulu Kelang, Selangor	309.5	13,481,820	100%	394.3
Gertak Sanggul	Penang	348.0	15,158,880	100%	272.9
Avira	Medini Iskandar, Johor	207.0	9,016,920	50%	216.4
Total Landbank Value					7258.3
Investment Properties					492.0
Fixed Assets					237.0
Cash					750.2
Total Liabilities (excl. deferred tax liabilities)					-2227.8
Total RNAV (RM m)					6509.7
No of shares (m)					1323.3
RNAV per share (RM)					4.92
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)					4.71
Discount					65%
FD RNAV (RM)					1.65

Source: MIDF Estimate

DAILY PRICE CHART



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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.