

14 February 2018 | 3QFY18 Results Review

Eastern & Oriental Berhad

Earnings boosted by STP2A land sales

Maintain BUY
Unchanged Target Price (TP): RM2.37

INVESTMENT HIGHLIGHTS

- **9MFY18 core net income within our expectation**
- **Earnings boosted by STP2A land sales**
- **9MFY18 new sales at RM235.7m**
- **Maintain BUY with unchanged TP of RM2.37**

9MFY18 core net income within our expectation. Eastern & Oriental Berhad (E&O) 9MFY18 core net income of RM67.4m came in within our expectation but beat consensus expectations as consensus may have underestimated the profit recognition from STP2A land sales in FY18. 9MFY18 earnings made up 79% and 87% of our and consensus full year forecast respectively.

Earnings boosted by STP2A land sales. 3QFY18 core net income climbed 46.1%yoy to RM38.5m, bringing 9MFY18 core net income to RM67.4m (+48.6%yoy). The higher earnings were mainly boosted by maiden earnings recognition from the sale of 20% reclaimed land in STP2A to KWAP as development titles of the reclaimed lands were received. Besides, the higher earnings were also partly driven by sales of completed properties and earnings recognition from ongoing projects in STP. Meanwhile, unbilled sales declined from RM622.1m in 2QFY18 to RM499.3m in 3QFY18, providing less than 1 year of earnings visibility to property division.

9MFY18 new sales at RM235.7m. E&O registered new property sales of RM86m in 3QFY18 against new sales of RM104m in 3QFY17. That brought 9MFY18 new sales to RM235.7m against new sales of RM256m in 9MFY17. 69% of the total new sales were contributed by projects in Penang, 21% contributed by UK project, 9% contributed by projects in Klang Valley while the remaining was contributed by projects in Johor.

Maintain BUY with unchanged TP of RM2.37. We maintain our earnings forecast for FY18/19F. Our TP of RM2.37 is based on 60% discount to RNAV. We maintain our BUY call on E&O due to the positive prospect for STP2A. Reclamation works of STP2A is expected to complete by end 2018 while maiden launches of project on STP2A is expected to take place in mid-2019. Besides, near-term earnings of E&O are expected to be supported by profit recognition from STP2A land sale to KWAP.



RETURN STATS	
Price (13 February 2018)	RM1.45
Target Price	RM2.37
Expected Share Price Return	63.4%
Expected Dividend Yield	1.8%
Expected Total Return	65.2%
STOCK INFO	
KLCI	1,833.02
Bursa / Bloomberg	3417 / EAST MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	1,301.59
Market cap. (RM'm)	1,887.31
Price over NA	1.11
52-wk price Range	RM1.35-RM2.13
Beta (against KLCI)	0.82
3-mth Avg Daily Vol	1.06m
3-mth Avg Daily Value	RM1.53m
Major Shareholders (%)	
Sime Darby Bhd	11.74%
Paramount Spring SdnBhd	9.68%
GKG Investment Holding	8.26%
Lembaga Tabung Haji	7.95%
KWAP	7.26%
Billford Holdings limited	7.01%
CIMB Group Holdings Bhd	6.11%

INVESTMENT STATISTICS

FYE Mar	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	449	272	705	787	640
Core EBIT	165	45	147	152	134
Core PBT	143	35	117	105	94
Net Income	152	39	88	79	70
Core Net Income	92	20	78	79	70
EPS (sen)	13.39	3.09	3.93	6.44	5.74
Core EPS (sen)	8.13	1.59	2.64	6.44	5.74
Net DPS (sen)	3.80	2.00	2.00	2.54	2.27
Net Dvd Yield	2.6%	1.4%	1.4%	1.8%	1.6%
Core PER	17.8	91.3	54.9	22.5	25.3
NTA/share (RM)	1.31	1.32	1.35	1.39	1.43
P/NTA	1.11	1.10	1.07	1.04	1.02
Core ROE	5.8%	1.2%	4.6%	4.5%	3.9%
Core ROA	3.6%	0.5%	2.0%	2.0%	1.8%

Source: Company, MIDF Research Estimate

E&O: 3QFY18 RESULTS SUMMARY

FYE Mar (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY18	%YoY	%QoQ	FY18	%YoY
Revenue	331.9	36%	69%	701.2	44%
Core EBIT	100.0	95%	137%	182.7	103%
Core PBT	85.8	93%	203%	138.9	89%
Net Income	22.0	-29%	12%	62.9	65%
Core Net Income	38.5	46%	145%	67.4	49%
EPS (sen)	1.68	-32%	13%	4.80	94%
Core EPS (sen)	2.94	40%	147%	5.14	146%
Net DPS (sen)	0.00	NA	NA	0.0	NA
NTA/share (RM)	1.39	6%	1%	1.39	6%
Net Gearing (x)	0.58	NA	NA	0.58	NA
Core EBIT Margin	30.1%	NA	NA	26.1%	NA
Core PBT Margin	25.9%	NA	NA	19.8%	NA

Source: Company

E&O RNAV

Landbank/Buildings	Location	Remaining GDV (RM m)	Methodology	Stake	Value (RM m)	
Ongoing Projects						
The Tamarind Executive Homes	Seri Tanjung Pinang Phase 1, Penang	900	DCF @ WACC 10.2%	94%	95.6	
18 East Andaman	Seri Tanjung Pinang Phase 1, Penang	600	DCF @ WACC 10.2%	94%	101.0	
The Mews	Kuala Lumpur	231	DCF @ WACC 10.2%	51%	13.3	
Avira (Terraces)	Medini Iskandar, Johor	998	DCF @ WACC 10.2%	50%	56.6	
Jalan Conlay	Kuala Lumpur	800	DCF @ WACC 10.2%	51%	44.5	
Princes House	London, UK	330	DCF @ WACC 10.2%	100%	28.8	
ESCA House	London, UK	440	DCF @ WACC 10.2%	100%	49.4	
Hammersmith	London, UK	710	DCF @ WACC 10.2%	100%	79.7	
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	37	100%	217.3
Jalan Teruntung (The Peak)	Damansara Heights, KL	3.9	36,000	765	100%	27.5
Ukay Heights	Ulu Kelang, Selangor	9.4	409,464	33	100%	13.3
Kemensah Heights	Ulu Kelang, Selangor	309.5	13,481,820	41	100%	547.7
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					8620.0	
Investment Properties					517.2	
Fixed Assets					319.5	
Cash					324.1	
Total Liabilities (excl. deferred tax liabilities)					-2095.2	
Total RNAV (RM m)					7685.5	
No of shares (m)					1323.3	
RNAV per share (RM)					5.81	
Warrants, Exercise Price RM2.60					222.3	
Placement proceed @ RM1.90					125.6	
Proceed from disposal of 20% stake in STP2A					766.0	
Fully Diluted No of shares (m)					1545.6	
FD RNAV (RM)					5.92	
Discount					60%	
FD RNAV (RM)					2.37	

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.