

28 May 2018 | 4QFY18 Results Review

Eastern & Oriental Berhad

Lumpy earnings contribution from STP2A land sales

Maintain BUY

Unchanged Target Price (TP): RM2.37

INVESTMENT HIGHLIGHTS

- **FY18 earnings above our expectation**
- **Earnings lifted by STP2A land sales**
- **FY18 new sales at RM387.5m**
- **Earnings forecast revised higher**
- **Maintain BUY with unchanged TP of RM2.37**

FY18 earnings above our expectation. Eastern & Oriental Berhad (E&O) FY18 core net income of RM106m is largely within consensus expectation but came in above our expectation, making up 134% of our forecast. The positive deviation could be attributed to stronger-than-expected sales of inventory and the faster-than-expected profit recognition from STP2A land sales in FY18. E&O proposed dividend in specie of 3 sen per share.

Earnings lifted by STP2A land sales. 4QFY18 core net income climbed 20%yoy to RM39.8m, bringing full year core net income to RM106m (+35.1%yoy). The higher earnings in FY18 were driven by earnings recognition from the sale of the 20% reclaimed land in Seri Tanjung Pinang (STP) 2A project to KWAP. Besides, higher sales of completed projects (Andaman condominiums and Princes House) also contributed to higher earnings. Meanwhile, unbilled sales declined from RM499.3m in 3QFY18 to RM480.7m in 4QFY18, providing less than 1 year of earnings visibility to property division.

FY18 new sales at RM387.5m. E&O recorded new property sales of RM151.8m in 4QFY18, stronger than new sales of RM86m in 3QFY18. That brings total new sales in FY18 to RM387.5m, marginally higher than new sales of RM381m in FY17. 65% of the total new sales were contributed by projects in Penang, 18% contributed by UK project, 10% contributed by projects in Johor while the remaining was contributed by projects in Klang Valley. Looking ahead, E&O plans to launch project with total GDV of RM1.5b over next 18 months. Projects in the pipeline are Conlay Tower (GDV: RM880m), The Peak (GDV: RM278m) and high-rise project on Plot 14 of STP2A. E&O is targeting to launch maiden project on STP2A in March - May 2019.

RETURN STATS	
Price (25 May 2018)	RM1.55
Target Price	RM2.37
Expected Share Price Return	52.9%
Expected Dividend Yield	1.9%
Expected Total Return	54.8%
STOCK INFO	
KLCI	1,797.40
Bursa / Bloomberg	3417 / EAST MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	1,297.35
Market cap. (RM'm)	2,010.88
Price over NA	1.17
52-wk price Range	RM1.35-RM1.86
Beta (against KLCI)	0.72
3-mth Avg Daily Vol	0.45m
3-mth Avg Daily Value	RM0.67m
Major Shareholders (%)	
Sime Darby Bhd	11.78%
Paramount Spring SdnBhd	9.71%
Lembaga Tabung Haji	8.07%
KWAP	7.28%
Billford Holdings Ltd	7.03%

Earnings forecast revised higher. We revise higher our earnings forecast for FY19F to RM116m from RM70m as we expect earnings in FY19 to be driven by lumpy earnings recognition from sale 20% stake in of STP2A to KWAP. Note that unbilled sales to KWAP stood at RM689m as at 4QFY18 which will be recognised in FY19/20 as all land titles of STP2A have been obtained.

Maintain BUY with unchanged TP of RM2.37. We narrow our RNAV discount to 58% from 60% in view of the better earnings prospect. Nevertheless, our TP is unchanged at RM2.37 as we update our RNAV figures following the release of FY17 figures. We maintain our BUY call on E&O due to the firm prospect of STP2A. Reclamation works are on track as reclamation of STP2A is 95% completed while reclamation works is expected to be completed by end of 2018. Besides, near-term earnings of E&O are expected to be supported by profit recognition from STP2A land sale to KWAP.



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	3.0	3.0	3.0	3.0
Net Dvd Yield	1.3%	1.9%	1.9%	1.9%	1.9%
Core PER	97.6	24.8	19.0	17.4	20.8
NTA/share (RM)	1.32	1.35	1.42	1.48	1.52
P/NTA	1.17	1.15	1.09	1.05	1.02
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: 4QFY18 RESULTS SUMMARY

FYE Mar (RM/m, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY18	%YoY	%QoQ	FY18	%YoY
Revenue	280.1	28%	-16%	981.3	39%
Core EBIT	84.9	50%	-15%	266.4	82%
Core PBT	64.7	48%	-25%	202.5	73%
Net Income	37.9	-23%	72%	100.8	15%
Core Net Income	39.8	19.9%	3%	106.0	35.1%
EPS (sen)	2.91	-26%	74%	7.75	97%
Core EPS (sen)	3.06	16%	4%	8.15	31%
Net DPS (sen)	3.00	0%	NA	3.0	0%
NTA/share (RM)	1.42	5%	2%	1.42	5%
Net Gearing (x)	0.60	NA	NA	0.60	NA
Core EBIT Margin	30.3%	NA	NA	27.2%	NA
Core PBT Margin	23.1%	NA	NA	20.6%	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



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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.