

26 February 2018 | 2QFY18 Results Review

IOI Properties Group Berhad

Earnings dragged by property development division

Downgrade to NEUTRAL

(Previously: BUY)

Adjusted Target Price (TP): RM2.09
(Previously: RM2.41)

INVESTMENT HIGHLIGHTS


- **1HFY18 earnings below expectations**
- **Earnings dragged by property development division**
- **1HFY18 new sales at RM1.13b**
- **Earnings estimates reduced**
- **Downgrade to Neutral from Buy with a lower TP of RM2.09**

1HFY18 earnings below expectations. IOI Properties Group Berhad (IOIPG) 1HFY18 core net income of RM363.3m came in below expectations, making up only 41% and 40% of our and consensus full year estimates respectively. The negative deviation could be attributed to the lower-than-expected contribution from overseas projects. As expected, no dividend was announced for the quarter.

Earnings dragged by property development division. IOIPG recorded core net income of RM167.7m for 2QFY18 (-38.3%yoy). Note that we have excluded share of impairment loss in joint venture and forex gain in our core net income calculations. That brings 1HFY18 core net income to RM363.3m, declining by 19.8%yoy. The lower earnings in 1HFY18 were due to lower earnings from property development division. Operating profit of property development division dropped 19%yoy due to lower earnings recognition from local and Singapore projects. On the other hand, operating profit of property investment climbed 13.3%yoy due to higher occupancy rates and rental rates of its investment properties. Meanwhile, 2QFY18 unbilled sales stood at RM1.2b, increased from unbilled sales of RM930m in 1QFY18, providing less than one year of earnings visibility to property development division.

1HFY18 new sales at RM1.13b. IOIPG registered new property sales of RM448m in 2QFY18, lower than new sales of RM677m in 1QFY18 and new sales of RM795m in 2QFY17. That brought new sales in 1HFY18 to RM1.13b, lower than new sales of RM1.53b in 1HFY17 as last year sales were boosted by sales from Singapore project. 59% of the new sales in 1HFY18 were contributed by local projects, 22% contributed by Singapore project while the remaining 9% contributed by project in China.

RETURN STATS	
Price (23 Feb 2018)	RM1.97
Target Price	RM2.09
Expected Share Price Return	6.1%
Expected Dividend Yield	2.7%
Expected Total Return	8.8%
STOCK INFO	
KLCI	1,861.50
Bursa / Bloomberg	5249/IOIPG MK
Board / Sector	Main/Properties
Syariah Compliant	Yes
Issued shares (mil)	5,506.15
Market cap. (RM'm)	10,902.17
Price over NA	0.60
52-wk price Range	RM1.79-RM2.22
Beta (against KLCI)	0.84
3-mth Avg Daily Vol	3.09m
3-mth Avg Daily Value	RM5.91m
Major Shareholders	
Vertical Capacity Sdn Bhd	52.10%
Summervest Sdn Bhd	8.50%
EPF	6.26%

Downgrade to Neutral from Buy with a lower TP of RM2.09. We reduced our earnings forecast for FY18/19 by 10.7%/4.3% after incorporating lower contribution from overseas projects. Our TP for IOIPG is reduced to RM2.09 from RM2.41 as we increase our discount to RNAV to 48% from 40% following the weaker-than-expected earnings. We revised our call on IOIPG to Neutral from Buy due to its tepid earnings outlook. 

Investment Statistics

FYE June (RM m)	2015A	2016A	2017A	2018E	2019E
Revenue	1,906	3,025	4,185	3,082	2,872
EBIT	1,006	1,290	1,382	941	905
PBT	1,130	1,525	1,437	1,065	1,029
Net Income	891	1,080	921	782	757
Core Net Income	574	813	1,045	782	757
EPS (sen)	25.8	24.4	18.4	14.1	13.7
Core EPS (sen)	16.7	18.4	20.9	14.1	13.7
Net DPS (sen)	6.0	8.0	6.0	5.4	5.7
Net Div Yield	3.0%	4.0%	3.0%	2.7%	2.9%
Core PER	12.1	10.9	9.6	14.2	14.7
NTA/share	3.9	3.6	3.6	3.3	3.4
P/NTA	0.5	0.6	0.6	0.6	0.6
Core ROE	4.3%	5.1%	5.7%	4%	4%
Core ROA	3.1%	3.6%	3.1%	3%	3%

Source: MIDF Research

2QFY18 Results Summary

FYE June (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY18	%YoY	%QoQ	FY18	%YoY
Revenue	707.4	-40.8%	-18.7%	1,577.4	-24.7%
Core EBIT	304.6	-22.2%	8.1%	586.4	-10.3%
Core PBT	248.0	-37.1%	-19.2%	554.9	-17.8%
Net Income	109.1	-60.1%	-55.1%	352.0	-24.0%
Core Net Income	167.7	-38.3%	-14.3%	363.3	-19.8%
EPS (sen)	2.0	-68.0%	-55.1%	6.4	-39.1%
Core EPS (sen)	3.0	-50.5%	-14.3%	6.6	-35.7%
Net DPS (sen)	0.0	0.0%	N/A	0.0	0.0%
NTA/share (RM)	3.3	-11.0%	-0.4%	6.6	-10.7%
Net Gearing (x)	0.5	NA	NA	1.1	NA
Core EBIT Margin	43.1%	NA	NA	37.2%	NA
Core PBT Margin	35.0%	NA	NA	35.2%	NA

IOIPG RNAV

	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Klang Valley Projects				
16 Sierra, South Puchong	100%	2745	11%	312
Bandar Puchong Jaya, Puchong	100%	750	11%	99
Bandar Puteri, Puchong	100%	2837	11%	338
IOI Resort City, Putrajaya	100%	19200	11%	1185
Bandar Puteri Bangi, Selangor	100%	3450	11%	411
Bandar Puteri Warisan, Sepang	100%	1083	11%	142
Johor Projects				
Bandar Putra Kulai, Johor	100%	1592	11%	151
Bandar Putra Segamat, Johor	100%	18	11%	3
Taman Lagenda Putra, Kulai, Johor	100%	27	11%	4
Taman Kempas Utama, Johor Bahru, Johor	100%	812	11%	102
The Platino, Johor Bahru, Johor	100%	100	11%	13
i-Synergy, Senai, Kulai, Johor	100%	1720	11%	205
Other States Projects				
Desaria , Sungai Ara, Penang	100%	156	11%	21
Bandar IOI, Bahau, Negeri Sembilan	100%	806	11%	96
Singapore Projects				
South Beach, Beach Road, Singapore	50%	1667	11%	109
The Triling @ Jalan Lempeng, Singapore	88%	1250	11%	144
Cape Royale @ Sentosa Cove, Singapore	65%	4500	11%	283
Cityscape @ Farrer Park, Singapore	60%	1200	11%	77
Seascape @ Sentosa Cove	50%	825	11%	54
China Projects				
IOI Park Bay, Xiamen, PRC	100%	419	11%	55
IOI Palm City, Xiamen, PRC	100%	2170	11%	247
Unbilled sales		1500		186
Subtotal				4165
Remaining Landbank				Net Surplus (RM m)
Nusa Jaya	100%			0
Mukim of Pulau	100%	16		0
Segamat	100%	1254		0
Kulai Jaya	100%	467		0
Ayer Keroh	100%	1338		0
Bandar IOI, Bahau	100%	745		0
Investment Properties	100%			0
Total				4237
Shareholder Funds				17996.0
Total RNAV				22233
Enlarged share base				5534.8
Fully-diluted RNAV per share (RM)				4.02
Discount				48%
Target Price (RM)				2.09

Source: MIDF Research

DAILY PRICE CHART



Jessica Low Jze Tieng
Jessica.low@midf.com.my
03-2173 8391

Source: Bloomberg

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.