

Eco World Development Group Berhad

(8206 | ECW MK) Main | Property

Higher Contribution from JV

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 earnings below our expectation**
- **Higher contribution from JV**
- **New sales on track**
- **Earnings forecast revised downwards**
- **Maintain NEUTRAL a revised TP of RM1.07**

9MFY23 earnings below our expectation. Eco World Development Group (Eco World) 9MFY23 core net earnings of RM185m came in within consensus expectations but below ours, making up 74% and 65% of our and consensus full year estimates respectively. The negative deviation was due to the higher than expected expenses in 3QFY23. Meanwhile, Eco World announced dividend of 2sen per share, which is higher than 1sen dividend in 3QFY22. That brought total dividend to 4sen per share in 9MFY23.

Higher contribution from JV. Sequentially, 3QFY23 core net earnings climbed to RM66m (+6.4%qoq) mainly due to higher progress billing of ongoing projects. Nevertheless, earnings growth was partly dragged by higher administrative expenses (+18.2%qoq). On yearly basis, 3QFY23 core net income was higher (+46.3%yoy), bringing total core net income in 9MFY23 to RM185m (+23.5%yoy). The earnings growth was mainly due to higher contribution from JV (+49.5%yoy). JV that contributed to earnings were Eco Grandeur, Eco Business Park V, Eco Ardence and Eco Horizon. Nevertheless, earnings growth was partly negated by higher finance costs as a result of higher financing rate. Meanwhile, balance sheet remained healthy with net gearing unchanged at 0.31x in 3QFY23.

New sales on track. Eco World registered new sales of RM3.06b in the first ten months of FY23, well on track to meet management new sales target of RM3.5b for FY23. Half of the new sales were contributed by residential projects while industrial products contributed to 33% to new sales. Eco World is on acquisition trail as it proposed to acquire 403 acres of industrial land in Kulai recently. It has also acquired 6.92 acres of land in Kajang to expand its *duduk* series which offers modern high-rise for younger generation. Meanwhile, future revenue was flattish at RM4.2b as at Aug 2023.

Maintain NEUTRAL with a revised TP of RM1.07. We revise our FY23F/24F/25F forecast by -5.6%/-6.4%/-5.9% to factor in the higher expenses. Nevertheless, we revise our dividend forecast to 6sen from 5sen in view of the higher than expected dividend pay-out. Meanwhile, we revise our **TP** for Eco World to **RM1.07**, as we narrow RNAV discount to 53% from 55% due to healthy balance sheet and higher dividend payout. We continue to see stable new sales outlook for Eco World, underpinning by its residential and industrial products. Nevertheless, we maintain our **NEUTRAL** call on Eco World due to limited upside.

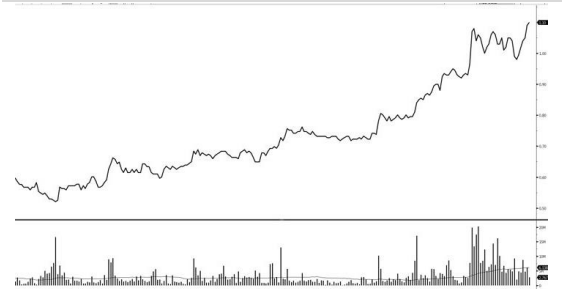
Maintain NEUTRAL

Revised Target Price: RM1.07
(Previously RM1.02)

RETURN STATISTICS

Price @ 21 Sept 2023 (RM)	1.10
Expected share price return (%)	-2.7
Expected dividend yield (%)	5.9
Expected total return (%)	3.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	7.8	8.0
3 months	35.8	30.6
12 months	70.5	70.4

INVESTMENT STATISTICS

FYE Oct	2023E	2024F	2025F
Revenue	2,639	2,715	2,792
Operating Profit	255	266	255
Profit Before Tax	378	372	364
Core PATAMI	268	264	268
Core EPS	9.09	8.97	9.11
DPS	6.00	6.00	5.00
Dividend Yield	5.9%	5.9%	4.9%

KEY STATISTICS

FBM KLCI	1,448.21
Issue shares (m)	2944.37
Estimated free float (%)	28.68
Market Capitalisation (RM'm)	3,239
52-wk price range	RM0.5–RM1.11
3-mth average daily volume (m)	5.89
3-mth average daily value (RM'm)	5.78
Top Shareholders (%)	
Sinarmas Harta Sdn Bhd	32.94
Liew Kee Sin	9.41
Eco World Development Holdings	7.47
Liew Tian Xiong	7.34

Analyst

 Jessica Low Jze Tieng
jessica.low@midf.com.my

ECOWORLD: 3QFY23 RESULTS SUMMARY

FYE Oct (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY23	%YoY	%QoQ	FY23	%YoY
Revenue	476.9	7.4%	13.3%	1382.4	-6.9%
Core EBIT	102.2	44.7%	20.2%	285.4	20.7%
Core PBT	91.0	56.8%	16.5%	248.5	26.3%
Net Income	66.3	43.0%	5.8%	186.0	19.7%
Core Net Income	66.0	46.3%	6.4%	184.5	23.5%
EPS (sen)	2.3	43.0%	5.8%	6.3	19.7%
Core EPS (sen)	2.2	46.3%	6.4%	6.3	23.5%
Net DPS (sen)	2.0	100.0%	0.0%	4.0	33.3%
NTA/share (RM)	1.6	NA	NA	1.6	NA
Net Gearing (x)	0.3	NA	NA	0.3	NA
Core EBIT Margin	21.4%	NA	NA	20.6%	NA
Core PBT Margin	19.1%	NA	NA	18.0%	NA

Source: Company, MIDFR

ECOWORLD RNAV

	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Eco Majestic	100%	7190	10%	276.1
Eco Forest	100%	2550	10%	106.3
Eco Sanctuary	100%	5120	10%	204.8
BCC	40%	6660	10%	115.8
Eco Grandeur	60%	9350	10%	191.6
Eco Business Park V	60%	1540	10%	41.9
Eco Ardence	50%	5280	10%	101.4
Eco Botanic & Eco Botanic 2	100%	2330	10%	105.7
Eco Spring & Eco Summer	100%	3050	10%	127.1
Eco Tropics	100%	1800	10%	81.7
Eco Business Park I, II, III	100%	2700	10%	103.7
Eco Terraces	100%	20	10%	1.1
Eco Meadows	100%	400	10%	20.7
Eco Horizon & Eco Sun	60%	6340	10%	129.9
Eco Business Park VI	100%	1580	10%	71.7

	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Eco World International	27%	59	10%	0.9
Unbilled sales		4290	10%	212.5
Total				1893
Shareholder Funds				4806
Total RNAV				6699
Number of shares				2944
RNAV per share (RM)				2.28
Discount				53%
Target Price (RM)				1.07

Source: MIDF Research

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	2,043	2,044	2,639	2,715	2,792
Core EBIT	264	335	255	266	255
Core PBT	294	300	378	372	364
Net Income	183	157	268	264	267
Core Net Income	238	231	268	264	268
Core EPS (sen)	8.1	7.9	9.1	9.0	9.1
Core PER (x)	12.6	13.0	11.2	11.4	11.2
NTA/share	1.62	1.61	1.62	1.63	1.64
P/NTA	0.63	0.63	0.63	0.63	0.62
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Investment in joint ventures	1373	1292	1312	1325	1338
Inventories	4168	3789	3334	2868	2919
Total non-current assets	6930	6487	6701	6963	7116
Short-term inventories	1275	958	986	967	976
Cash and bank balances	785	1316	1336	1145	1266
Other assets	760	639	694	1314	1648
Total Assets	9749	9400	9718	10389	11006
LT Borrowings	1313.2	1727.0	1657.9	1575.0	1685.3
ST Borrowings	1542.8	1056.3	929.6	969.5	1192.5
Other Liabilities	2128	1878	2367	3045	3294
Total Liability	4984	4661	4954	5589	6171
Share capital	3615	3615	3615	3615	3615
Other Equity	1150	1124	1148	1185	1219
Total Equity	4765	4738	4763	4800	4834
Equity + Liability	9749	9400	9718	10389	11006
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
Cash flows from operating activities					
Net income before taxation	239	226	401	397	389
Net cash from operating activities	971	936	927	938	919
Cash flows from investing activities					
Addition to inventories	-96	-131	-135	-132	-114
Net cash used in investing activities	-63	-218	-223	-198	-151
Cash flows from financing activities					
Drawdown of bank borrowings	324	926	787	535	482
Net cash from/(used in) financing activities	-578	-237	-408	-425	-416
Net increase/(decrease) in cash and cash equivalents	329	481	296	314	352
Cash and cash equivalent at 1 January	425	754	1235	1531	1846
Cash and cash equivalent at 1 December	754	1235	1531	1846	2198
Profitability Margins	2021A	2022A	2023E	2024F	2025F
Core EBIT margin	12.9%	16.4%	9.7%	9.8%	9.1%
Core PBT margin	14.4%	14.7%	14.3%	13.7%	13.0%
PAT margin	8.9%	7.7%	10.1%	9.7%	9.6%
Core PATAMI margin	11.6%	11.3%	10.1%	9.7%	9.6%
ROE	5.0%	4.9%	5.6%	5.5%	5.5%
ROA	2.4%	2.5%	2.8%	2.5%	2.4%

Source: Bloomberg, MIDF

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology