

COMPANY RESULTS

EcoWorld Development (ECW MK)

FY23: Results Above Expectations

ECW's FY23 net profit grew 15% mainly due to cost-cutting initiatives as well as a higher share of profit from JVs and associates. ECW has secured RM3.6b in sales for FY23 (surpassed its sales target of RM3.5b). The company has set a sales target of RM3.5b for FY24. Maintain BUY. Target price: RM1.26.

FY23 RESULTS

Year to 31 Oct (RMm)	4QFY23	3QFY23	qoq % chg	yoy % chg	FY23	yoy % chg
Revenue	844.5	476.9	77.1	51.0	2,226.9	9.0
Gross Profit	175.1	129.6	35.1	13.1	538.6	9.8
Opex	(109.7)	(51.3)	113.9	39.1	(254.4)	14.0
EBIT	100.5	102.6	(2.0)	1.7	387.8	13.6
Net Interest	(33.3)	(30.4)	9.7	56.0	(122.7)	26.7
Shares of JV & Associates	(47.1)	19.1	(346.5)	(13.4)	87.0	39.6
PBT	20.1	91.3	(78.0)	(12.9)	270.0	19.6
Taxation	(16.8)	(25.0)	(33.0)	(21.1)	(80.7)	17.7
PATAMI	3.3	66.3	(95.0)	85.1	189.3	20.4
Core PATAMI	87.4	66.3	31.7	5.6	273.4	14.8
Margin	%		ppt	ppt	%	ppt
EBIT margin (%)	11.9	21.5	(9.6)	(5.8)	17.4	0.7
PATAMI margin (%)	0.4	13.9	(13.5)	0.1	12.3	0.6

Source: EcoWorld Development, UOB Kay Hian

RESULTS

- **Results above estimates.** Eco World Development (ECW) reported a 4QFY23 core net profit of RM87.4m (+32% qoq, +6% yoy) on revenue of RM845m (+77% qoq, +51% yoy). Cumulatively, FY23 net profit of RM273m (+15% yoy) accounted for around 109% of our and consensus full-year forecasts. The positive deviation was from better-than-expected revenue from sale of industrial properties in Senai, Johor. The improvement in FY23 earnings was mainly due to: a) higher gross profit (on cost savings upon the finalisation of completed phases), as well as b) a higher share of profit from JVs and associate company Eco World International (ECWI) on its improved results.
- We derive RM273m core net profit after excluding exceptional items amounting to RM84m mainly on impairment loss on investment in JVs.
- **Declared 2 sen dividend for this quarter (FY23: 6 sen; FY22: 5 sen),** which implies 65% payout ratio and dividend yield of 6%.

KEY FINANCIALS

Year to 31 Oct (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,044	2,227	2,393	2,584	2,791
EBITDA	282	410	438	468	510
Operating profit	260	388	421	453	500
Net profit (rep./act.)	157	189	294	322	347
Net profit (adj.)	238	273	294	322	347
EPS (sen)	8.1	9.3	10.0	10.9	11.8
PE (x)	12.4	10.8	10.0	9.1	8.5
P/B (x)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	16.4	12.0	11.7	10.9	9.9
Dividend yield (%)	5.0	6.0	6.2	6.4	6.9
Net margin (%)	7.7	11.5	12.3	12.5	12.4
Net debt/(cash) to equity (%)	31.0	25.0	27.5	29.3	32.3
Interest cover (x)	2.9	3.2	4.3	4.4	4.6
ROE (%)	3.3	5.4	6.1	6.5	6.9
Consensus net profit	-	-	267	301	347
UOBKH/Consensus (x)	-	-	1.10	1.07	1.00

Source: EcoWorld Development, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.00
Target Price	RM1.26
Upside	+26.0%
(Previous TP)	RM1.21

COMPANY DESCRIPTION

Property developer with exposure in the Klang Valley, Iskandar Malaysia and Penang.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	ECW MK
Shares issued (m):	2,944.4
Market cap (RMm):	2,944.4
Market cap (US\$m):	630.1
3-mth avg daily t'over (US\$m):	0.6

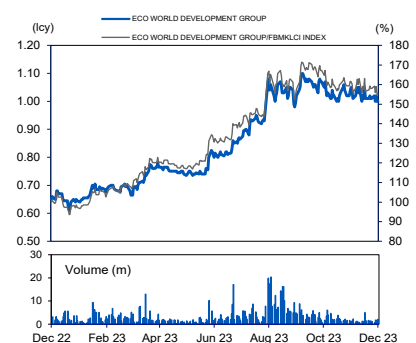
Price Performance (%)

52-week high/low	RM1.10/RM0.610
1mth	(3.8)
3mth	0.5
6mth	23.5
1yr	51.5
YTD	55.0

Major Shareholders

	%
Sinarmas Harta Sdn Bhd	32.0
Eco World Development Holdings	25.6
Employees Provident Fund	8.3
FY24 NAV/Share (RM)	1.65
FY24 Net Debt/Share (RM)	0.59

PRICE CHART



Source: Bloomberg

ANALYST(S)

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### STOCK IMPACT

- Secured RM500m worth of property sales for Sep-Oct 23**, bringing full-year sales to RM3.605b (surpassing its sales target of RM3.5b). Its industrial development recorded RM1b of sales (29% of FY23 sales) with Iskandar Malaysia contributing 70% of total industrial property sales (RM729m). We believe industrial properties would continue to gain strong traction on the back of rising demand from warehousing and manufacturers, both local and abroad. With approximately 1,175 acres (gross development value (GDV) of RM5.8b) of industrial property landbank still under its purview (with around 68% located in Johor), ECW is well-positioned to capitalise on strong demand for industrial properties.
- Residential properties recorded RM2b sales** (57% of the total sales for FY23), of which RM860m were from the Iskandar township. Growth momentum in Iskandar Malaysia is expected to remain anchored by extensive infrastructure improvement with the ongoing construction of the Johor Bahru-Singapore Rapid Transit System (RTS). ECW has 3,400 acres of remaining landbank with GDV of RM50.6b, of which the landbank in Johor is around 1,380 acres with GDV of RM11b.
- ECWI: Achieved RM1.8b sales (also surpassed its target of RM1.4b)**. ECWI distributed its first tranche of special dividends amounting RM792m (33 sen/share) on 29 Sep 23, and declared final dividend of RM144m (6 sen/share), bringing total dividend to RM936m, surpassing its earlier estimate of RM900m. For FY24, ECWI targets to sell out all its remaining stocks (about RM650m of completed and nearly-completed stocks that are available for sale) and distribute the excess cash generated back to shareholders.
- ECW set FY24 sales target at RM3.5b (vs RM3.6b achieved in FY23)**. We understand that the lower sales target is to strike a balance between achieving substantial sales figures and ensuring a sustainable and profitable business model. ECW aims to enhance returns by focusing on higher-margin or higher-yield developments per square feet of land. Meanwhile, the focus for FY24 launches will predominantly be on its Duduk series products, with prices below RM500,000. We believe that ECW is well-positioned to surpass its FY24 sales target (our FY24 sales forecast is RM3.6b) driven by attractive product launches (Duduk series and industrial properties).
- We expect FY24 revenue to increase 7%** driven by: a) an improvement in the recognition of progressive billings, b) more launches now that the prices of raw materials have eased, c) higher unbilled sales of RM3.5b (1.5x cover ratio) and d) completion of several projects (including Huni @ Eco Arden and Se.Ruang @ Eco Sanctuary in 1Q24). We expect net profit to rise by 9% on easing of raw material prices.

### EARNINGS REVISION/RISK

- We raise our EPS forecasts by 10-11% for FY24-25** to reflect better improvement in the recognition of progressive billings (from the higher turnover rate of its Duduk series).

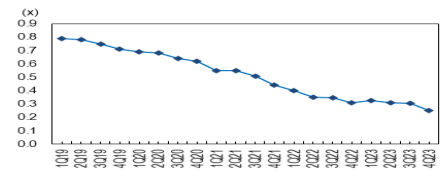
### VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM1.26** (from RM1.21) as we increase our earnings forecast. Our target price implies 53% discount (largely around its five-year average; current discount: 62% to RNAV) to its RNAV/share of RM2.65. The stock is currently trading at FY24F P/B of 0.6x (within five-year average). In terms of PE, the stock is currently trading at FY24F PE of 10x (below its five-year average of 13.5x). We like ECW for its improving balance sheet and ROE, high dividend yields of 6% as well as its leading position in the property sector.

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

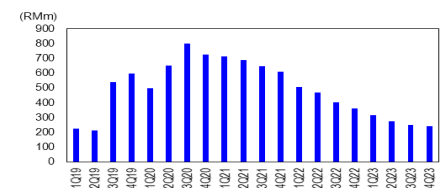
<ul style="list-style-type: none"> <li> <b>Environmental</b> <ul style="list-style-type: none"> <li>ECW reduced Greenhouse Gas (GHG) emissions by 36% in FY22.</li> </ul> </li> <li> <b>Social</b> <ul style="list-style-type: none"> <li>100% of ECW's suppliers for building materials and main contractors are local.</li> </ul> </li> <li> <b>Governance</b> <ul style="list-style-type: none"> <li>Good company transparency along with an Anti-Bribery and Anti-Corruption Policy.</li> </ul> </li> </ul>
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### NET GEARING LEVEL



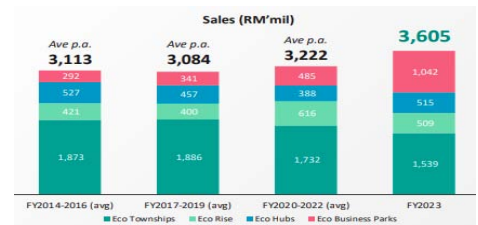
Source: Eco World Development, UOB Kay Hian

### COMPLETED INVENTORY LEVEL



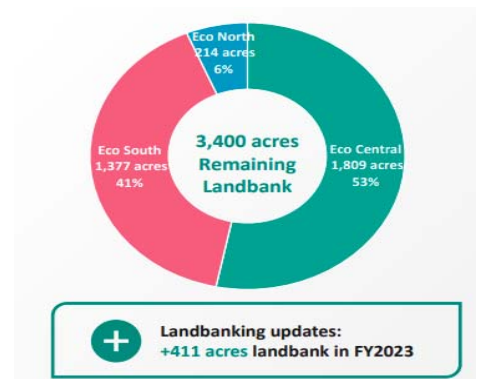
Source: Eco World Development, UOB Kay Hian

### PROPERTY SALES



Source: Eco World Development

### REMAINING LANDBANK



Source: Eco World Development

### ASSUMPTIONS

	FY24F	FY25F	FY26F
Sales (RMb)	3.6	3.7	3.7
Takeup rate (%)	70	70	70
EBIT margin (%)	17.6	17.6	17.9

Source: UOB Kay Hian

### RNAV TARGET PRICE OF RM1.26/SHARE

NPV of Development Profits	(RMm)
Central Region	1,834.4
Southern Region	819.1
Northern Region	206.4
EcoWorld International (27%)	214.1
<b>Total</b>	<b>3,073.96</b>
Shareholders' Funds	4,738
<b>RNAV</b>	<b>7,812.4</b>
Existing Share base	2,944
RNAV/share	2.65
Discount	53%
<b>Target Price (RM/share)</b>	<b>1.26</b>

Source: Eco World Development, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Oct (RMm)	2023	2024F	2025F	2026F
Net turnover	2,227	2,393	2,584	2,791
EBITDA	410	438	468	510
Deprec. & amort.	22	17	15	14
EBIT	388	421	453	500
Associate contributions	87	59	67	56
Net interest income/(expense)	(123)	(93)	(96)	(99)
Pre-tax profit	270	387	424	457
Tax	(81)	(93)	(102)	(110)
Minorities	0	0	0	0
Net profit	189	294	322	347
Net profit (adj.)	273	294	322	347

### CASH FLOW

Year to 31 Oct (RMm)	2023	2024F	2025F	2026F
Operating	276	351	374	405
Pre-tax profit	270	387	424	457
Tax	(84)	(93)	(102)	(110)
Deprec. & amort.	11	17	15	14
Associates	(87)	(100)	(109)	(109)
Working capital changes	44	47	50	54
Non-cash items	123	93	96	99
Other operating cashflows	0	0	0	0
Investing	(203)	(104)	(215)	(215)
Capex (growth)	(200)	(100)	(211)	(211)
Capex (maintenance)	(3)	(4)	(4)	(4)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(27)	(177)	(184)	(202)
Dividend payments	(177)	(184)	(188)	(203)
Issue of shares	0	0	0	0
Proceeds from borrowings	273	100	100	100
Others/interest paid	(123)	(93)	(96)	(99)
Net cash inflow (outflow)	46	70	(25)	(13)
Beginning cash & cash equivalent	1,316	1,362	1,432	1,504
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	1,362	1,432	1,407	1,491

### BALANCE SHEET

Year to 31 Oct (RMm)	2023	2024F	2025F	2026F
Fixed assets	135	122	111	101
Other LT assets	6,624	6,824	7,144	7,382
Cash/ST investment	1,362	1,432	1,407	1,491
Other current assets	1,676	1,748	1,831	1,920
<b>Total assets</b>	<b>9,797</b>	<b>10,126</b>	<b>10,493</b>	<b>10,895</b>
ST debt	1,743	1,843	1,943	2,043
Other current liabilities	1,615	1,734	1,867	2,021
LT debt	1,313	1,313	1,313	1,313
Other LT liabilities	378	378	378	378
Shareholders' equity	4,748	4,858	4,992	5,140
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>9,797</b>	<b>10,126</b>	<b>10,493</b>	<b>10,895</b>

### KEY METRICS

Year to 31 Oct (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	18.0	18.3	18.3	18.3
Pre-tax margin	12.1	16.2	16.4	16.4
Net margin	11.5	12.3	12.5	12.4
ROA	2.7	2.9	3.1	3.2
ROE	5.4	6.1	6.5	6.9
<b>Growth</b>				
Turnover	9.0	7.4	8.0	8.0
EBITDA	37.5	6.8	7.0	9.0
Pre-tax profit	19.4	13.3	9.6	7.8
Net profit	18.3	8.8	9.6	7.8
Net profit (adj.)	14.8	8.8	9.6	7.8
EPS	14.8	8.8	9.6	7.8
<b>Leverage</b>				
Debt to total capital	39.2	39.4	39.5	39.5
Debt to equity	64.4	65.0	65.2	65.3
Net debt/(cash) to equity	25.0	27.5	29.3	32.3
Interest cover (x)	3.2	4.3	4.4	4.6

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