

COMPANY UPDATE

Eco World Development (ECW MK)

Looking To Expand Landbank

ECW plans to use its share of the capital distribution (RM243m) for landbanking activities in Klang Valley and Johor, focusing on growth and expansion. Nevertheless, we still expect higher dividends in the future as the company strives to further improve its total dividend payout over time while expanding its business in the coming years. Maintain BUY. Target price: RM1.02.

WHAT'S NEW

- To recap, Eco World International (ECWI), a 27%-owned associate of Eco World Development (ECW), received approval for its proposed capital reduction in June 23. This paves the way for a special distribution of RM900m or 37.5 sen/share, to be paid by the end of 2023 (with the first tranche estimated at RM300m). ECWI achieved a net cash position of RM173m (7.2 sen/share) by the end of FY22, earlier than expected. The RM900m special distribution will be sourced from ECWI's sales target of RM1.4b for FY23, primarily from sales of existing inventory. We believe this special distribution aims to maintain the appeal of ECWI's stock and promote shareholder loyalty, considering the challenging operating environment in its key London market.
- ECWI has a substantial inventory and unlaunched projects with a GDV of about RM9b, including RM1.8b in unsold completed inventory and six unlaunched projects. The recognition of this gross development value (GDV) is expected to span at least six years, assuming a consistent annual sales target of RM1.4b, before considering any potential new land acquisitions. ECWI has achieved RM619m in sales during 7MFY23, and with reserves of RM299m, it is on track to meet its RM900m capital distribution commitment. Additionally, given that ECWI has already allocated funds for ongoing projects, we think there is a possibility of an additional special dividend in FY24 if no new land acquisitions are pursued.

STOCK IMPACT

- **ECW will be entitled to receive RM243m (8.2 sen/share) from the capital distribution.** Management clarified that the allocated capital distribution will likely be utilised for landbanking activities, reflecting its strategic focus on growth and expansion. Hence, ECW is eyeing to do landbanking activities in Klang Valley and Johor with size ranging from 200-300 acres that are well-suited for township and industrial development projects. Additionally, ECW has expressed interest in engaging in potential partnerships with landowners to pursue joint development ventures.

KEY FINANCIALS

Year to 31 Oct (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	2,025	2,044	1,837	2,136	2,287
EBITDA	232	282	280	316	322
Operating profit	209	260	262	299	307
Net profit (rep./act.)	183	157	241	265	299
Net profit (adj.)	240	238	241	265	299
EPS (sen)	8.2	8.1	8.2	9.0	10.2
PE (x)	10.4	10.5	10.4	9.4	8.4
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	18.3	15.1	15.2	13.5	13.2
Dividend yield (%)	4.7	5.9	6.2	6.6	7.0
Net margin (%)	9.0	7.7	13.1	12.4	13.1
Net debt/(cash) to equity (%)	43.5	31.0	36.2	36.1	36.9
Interest cover (x)	2.1	2.9	3.2	3.4	3.4
ROE (%)	3.9	3.3	5.0	5.4	6.0
Consensus net profit	-	-	239	256	276
UOBKH/Consensus (x)	-	-	1.01	1.04	1.09

Source: EcoWorld Development, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.85
Target Price	RM1.02
Upside	+20.1%
(Previous TP)	RM0.95)

COMPANY DESCRIPTION

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

STOCK DATA

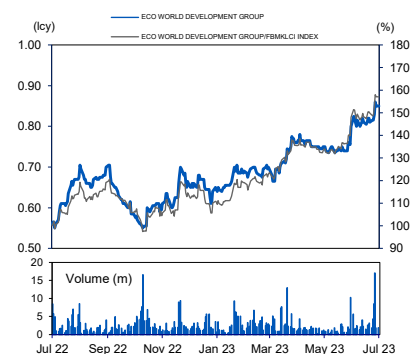
GICS sector	Real Estate
Bloomberg ticker:	ECW MK
Shares issued (m):	2,944.4
Market cap (RMm):	2,502.7
Market cap (US\$m):	536.3
3-mth avg daily t'over (US\$m):	0.4
Price Performance (%)	

52-week high/low RM0.860/RM0.550

1mth	3mth	6mth	1yr	YTD
11.8	11.8	32.8	53.2	31.8

Major Shareholders	%
Sinarماس Harta Sdn Bhd	32.0
Eco World Development Holdings	25.6
Employees Provident Fund	8.3
FY23 NAV/Share (RM)	1.64
FY23 Net Debt/Share (RM)	0.50

PRICE CHART



Source: Bloomberg

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- **We expect net gearing to decrease to 0.26x after the capital distribution** (from 0.31x in 2QFY23), providing a debt headroom of RM1.1b for future landbanking activities before reaching its internal net gearing cap of 50%. We estimate that RM1.1b would add another 2,000 acres of land to its portfolio. Currently ECW has >3,000 acres of remaining landbank with remaining GDV of RM54b.
- **Dividend has been improving.** ECW first declared its dividend in FY20 at 2 sen/share (25% payout ratio) and has since increased its dividend to 4 sen/share (49% payout ratio) in FY21 and 5 sen/share (62% payout ratio) in FY22. With expected of better earnings in FY23-25 (we forecast a three-year CAGR of 8% to FY25f), we estimate that ECW will be able to pay higher dividend to shareholders at 5.3 sen in FY23F (1HFY23: 2 sen), 5.6 sen in FY24 and 5.9 sen in FY25, which translates to dividend yield of 6-7%, one of the highest in the property sector.
- **Unbilled sales rose to RM4.29b in 2QFY23 (1QFY23: RM4.03b)**, with a cover ratio of 2.1x. We believe the lower cover ratio was likely due to reduced project launches during the pandemic from the higher raw material prices, leading to ECW's sales coming from its inventory (as indicated by its declining level of inventory trend). Take up rate on new launches was decent at around 65% as of 1HFY23, largely within its historical average. For 2HFY23, ECW is targeting to launch more from its affordable segment *Duduk* (<RM500k).
- **Maintains FY23 sales target of RM3.5b (FY22 sales: RM3.84b).** Sales momentum was strong, with around RM2.4bn already secured in 7MFY23 (Nov 22-May 23), representing 68.5% of sales target. This was mainly attributable to strong landed residential (41% of total sales) and industrial demand (35% of the total sales). The reopening of borders helped to improve demand for retail shops and shop offices, especially for ECW's townships at Iskandar Malaysia, which gained traction from Singaporeans.
- **Expecting a strong rebound in FY24 revenue.** We see revenue declining by 10% in FY23 on a fewer number of completed projects and lower sales as compared with FY22. Nonetheless, we expect FY24/FY25 revenue to grow strongly at 16%/7% driven by: a) expectation of improving progressive billings recognition, b) more launches from the easing of raw material prices, c) higher sales from better market condition, and d) completion of few projects (including *Huni @ Eco Arden* and *Se.Ruang @ Eco Sanctuary* in 1Q24).

EARNINGS REVISION/RISK

- **We raise our EPS forecast by 12-17% to 8.2sen/9.0sen/10.2sen for FY23/FY24/FY25** (from 7.3sen/7.9sen/8.7sen) to reflect the improving sales outlook, better margin from its cost saving initiatives and higher industrial segment contribution.

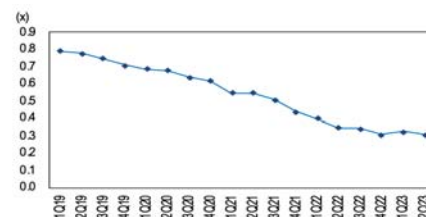
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of RM1.02 (from RM0.95)** as we increase our earnings forecast. Our target price implies a 60% discount to its RNAV/share of RM2.55 amid lingering structural concerns in the industry. In terms of P/B, our target price represents a higher FY23F P/B of 0.6x (+1SD to five-year average of 0.5x) to reflect ECW's improving balance sheet and ROE, high dividend yields as well as its leading position in the property sector.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

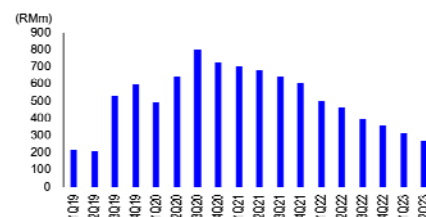
• Environmental	
-	ECW reduced Greenhouse Gas (GHG) emissions by 36% and a total of 947,887 kWh electricity consumption amid energy savings initiatives such as implementation of the EcoWorld Green Office Guide.
• Social	
-	100% of ECW's suppliers for building materials and main contractors are local.
• Governance	
-	Good company transparency along with an Anti-Bribery and Anti-Corruption Policy.

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

1HFY23 NEW RESIDENTIAL LAUNCHES

Eco Central	
•	Bohemia @ Eco Sanctuary Cluster Semi-D & Semi-D
•	Eden @ Eco Sanctuary Co-Home
•	Birchpark @ Eco Forest Co-Home, Double Storey & Garden Homes
•	SWNK Houze - BBCC Serviced Residences
•	Norton Garden @ Eco Grandeur Courtyard Homes
Eco South	
•	The Commune @ Eco Botanic 2 Cluster Homes
•	Aranya, Caia, Aria & Nora @ Eco Tropics Double Storey
•	Bayfield @ Eco Spring Semi-D
•	Chara & Theia @ Eco Spring Double Storey Terrace
Eco North	
•	Camdon @ Eco Horizon Garden Homes
•	Beldon @ Eco Horizon Semi-D

Source: Eco World Development

RNAV TARGET PRICE OF RM1.02/SHARE

NPV of Development Profits	(RMm)
Central Region	1,834.4
Southern Region	519.1
Northern Region	206.4
EcoWorld International (27%)	214.1
Total	2,774.0
Shareholders' Funds	4,738
RNAV	7,512.4
Existing Share base	2,944
RNAV/share	2.55
Discount	60%
Target Price (RM/share)	1.02

Source: Eco World Development, UOB Kay Hian

PROFIT & LOSS

Year to 31 Oct (RMm)	2022	2023F	2024F	2025F
Net turnover	2,044	1,837	2,136	2,287
EBITDA	282	280	316	322
Deprec. & amort.	22	18	17	15
EBIT	260	262	299	307
Associate contributions	62	144	142	182
Net interest income/(expense)	(97)	(89)	(93)	(96)
Pre-tax profit	226	317	349	393
Tax	(69)	(76)	(84)	(94)
Minorities	0	0	0	0
Net profit	157	241	265	299
Net profit (adj.)	238	241	265	299

BALANCE SHEET

Year to 31 Oct (RMm)	2022	2023F	2024F	2025F
Fixed assets	150	134	121	110
Other LT assets	6,337	6,682	6,924	7,206
Cash/ST investment	1,316	1,308	1,378	1,394
Other current assets	1,596	1,507	1,637	1,702
Total assets	9,400	9,631	10,060	10,412
ST debt	1,056	1,743	1,843	1,943
Other current liabilities	1,500	1,373	1,603	1,731
LT debt	1,727	1,313	1,313	1,313
Other LT liabilities	378	378	378	378
Shareholders' equity	4,738	4,823	4,922	5,047
Minority interest	0	0	0	0
Total liabilities & equity	9,400	9,631	10,060	10,412

CASH FLOW

Year to 31 Oct (RMm)	2022	2023F	2024F	2025F
Operating	936	167	332	291
Pre-tax profit	226	317	349	393
Tax	66	(76)	(84)	(94)
Deprec. & amort.	22	18	17	15
Associates	(62)	(144)	(142)	(182)
Working capital changes	824	(37)	100	63
Non-cash items	97	89	93	96
Other operating cashflows	(235)	0	0	0
Investing	(218)	(203)	(103)	(103)
Capex (growth)	(131)	(200)	(100)	(100)
Capex (maintenance)	(3)	(3)	(3)	(3)
Investments	(19)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(65)	0	0	0
Financing	(233)	28	(159)	(171)
Dividend payments	(147)	(156)	(166)	(175)
Issue of shares	0	0	0	0
Proceeds from borrowings	(73)	273	100	100
Others/interest paid	(13)	(89)	(93)	(96)
Net cash inflow (outflow)	484	(8)	70	16
Beginning cash & cash equivalent	785	1,316	1,308	1,378
Changes due to forex impact	47	0	0	0
Ending cash & cash equivalent	1,316	1,308	1,378	1,394

KEY METRICS

Year to 31 Oct (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	13.8	15.2	14.8	14.1
Pre-tax margin	11.0	17.3	16.3	17.2
Net margin	7.7	13.1	12.4	13.1
ROA	1.6	2.5	2.7	2.9
ROE	3.3	5.0	5.4	6.0
Growth				
Turnover	0.9	(10.1)	16.3	7.1
EBITDA	21.4	(0.7)	12.8	2.1
Pre-tax profit	(5.7)	40.5	9.9	12.9
Net profit	(14.0)	53.3	9.9	12.9
Net profit (adj.)	(0.8)	1.2	9.9	12.9
EPS	(0.8)	1.2	9.9	12.9
Leverage				
Debt to total capital	37.0	38.8	39.1	39.2
Debt to equity	58.7	63.4	64.1	64.5
Net debt/(cash) to equity	31.0	36.2	36.1	36.9
Interest cover (x)	2.9	3.2	3.4	3.4

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