

### COMPANY RESULTS

## EcoWorld Development (ECW MK)

1QFY24: Results In Line; Achieves RM1.26b Sales For 4MFY24

**ECW's 1QFY24 net profit increased 24% yoy. Sales remains robust with RM1.26b achieved in 4MFY24 (thanks to strong Johor sales), which we think will result in ECW exceeding its own full-year sales target of RM3.5b. Maintain BUY with a higher target price of RM1.94 (from RM1.54). Our target price implies 16-19x FY24-26F PE (lower than its 10-year average of 32x; lower than peers' current average of 22x FY24F PE) and 1.11-1.18x FY24-26F P/B (largely around its 10-year average).**

### 1QFY24 RESULTS

Year to 31 Oct	1QFY24 (RMm)	4QFY23 (RMm)	1QFY23 (RMm)	qoq % chg	yoy % chg
Revenue	537.8	844.5	484.7	(36.3)	10.9
Gross Profit	128.3	175.1	126.3	(26.7)	1.6
Opex	(54.6)	(109.7)	(49.4)	(50.3)	10.5
EBIT	108.2	100.5	98.6	7.7	9.8
Net Interest	(30.1)	(33.3)	(30.3)	(9.6)	(0.7)
Shares of JV & Associates	14.3	(47.1)	11.5	n.m	23.8
PBT	92.4	20.1	79.8	360.9	15.8
Taxation	(22.8)	(16.8)	(22.8)	36.0	0.0
PATAMI	69.6	3.3	57.0	>100	22.2
Core PATAMI	70.9	87.4	57.0	(18.8)	24.4
Margin	%			ppt	ppt
EBIT margin (%)	20.1	11.9	20.3	8.2	(0.2)
PATAMI margin (%)	13.2	10.3	11.8	2.8	1.4

Source: EcoWorld Development Bhd, UOB Kay Hian

### RESULTS

- **Results in line.** Eco World Development (ECW) reported 1QFY24 core net profit of RM70.9m (-19% qoq, +24% yoy) on revenue of RM538m (-36% qoq, +11% yoy). This accounted for 24-26% of our and consensus' full-year forecasts. Net profit was boosted yoy by higher revenue from newly launched projects as well as a higher share of profit from JVs and associate company Eco World International (ECWI) on its profitable results (after nine straight quarters of losses). However, ECW's earnings were lower qoq due to a higher base in 4QFY23 on the completion of a 92-acre industrial land sale in Eco Business Park II.
- We derive RM70.9m in core net profit after excluding exceptional items amounting to RM1.3m mainly on impairment losses on receivables.

### KEY FINANCIALS

Year to 31 Oct (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	2,044	2,227	2,393	2,561	2,792
EBITDA	282	408	423	453	494
Operating profit	260	388	407	438	480
Net profit (rep./act.)	157	189	294	322	350
Net profit (adj.)	238	273	294	322	350
EPS (sen)	8.1	9.3	10.0	10.9	11.9
PE (x)	18.5	16.2	15.0	13.7	12.6
P/B (x)	0.9	0.9	0.8	0.8	0.8
EV/EBITDA (x)	20.1	13.9	13.4	12.5	11.5
Dividend yield (%)	3.3	4.0	4.2	4.3	4.6
Net margin (%)	7.7	8.5	12.3	12.6	12.5
Net debt/(cash) to equity (%)	31.0	25.2	25.7	26.8	27.1
Interest cover (x)	2.9	3.3	3.6	3.7	3.8
ROE (%)	3.3	4.0	6.1	6.5	6.9
Consensus net profit	-	-	272	299	320
UOBKH/Consensus (x)	-	-	1.08	1.07	1.10

Source: EcoWorld Development Bhd, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	RM1.50
Target Price	RM1.94
Upside	+29.3%
(Previous TP)	RM1.54

### 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):	4,416.6
Market cap (US\$m):	936.5
3-mth avg daily t'over (US\$m):	1.4

### Price Performance (%)

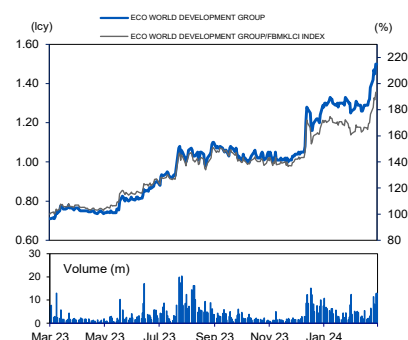
52-week high/low	RM1.50/RM0.710			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
15.4	45.6	36.4	119.0	42.9

### Major Shareholders

Sinarmas Harta Sdn Bhd	32.9
Liew Kee Sin	9.4
Emp Eco World Development Holdings	7.5

FY24 NAV/Share (RM)	1.65
FY24 Net Debt/Share (RM)	0.42

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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STOCK IMPACT

- Secures RM1.26b worth of property sales for 4MFY24 (Nov 23-Feb 24).** The Johor region contributed 57% of the sales or RM723m (+5% yoy), mostly from its duduk series products (affordable houses priced between RM500,000-700,000). This is by far the highest sales in Johor contributed by developers under our coverage in a quarter alone. Full-year FY23 Johor sales from Sunway Bhd, UEM Sunrise and Mah Sing was RM221m, RM222m and RM582m respectively. Growth momentum in Iskandar Malaysia is expected to be anchored by the Johor Bahru-Singapore Rapid Transit System (RTS) and implementation of the Johor LRT (we estimate that 3-4 stations of the Johor LRT will be near/overlap with ECW landbank). ECW has 3,454 acres of remaining landbank with GDV of RM53.2b, of which the landbank in Johor is 1,536 acres with GDV of RM14b.
- Klang Valley (KV) contributed RM372m sales (-33% yoy) or 30% of total sales.** One of the new launches in KV was Eco Grandeur's commercial units, which garnered a 50% take-up rate (launched in Jan 24). Other recent launches like Sa.Yong (duduk series) in Eco Botanic, Johor, saw an 80% take-up rate (launched in Oct 23). Given its proximity to the EduCity area in Iskandar Malaysia, the Sa.Yong project has been predominantly taken up by investor buyers rather than homeowners. One of the new launches in Penang was Ceria D' Eco Horizon (duduk series) and has seen a 50% take-up rate (launched in Sep 23).
- More industrial launches in future.** ECW's industrial project called Eco Business Park (EBP) contributed RM298m of sales (24% of 1QFY24 sales). Most of the products sold were cluster and semi-d factories in Iskandar Malaysia, Johor and KV. There is strong demand in both areas, with many inquiries coming from both local and foreign industrialists (mainly from China) looking for large pieces of industrial land, especially in Iskandar Malaysia, for their business expansion. This should bode well for its upcoming project, EBP VI in Kulai, Iskandar Malaysia, which is planned to be launched towards end-FY24/early-FY25.
- We think ECW may surpass its own sales target of RM3.5b.** We estimate that FY24 sales may reach at least RM3.6b. It is worth noting that both ECW's inventory and net gearing level have been on a declining trend, suggesting a healthy balance sheet. Furthermore, the majority of its projects contributing to sales are now highly matured projects. Hence, ECW was able to generate RM253.4m in net cash flow from operating activities in 1QFY24 (2.74x of PBT RM92.4m for 1QFY24).

EARNINGS REVISION/RISK

- Forecast unchanged.** We expect FY24 revenue to increase by 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 RM3.9b (+10% qoq; 1.8x cover ratio), and d) completion of several projects (including Eco Botanic 2 in 2Q24). We expect net profit to rise by 8% on the easing of raw material prices. There could be more upside to our earnings forecast if sales are stronger than expected and launches of industrial projects are earlier than expected (we estimate every RM100m in surprise sales could translate to an additional 4% growth in net profit).

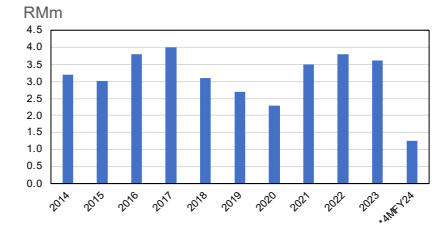
VALUATION/RECOMMENDATION

- Maintain BUY with a higher target price of RM1.94** (from RM1.54) as we narrow our RNAV discount to 40% (largely in line with sector average) from 50% to its RNAV/share of RM3.23, in view of the improving sector outlook. Our target price implies 16-19x FY24-26F PE (lower than its 10-year average of 32x; lower than current peers' average of 22x FY24 PE) and 1.11x-1.18x FY24-26F P/B (largely around its 10-year average). Notably, during the property upcycle back in 2012-14, ECW was traded at a premium of 1.6x P/B (+3SD to mean) and 30% discount to its RNAV. We like ECW for its improving balance sheet and ROE, dividend yield of 4-5% 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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PROPERTY SALES



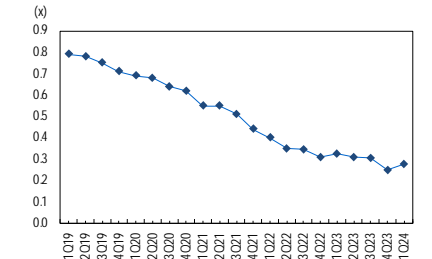
Source: Eco World Development

SALES FROM JOHOR



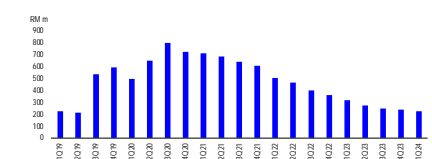
Source: Eco World Development, UOB Kay Hian

NET GEARING LEVEL



Source: Eco World Development, UOB Kay Hian

COMPLETED INVENTORY LEVEL



Source: Eco World Development, UOB Kay Hian

ASSUMPTIONS

	FY24F	FY25F	FY26F
Sales (RMb)	3.6	3.7	3.7
Take-up rate (%)	80	80	80
EBIT margin (%)	17.0	17.1	17.2

Source: UOB Kay Hian

RNAV TARGET PRICE OF RM1.94/SHARE

NPV of Development Profits	(RMm)
Central Region	2,487.0
Southern Region	1,586.3
Northern Region	348.4
EcoWorld International (27%)	321.2
<b>Total</b>	<b>4,743.0</b>
Shareholders' Funds	4,774
<b>RNAV</b>	<b>9,516.5</b>
Existing Share base	2,944
RNAV/share	3.23
Discount	40%
<b>Target Price (RM/share)</b>	<b>1.94</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	2,561	2,792
EBITDA	408	423	453	494
Deprec. & amort.	20	17	15	14
EBIT	388	407	438	480
Associate contributions	5	100	109	109
Net interest income/(expense)	(123)	(119)	(124)	(128)
Pre-tax profit	270	387	423	461
Tax	(81)	(93)	(102)	(111)
Minorities	0	0	0	0
Net profit	189	294	322	350
Net profit (adj.)	273	294	322	350

### CASH FLOW

Year to 31 Oct (RMm)	2023	2024F	2025F	2026F
Operating	825	406	423	481
Pre-tax profit	270	387	423	461
Tax	(81)	(93)	(102)	(111)
Deprec. & amort.	20	17	15	14
Associates	(5)	(100)	(109)	(109)
Working capital changes	497	75	72	98
Non-cash items	123	119	124	128
Other operating cashflows	0	0	0	0
Investing	(253)	(154)	(204)	(204)
Capex (growth)	(250)	(150)	(200)	(200)
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	(551)	(203)	(212)	(233)
Dividend payments	(177)	(184)	(188)	(205)
Issue of shares	0	0	0	0
Proceeds from borrowings	(252)	100	100	100
Others/interest paid	(123)	(119)	(124)	(128)
Net cash inflow (outflow)	20	48	7	44
Beginning cash & cash equivalent	1,316	1,336	1,384	1,392
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	1,336	1,384	1,392	1,436

### BALANCE SHEET

Year to 31 Oct (RMm)	2023	2024F	2025F	2026F
Fixed assets	135	122	111	101
Other LT assets	6,592	6,842	7,151	7,460
Cash/ST investment	1,336	1,384	1,392	1,436
Other current assets	1,676	1,748	1,821	1,921
<b>Total assets</b>	<b>9,739</b>	<b>10,096</b>	<b>10,475</b>	<b>10,918</b>
ST debt	731	831	931	1,031
Other current liabilities	2,078	2,225	2,370	2,568
LT debt	1,801	1,801	1,801	1,801
Other LT liabilities	378	378	378	378
Shareholders' equity	4,751	4,861	4,995	5,141
Minority interest	0	0	0	0
<b>Total liabilities &amp; equity</b>	<b>9,739</b>	<b>10,096</b>	<b>10,475</b>	<b>10,918</b>

### KEY METRICS

Year to 31 Oct (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	18.3	17.7	17.7	17.7
Pre-tax margin	12.1	16.2	16.5	16.5
Net margin	8.5	12.3	12.6	12.5
ROA	2.0	3.0	3.1	3.3
ROE	4.0	6.1	6.5	6.9
<b>Growth</b>				
Turnover	9.0	7.4	7.1	9.0
EBITDA	44.6	3.8	7.0	9.0
Pre-tax profit	19.6	43.4	9.3	8.9
Net profit	20.4	55.4	9.3	8.9
Net profit (adj.)	14.8	7.6	9.3	8.9
EPS	14.8	7.6	9.3	8.9
<b>Leverage</b>				
Debt to total capital	34.8	35.1	35.4	35.5
Debt to equity	53.3	54.1	54.7	55.1
Net debt/(cash) to equity	25.2	25.7	26.8	27.1
Interest cover (x)	3.3	3.6	3.7	3.8

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