

INITIATE COVERAGE

# IOI Properties Group (IOIPG MK)

Time To Reap What Was Sown

IOIPG's investment in Singapore is expected to contribute positively to the group, ushering in a new era of growth and profitability, and driving our forecasted three-year earnings CAGR of 26%. The growth in property investment paves the way for a potential REIT IPO with a carrying value of at least RM18b, surpassing the scale of other M-REITs to date. We initiate coverage with BUY and a target price of RM3.06 based on a 45% discount to RNAV of RM5.53.

- **Property investment: To lift earnings and subsequently reduce net gearing.** IOI Properties Group (IOIPG) will see its new office landmark, IOI Central Boulevard Towers (IOICB), start contributing meaningfully in FY25 upon its completion (expected by Jun 24). We expect IOICB to contribute approximately S\$172m (or RM570m) to revenue annually based on average rental rates of S\$12psf and a 95% occupancy rate. While we acknowledge that the company is on an acquisition trail for investment properties and hospitality assets, we forecast net gearing to fall to 0.59x by FY26 (from 0.68x in 1QFY24), backed by additional cash flow from land disposal and contributions from investment properties (especially after the commencement of operations at IOICB).
- **Property development: Record high new launches from Marina View, Singapore will start to contribute progressively in 2HFY25,** with more significant contributions expected from FY26 onwards. We forecast IOIPG's revenue to grow at a three-year CAGR of 22% and earnings to grow at a three-year CAGR of 26% mainly contributed by these projects as well as rental income from IOICB coupled with new hospitality assets.
- **Beneficiary of Johor vibrancy theme.** With a substantial landbank of 3,474 acres in Kulai (GDV: RM5b) and another 3,800 acres of non-core lands (half of which is in Johor), IOIPG is poised to benefit from the vibrancy in the Johor market. The region is gaining momentum with government incentives, spillover demand from Singapore, the upcoming launch of the Johor Bahru-Singapore Rapid Transit System, and the establishment of a special economic zone in Iskandar Malaysia. IOIPG's successful track record in its Bandar Putra Kulai township, marked by strong take-up rates for residential and industrial developments, positions it favourably to capitalise on the growing opportunities in Johor.
- **Fairly high profit margin.** IOIPG maintains a strong and sustainable profitability for its property development division, with a consistent five-year EBIT margin of 38.4%, well above the industry average of 20.7%. This high margin is supported by low land costs and a strategic approach of avoiding significant product discounts.

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## KEY FINANCIALS

Year to 30 Jun (RMm)	2022	2023	2024F	2025F	2026F
Net Turnover	2,590	2,593	2,891	3,587	4,745
EBIT	928	1,276	892	1,167	1,540
Net Profit (Reported/Actual)	687	1,393	790	1,001	1,270
Net Profit (Adjusted)	715	640	790	1,001	1,270
EPS (sen)	13.0	11.6	14.3	18.2	23.1
PE (x)	15.6	17.4	14.1	11.1	8.8
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	26.1	19.5	27.3	21.0	15.8
Dividend Yield (%)	2.0	2.5	2.8	3.1	3.4
Net Margin (%)	27.6	24.7	27.3	27.9	26.8
Net Debt/(Cash) to Equity (%)	70	68	66	63	59
Interest Cover (x)	26.8	452.1	20.6	37.6	52.5
ROE (%)	3.5	6.7	3.8	4.7	5.8
Consensus Net Profit			759	859	1001
UOBKH/Consensus (x)			104	116	127

Source: IOIPG, Bloomberg, UOB Kay Hian

## BUY

Share Price	RM2.03
Target Price	RM3.06
Upside	+50.7%

## COMPANY DESCRIPTION

A property developer that has a business portfolio that encompasses hospitality and leisure in addition to property development and property investment.

## STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	IOIPG MK
Shares issued (m):	5,506.1
Market cap (RMm):	11,122.4
Market cap (US\$m):	2,391.9
3-mth avg daily t'over (US\$m):	597.2

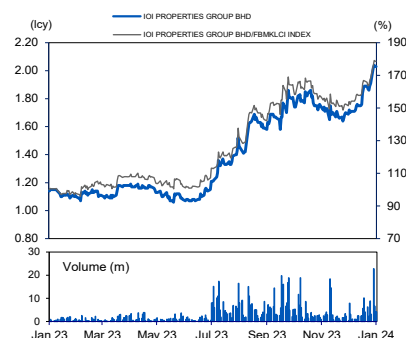
## Price Performance (%)

52-week high/low			RM2.07/RM1.05	
1mth	3mth	6mth	1yr	YTD
19.5	11.6	75.7	77.2	14.8

## Major Shareholders

	%
Vertical Capacity	65.7
EPF	6.6
PNB	6.4
FY23 NAV/Share (RM)	4.05
FY23 Net Debt/Share (RM)	2.80

## PRICE CHART



Source: Bloomberg

## ANALYST(S)

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## STOCK IMPACT

- **Growing property investment for future REIT IPO.** Moving forward, IOIPG would add 1.29m sf to its existing 8.15m sf of net lettable area (NLA) via the ongoing development IOICB. FY24 also shall see the completion of the 480-room Moxy Hotel in Putrajaya, the completion of the 370-room Sheraton Grand Xiamen at IOI Palm City, Xiamen, China, as well as the addition of a new hotel from its recent acquisition of W Hotel KL, bringing the total number of hotel room keys to 2,241. These should enhance IOIPG's portfolio and pave way for future REIT IPO. Although specific details regarding the IPO are unavailable, the latest carrying value of all investment properties excluding hospitality portfolio stands at RM18b, surpassing KLCCP Stapled Group (KLCCSS), the largest REIT in Malaysia.
- **Record high target launch of RM10.6b for FY24 (FY23: RM1.2b)...** In Malaysia, IOIPG aims to launch a GDV of RM2.05b from existing townships such as residential products for the Bandar Putra Kulai township in Johor and an industrial property from Phase 2 of iSynergy Industrial Park in Senai. Other Malaysia launches include the 16 Sierra township in Puchong South, which we believe will be well-received given its proximity to the MRT2 station (16 Sierra station).
- **...mainly from its Marina View project in Singapore with GDV of S\$2.58b (RM8.56b).** The development will comprise 350 hotel rooms on the lower floors by W Hotel and 683 residential units on the upper floors. Although the Singapore property market is undergoing cooling measures, we believe demand for this project will improve gradually as the market stabilises (target launch by 3QFY24) given its prime location in the heart of Marina Bay's CBD, proximity to three MRT stations (Shenton Way, Marina Bay, and Downtown), and adjacency to IOICB's office tower (potentially offering cross-selling opportunities for IOIPG). Taking a cue from historical trends, among Sunway Property's previous Singapore projects, Ki Residence (still under construction) achieved an impressive 98% take-up rate, while its other older Singapore projects were fully sold out.

## EARNINGS REVISION/RISK

- We forecast IOIPG's revenue to grow at three-year CAGR of 22% and earnings to grow at a three-year CAGR of 26% driven by: a) contribution from Singapore projects (IOICB and Marina View); b) a higher contribution from the property segment in Malaysia (higher launches) and China (gradual recovery); c) improved contributions from the property investment segment, driven by the full-year impact of IOI City Mall Phase 2 as well as a recovery at Xiamen Mall (no more rental rebate and a footfall recovery); and d) a turnaround in the hospitality segment given a recovery in tourist arrivals as well as contributions from new hotels (from recent acquisitions and completion of developments).
- Further upsides to our projections would come from higher take-up rates and higher selling prices for the Marina View project, and a higher contribution from IOICB with the potential for higher rental rates. We are conservatively estimating a rental rate of S\$12psf in our forecast, compared with the prevailing market rate that could command S\$13psf.

## VALUATION/RECOMMENDATION

- **Initiate coverage with BUY and target price of RM3.06** based on a 45% discount to RNAV of RM5.53 (with about 50% from Singapore projects). Despite the recent share price increase, IOIPG is trading at an undemanding valuation against peers with FY24F PE of 14x and P/B of 0.5x, below the industry average of 18x PE and 0.7x P/B. We like the company as a successful township developer with sustainable income from investment properties.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- Carbon emission: In FY23, the group-wide Scope 2 emissions intensity dropped 31% as compared with FY22</li> </ul> </li> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- IOIPG is committed to promoting local procurement within its supply chain.</li> </ul> </li> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- Achieved 33% of women representation among the Board of Directors.</li> </ul> </li> </ul>
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## MAJOR REITS' PROPERTY INVESTMENT CARRYING VALUE

REITs	Property Investment Carrying Value (RMm)
<b>IOIPG</b>	<b>18,494.8</b>
KLCCSS	15,730.6
Sunway REIT	8,686.9
Pavilion REIT	8,242.3
Sentral REIT	2,053.1
IGB REIT	5,020.0
IGB Commercial REIT	3,161.0

Source: Respective companies, UOB Kay Hian

## REVENUE BY SEGMENT (RMM)

	FY23	FY24F	FY25F	FY26F
Property Development	1,880.5	2,154.6	2,376.0	3,345.9
Property Investment	490.6	502.7	946.8	1,081.6
Hospitality & Leisure	209.1	220.5	250.6	303.2
Others	12.9	13.3	13.7	14.1
<b>Total</b>	<b>2,593.1</b>	<b>2,891.0</b>	<b>3,587.0</b>	<b>4,744.7</b>
yoy growth (%)	0.1	11.5	24.1	32.3

Source: IOIPG, UOB Kay Hian

## EBIT BY SEGMENT (RMM)

	FY23	FY24F	FY25F	FY26F
Property Development	497.7	668.2	743.0	1,056.2
Property Investment	202.6	211.1	397.6	454.3
Hospitality & Leisure	(22.7)	4.4	12.5	15.2
Others	28.7	8.0	13.7	14.1
<b>Total</b>	<b>706.3</b>	<b>891.7</b>	<b>1,166.8</b>	<b>1,539.7</b>
yoy growth (%)	(32.7)	26.2	30.9	32.0

Source: IOIPG, UOB Kay Hian

## RNAV TARGET PRICE OF RM3.06

NPV of Development Profits	(RMm)
<b>Malaysia</b>	
Central Region	3,918
Southern Region	1,205
<b>Singapore</b>	
Marina View	1,328
JV projects	445
<b>China</b>	
IOI Palm	58
<b>Total</b>	<b>6,954</b>
Shareholders' Funds	23,492
<b>RNAV</b>	<b>30,446</b>
Existing Share Base (m)	5,506
RNAV/share (RM)	5.53
Discount (%)	45%
<b>Target Price (RM/share)</b>	<b>3.06</b>

Source: IOIPG, UOB Kay Hian

### PROFIT & LOSS

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>2,593</b>	<b>2,891</b>	<b>3,587</b>	<b>4,745</b>
EBITDA	1,338	956	1,233	1,608
Deprec. & amort.	61	64	66	68
EBIT	1,276	892	1,167	1,540
Associate contributions	297	124	124	124
Net interest income/(expense)	47	6	12	(2)
<b>Pre-tax profit</b>	<b>1,620</b>	<b>1,022</b>	<b>1,303</b>	<b>1,661</b>
Tax	(219)	(225)	(295)	(384)
Minorities	(7)	(7)	(7)	(7)
<b>Net profit</b>	<b>1,393</b>	<b>790</b>	<b>1,001</b>	<b>1,270</b>
Net profit (adj.)	640	790	1,001	1,270

### CASH FLOW

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>1,556</b>	<b>691</b>	<b>911</b>	<b>1,129</b>
Pre-tax profit	1,620	1,022	1,303	1,661
Tax	(219)	(225)	(295)	(384)
Deprec. & amort.	61	64	66	68
Associates	297	124	124	124
Working capital changes	844	(47)	(39)	(93)
Other operating cashflows	(1,047)	(247)	(247)	(247)
<b>Investing</b>	<b>(176)</b>	<b>(370)</b>	<b>(200)</b>	<b>(200)</b>
Capex (growth)	(895)	(370)	(200)	(200)
Capex (maintenance)	(167)	n.a.	n.a.	n.a.
Others	885	0	0	0
<b>Financing</b>	<b>(1,057)</b>	<b>(1,316)</b>	<b>(1,350)</b>	<b>(1,381)</b>
Dividend payments	(220)	(316)	(350)	(381)
Issue of shares	0	0	0	0
Proceeds from borrowings	(102)	(1,000)	(1,000)	(1,000)
Others/interest paid	(735)	0	0	0
<b>Net cash inflow (outflow)</b>	<b>322</b>	<b>(995)</b>	<b>(639)</b>	<b>(452)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,351</b>	<b>2,711</b>	<b>1,716</b>	<b>1,077</b>
Changes due to forex impact	38	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>2,711</b>	<b>1,716</b>	<b>1,077</b>	<b>625</b>

### BALANCE SHEET

Year to 30 Jun (RMm)	2023	2024F	2025F	2026F
Fixed assets	8,904	8,940	9,074	9,205
Other LT assets	22,849	23,243	23,467	23,690
Cash/ST investment	2,711	1,716	1,077	625
Other current assets	8,160	8,190	8,376	8,586
<b>Total assets</b>	<b>42,624</b>	<b>42,089</b>	<b>41,994</b>	<b>42,107</b>
ST debt	15,035	14,035	13,135	12,235
Other current liabilities	1,528	1,512	1,659	1,776
LT debt	2,829	2,829	2,829	2,829
Other LT liabilities	791	791	791	791
Shareholders' equity	22,589	23,077	23,743	24,646
Minority interest	(148)	(156)	(163)	(170)
<b>Total liabilities &amp; equity</b>	<b>42,624</b>	<b>42,089</b>	<b>41,994</b>	<b>42,107</b>

### KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	51.6	33.1	34.4	33.9
Pre-tax margin	62.5	35.3	36.3	35.0
Net margin	53.7	27.3	27.9	26.8
ROA	3.4	1.9	2.4	3.0
ROE	6.4	3.5	4.3	5.2
<b>Growth</b>				
Turnover	0.1	11.5	24.1	32.3
Net profit (adj.)	(10.4)	23.4	26.7	26.9
<b>Leverage</b>				
Debt to total capital	44.3	42.4	40.4	38.1
Debt to equity	79.1	73.1	67.2	61.1
Net debt/(cash) to equity	67.1	65.6	62.7	58.6
Interest cover (x)	452.1	20.6	37.6	52.5

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