

15 September 2017

Eco World Dev Group

Expecting Stronger Sales

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9M17 CNP of RM81.2m came below market but within our expectations. Over 10M17, local sales was at RM2.39b while their associate EWI raked in RM1.56b which is broadly on-track due to timing of new launches, which is currently underway. No dividends as expected. Maintain earnings forecasts. Reiterate MARKET PERFORM with unchanged TP of RM1.72.

Within expectations. 9M17 CNP of RM81.2m is below consensus but within our expectation at 60% of consensus full-year estimate and 72% of ours. We believe market consensus may not have fully built-in higher finance costs arising from funding equity stakes in their JCE/associate projects, which cannot be capitalised. 10M17 sales of RM2.39b accounted for 60% each of management's and our local sales target of RM4.0b** which is broadly on-track as the bulk of new launches only commenced in 4Q17. Their associate, EWINT, achieved RM1.56b sales over 10M17 or 62% of both management's/our target of RM2.5b which is also deemed on track as they have only recently launched their new project, Yarra One. No dividends, as expected.

QoQ, 3Q17 CNP slid 23% to RM26.1m. Although revenue grew 14% on higher billings and EBIT margins stable at 10%, this was more than eroded by a 46% increase in finance cost and 285% increase in share of associate/JCE. YoY, 9M17 CNP is down by 19% due to similar reasons mentioned above (finance costs: +174%, share of associate/JCE: +249%). The surge in (i) finance costs arises from equity financing from its associate projects/EWINT which interests cannot be capitalized, (ii) start-up costs from associates/JCE (e.g. EWI, Eco Grandeur, Eco Ardence) which have yet to see meaningful contributions due to timing of billings.

Outlook. The group remains confident of meeting its sales targets. The group is now in the midst of pushing-out its new Eco Business Park V, Eco Forest and Eco Horizon/Sun. Recall that last year, 4Q16 sales made-up 57% of full FY16 sales and we are confident of the group's ability to meeting the targets.

No changes to estimates. Unbilled sales of RM6.22b (local: RM4.69b, EWINT: RM1.53b at effective stake and project levels) is an industry high, providing 2-3 years of earnings visibility.

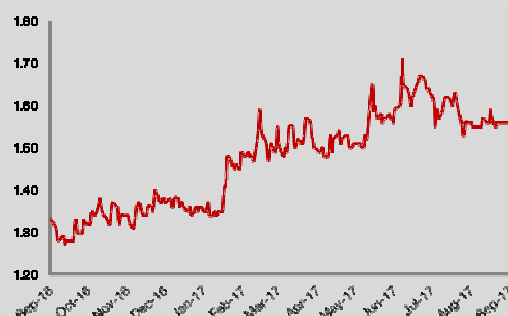
Maintain MARKET PERFORM with unchanged TP of RM1.72. Our TP is based on 51% property RNAV discount or implied 46% SoP discount to its FD SoP of RM3.18. We like ECOWLD for its branding strength, aggressive growth strategies, ability to grab market share and strong management team. However, we believe that investors will be waiting to see if FY17 sales targets are achievable and for more earnings delivery before valuations can re-rate further. We may also review our recommendation if there are other catalytic news (e.g. M&A), sales/earnings surprises or sharp retracement in share prices.

Risks to our call include: (i) weaker/stronger-than-expected property sales, (ii) lower/higher than expected sales/administrative and finance costs, (iii) changes in real estate policies, and (iv) changes in lending environment.

MARKET PERFORM ↔

Price : RM1.59
Target Price : RM1.72 ↔

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,781.37 |
| YTD KLCI chg | 8.5% |
| YTD stock price chg | 18.7% |

Stock Information

| | |
|----------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | ECW MK Equity |
| Market Cap (RM m) | 4,681.5 |
| Issued shares | 2,944.4 |
| 52-week range (H) | 1.72 |
| 52-week range (L) | 1.26 |
| 3-mth avg daily vol: | 2,534,316 |
| Free Float | 35% |
| Beta | 1.0 |

Major Shareholders

| | |
|-----------------------|-------|
| SinarmasHartaSdnBhd | 32.9% |
| LiewTian Xiong | 17.1% |
| Eco World Development | 14.7% |

Summary Earnings Table

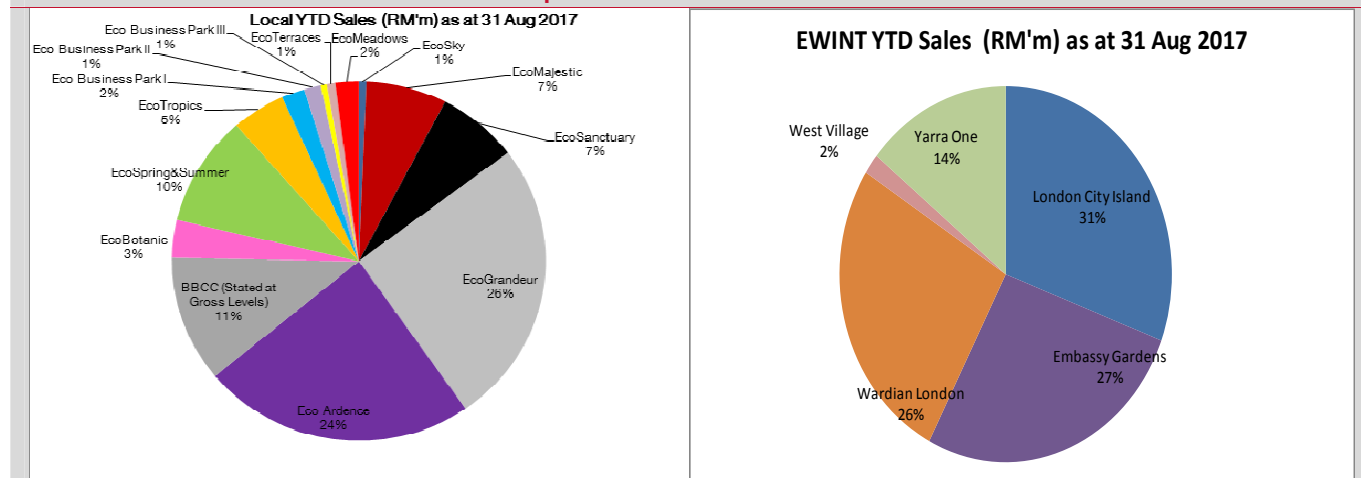
| FYE Oct (RM m) | 2016A | 2017E | 2018E |
|------------------------|------------|------------|------------|
| Turnover | 2,546 | 2,827 | 3,131 |
| EBIT | 237 | 265 | 314 |
| PBT | 193 | 219 | 336 |
| Net Profit (NP) | 129 | 182 | 249 |
| Core NP* | 129 | 113 | 249 |
| Consensus (CNP) | n.a. | 134 | 252 |
| Earnings Revision | n.a. | n.a. | n.a. |
| Core EPS (sen) | 3.7 | 3.2 | 7.1 |
| Core EPS growth(%) | 194% | -13% | 120% |
| NDPS (sen) | 0.0 | 0.0 | 0.0 |
| NTA/Share (RM) | 1.31 | 1.57 | 1.65 |
| Core PER (x) | 43.4 | 49.7 | 22.6 |
| Price/NTA (x) | 1.5 | 1.2 | 1.2 |
| Net Gearing (x) | 0.60 | 0.69 | 0.67 |
| Dividend Yield (%) | 0.0% | 0.0% | 0.0% |

* Stated at gross levels for EWINT (27%) based on our forex assumptions

** At gross levels

OTHER POINTS

10M17 ECOWLD Local and EWINT Sales Composition



Source: Company, Kenanga Research

Results Highlights

| FYE: 31st Oct (RMm) | 3Q17 | 2Q17 | QoQ | 3Q16 | YoY | 9M17 | 9M16 | YtdYoY |
|-------------------------|-------------|-------------|------|-------------|------|--------------|--------------|-------------|
| Revenue | 762.9 | 670.0 | 14% | 727.3 | 5% | 2025.7 | 1805.4 | 12% |
| Op costs w/o depn/amort | -682.5 | -612.6 | 11% | -648.3 | 5% | -1844.9 | -1630.2 | 13% |
| Other Op Income | 2.5 | 15.9 | -84% | 3.4 | -26% | 34.0 | 13.3 | 156% |
| EBITDA | 82.9 | 73.3 | 13% | 82.4 | 1% | 214.7 | 188.5 | 14% |
| EBIT | 76.6 | 67.6 | 13% | 76.3 | 0% | 197.4 | 172.8 | 14% |
| Finance Cost | -21.3 | -14.6 | 46% | -7.5 | 184% | -47.4 | -17.3 | 174% |
| Associate + JCE | -11.9 | -3.1 | 285% | -2.1 | 478% | -19.7 | -5.7 | 249% |
| FV/one-offs | 0.0 | 0.0 | n.a. | 0.0 | n.a. | 94.8 | 0.0 | >100% |
| Pretax profit | 43.4 | 50.0 | -13% | 66.8 | -35% | 225.0 | 149.8 | 50% |
| Taxation | -17.3 | -16.3 | 6% | -22.2 | -22% | -49.1 | -49.9 | -2% |
| Minority Interests | 0.0 | 0.0 | n.a. | 0.0 | n.a. | 0.0 | 0.0 | n.a. |
| Net profit | 26.1 | 33.7 | -23% | 44.6 | -41% | 175.9 | 99.9 | 76% |
| Core net profit | 26.1 | 33.7 | -23% | 44.6 | -41% | 81.2 | 99.9 | -19% |
| EPS (sen) | 0.89 | 1.16 | -23% | 1.89 | -53% | 6.22 | 4.23 | 47% |
| DPS (sen) | 0.0 | 0.0 | | 0.0 | | 0.0 | 0.0 | |
| NTA/share (RM) | 1.44 | 1.45 | | 1.38 | | 1.44 | 1.38 | |
| Net gearing/(cash) (x) | 0.69 | 0.70 | | 0.65 | | 0.69 | 0.65 | |
| EBIT Margin | 10.0% | 10.1% | | 10.5% | | 9.7% | 9.6% | |
| Pretax margin | 5.7% | 7.5% | | 9.2% | | 11.1% | 8.3% | |
| Effective tax rate | 39.9% | 32.6% | | 33.2% | | 21.8% | 33.3% | |

Source: Company, Kenanga Research

15 September 2017

| FD SOP | | | | | | | |
|---|--|-------|------------------------|---------------------------------|---------------------------------|----------|---------------------|
| Projects | Location | Stake | Assumed Duration (Yrs) | Remaining GDV + Unbilled (RM'm) | Remaining Net Profit *** (RM'm) | WACC (%) | DCF Value (RM m)*** |
| Eco Spring & Summer | Tebrau, Iskandar Malaysia | 100% | 7 | 5,235 | 678 | 10% | 465.5 |
| Eco Business Park I | Tebrau, Iskandar Malaysia | 100% | 4 | 3,310 | 429 | 10% | 336.9 |
| Eco Business Park II | Senai, Iskandar Malaysia | 100% | 3 | 3,010 | 390 | 10% | 320.9 |
| Eco Business Park III | PasirGudang, Iskandar Malaysia | 100% | 3 | 1,930 | 250 | 10% | 205.8 |
| Eco Tropics | PasirGudang, Iskandar Malaysia | 100% | 7 | 2,982 | 386 | 10% | 265.1 |
| Eco Botanic | Nusajaya, Iskandar Malaysia | 100% | 4 | 2,777 | 360 | 10% | 282.6 |
| Eco Majestic | Semenyih, Klang Valley | 100% | 10 | 10,077 | 1305 | 10% | 788.5 |
| Eco Sky | Taman Wahyu, KL, Klang Valley | 100% | 3 | 651 | 84 | 10% | 69.4 |
| Eco Sanctuary | Kota Kemuning, Klang Valley | 100% | 7 | 7,767 | 1006 | 10% | 690.7 |
| SaujanaGlenmarie | Glenmarie, Klang Valley | 100% | 2 | 13 | 2 | 10% | 1.5 |
| Eco Terraces | PayaTerubong, Eco North, Penang | 100% | 2 | 407 | 53 | 10% | 45.5 |
| Eco Meadows | Eco North, Penang | 100% | 3 | 882 | 114 | 10% | 94.0 |
| Eco Macalister | Eco North, Penang | 100% | 4 | 192 | 25 | 10% | 17.7 |
| Eco Forest - Purchase land on "en-bloc" basis | Semenyih near Eco Majestic, ULU LANGAT, Selangor | 100% | 6 | 3,500 | 453 | 10% | 294.6 |
| BBCC (excl. Retail Portfolio) | Bukit Bintang, (Pudu Jail) | 40% | 7 | 6,765 | 276 | 10% | 189.4 |
| BBCC - Retail Portfolio (excl. implied land cost of Retail Portfolio) | Bukit Bintang, (Pudu Jail) | 12% | 5 | 1,600 | 20 | 10% | 14.7 |
| Eco Ardence | Mukim Bukit Raja | 50% | 8 | 8,431 | 537 | 10% | 353.2 |
| Eco Grandeur/EBP V | Kuala Selangor | 60% | 13 | 15,096 | 1155 | 10% | 618.1 |
| Eco Horizon/Sun | BatuKawan Penang | 60% | 7 | 7,762 | 594 | 10% | 407.6 |
| EWINT | | 27% | 0 | 21,142 | 610 | 10% | 416.9 |
| Shareholders Funds @ 2015 | | | | | | | 3,786.7 |
| Placement (Announced Apr 2016, placed post Oct 2016) | | | | | | | 268.2 |
| Property RNAV | | | | | | | 9,933.5 |
| Dilution Impact | | | | | | | 1,092.8 |
| FD SOP | | | | | | | 11,026.3 |
| FD SOP/share (RM) | | | | | | | MYR 3.18 |
| FD No. of shs ('m) | | | | | | | 3,469.9 |
| Property RNAV Discount (excl. warrants effect) | | | | | | | -51% |
| Implied SOP Discount | | | | | | | -46% |
| TP (RM) | | | | | | | MYR 1.72 |

Source: Kenanga Research

15 September 2017

Peer Comparison

| NAME | Price (14/9/17) | Mkt Cap | PER (x) | | | Est. NDiv. Yld. | Hist. ROE | Fwd ROE | P/BV | Net Profit (RMm) | | | FY17/18 NP Growth | FY18/19 NP Growth | Target Price | Rating |
|------------------------------------|--------------------|------------|---------|---------|---------|-----------------------|--------------|------------|------|------------------|---------|---------|-------------------------|-------------------------|-----------------|----------------|
| | (RM) | (RMm) | FY16/17 | FY17/18 | FY18/19 | (%) | (%) | (%) | (x) | FY16/17 | FY17/18 | FY18/19 | (%) | (%) | (RM) | |
| DEVELOPERS UNDER COVERAGE | | | | | | | | | | | | | | | | |
| IOI PROPERTIES GROUP BHD* | 2.06 | 11,343 | 12.5 | 12.2 | 11.9 | 3.5% | 4.1% | 4.2% | 0.60 | 910.6 | 928.6 | 951.9 | 2.0% | 2.5% | 2.30 | OUTPERFORM |
| S P SPSETIA BHD*# | 3.54 | 10,840 | 13.4 | 14.2 | 16.6 | 3.7% | 9.7% | 8.0% | 1.44 | 808.0 | 761.3 | 653.4 | -5.8% | -14.2% | 4.08 | OUTPERFORM |
| UEM SUNRISE BHD* | 1.17 | 5,309 | 36.0 | 22.7 | 32.9 | 0.0% | 2.2% | 3.4% | 0.83 | 147.3 | 233.5 | 161.3 | 58.5% | -30.9% | 1.33 | OUTPERFORM |
| SUNWAY BHD^ | 1.90 | 9,234 | 17.0 | 17.7 | 17.0 | 4.7% | 7.3% | 6.7% | 0.50 | 541.6 | 521.7 | 542.6 | -3.7% | 4.0% | 1.82 | MARKET PERFORM |
| MAH SING GROUP BHD | 1.48 | 3,578 | 10.3 | 10.6 | 10.9 | 4.4% | 10.1% | 10.0% | 1.03 | 346.8 | 338.9 | 327.6 | -2.3% | -3.3% | 1.70 | OUTPERFORM |
| ECO WORLD DEVELOPMENT GROUP BHD | 1.59 | 4,682 | 36.2 | 41.5 | 18.8 | 0.0% | 3.7% | 4.4% | 1.24 | 129.3 | 112.9 | 248.8 | -12.7% | 120.4% | 1.72 | MARKET PERFORM |
| UOA DEVELOPMENT BHD* | 2.57 | 4,454 | 11.9 | 11.7 | 11.4 | 5.8% | 19.4% | 9.8% | 1.06 | 373.9 | 379.2 | 391.4 | 1.4% | 3.2% | 2.63 | MARKET PERFORM |
| MALAYSIAN RESOURCES CORP BHD# | 1.10 | 2,631 | 10.8 | 48.6 | 36.2 | 0.2% | 8.6% | 2.4% | 0.90 | 244.1 | 54.1 | 72.6 | -78% | 34.2% | 1.23 | OUTPERFORM |
| MATRIX CONCEPTS HOLDINGS BHD | 2.79 | 1,646 | 8.8 | 7.3 | 6.9 | 5.3% | 31.8% | 22.7% | 1.47 | 188.0 | 224.0 | 238.0 | 19.1% | 6.3% | 2.65 | MARKET PERFORM |
| SUNSURIA BERHAD | 1.41 | 1,126 | 30.7 | 13.4 | 10.1 | 1.9% | 6.9% | 11.6% | 1.47 | 36.7 | 84.2 | 111.9 | 129.5% | 32.9% | 1.55 | OUTPERFORM |
| CRESCENDO CORPORATION BHD* | 1.60 | 364 | 12.6 | 11.9 | 11.5 | 2.8% | 2.2% | 8.0% | 0.48 | 28.9 | 30.6 | 31.6 | 6.0% | 3.3% | 1.70 | MARKET PERFORM |
| HUA YANG BHD | 0.84 | 296 | 4.8 | 6.9 | 5.9 | 1.4% | 21.9% | 12.2% | 0.46 | 61.0 | 43.0 | 50.0 | -29.5% | 16.3% | 0.95 | UNDERPERFORM |
| A&M REALTY BHD | 1.37 | 500 | 24.9 | 18.7 | 14.4 | 0.0% | 3.3% | 4.2% | 0.78 | 20.1 | 26.7 | 34.6 | 33.2% | 29.5% | 3.00 | OUTPERFORM |
| MAGNA PRIMA BHD | 1.38 | 459 | 58.1 | 63.8 | 35.6 | 0.4% | 7.4% | 1.1% | 1.13 | 7.9 | 7.2 | 12.9 | -8.9% | 79.2% | 1.60 | OUTPERFORM |
| CONSENSUS NUMBERS | | | | | | | | | | | | | | | | |
| IGB CORPORATION BHD | 2.84 | 3,793 | 12.7 | 11.8 | 15.8 | 3.5% | 8.6% | 6.4% | 0.77 | 298.0 | 320.5 | 240.4 | 7.6% | -25.0% | 3.00 | NEUTRAL |
| GLOMAC BHD | 0.64 | 463 | 4.3 | 8.0 | 6.5 | 4.7% | 10.5% | 5.3% | 0.41 | 108.2 | 57.8 | 70.8 | -46.5% | 22.5% | 0.70 | NEUTRAL |
| PARAMOUNT CORP BHD | 1.76 | 747 | 10.0 | 11.7 | 9.3 | 9.7% | 7.0% | 14.7% | 0.81 | 75.0 | 63.6 | 80.6 | -15.2% | 26.7% | 2.37 | BUY |
| TAMBUN INDAH LAND BHD | 1.19 | 516 | 4.6 | 5.9 | 6.5 | 6.7% | 20.0% | 14.6% | 0.86 | 112.2 | 87.5 | 79.7 | -22.0% | -8.9% | 1.41 | NEUTRAL |

* Core NP and Core PER

^ Last price and TP is Ex-Bonus.

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Source: Kenanga Research

15 September 2017

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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