



EASTERN & ORIENTAL BERHAD

Trading Buy

DESCRIPTION

A lifestyle developer with mainland in Sri Tanjung Pinang, Penang and well-located pocket projects in the Klang Valley.

12-Month Target Price RM1.80
Current Price RM1.55
Expected Return +16%

Market Main
Sector Property
Bursa Code 3417
Bloomberg Ticker EAST MK
Shariah-Compliant Yes

SHARE PRICE CHART



52 Week Range (RM) 1.38-1.86
3-Month Average Vol ('000) 1,159.94

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	3.3	-1.9	-0.6
Relative Returns	6.5	0.0	3.2

KEY STOCK DATA

Market Capitalisation (RMm) 1,945.2
No. of Shares (m) 1,254.9

MAJOR SHAREHOLDERS

	%
Sime Darby	22.2
Datuk Terry Tham	11.0

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Another Disappointing Quarter

E&O ended FY16 with a net loss of RM14.8m, which was mainly due to forex losses of c.RM40m. Stripping this out however, the Group's net profit is estimated at c.RM77m which would have been a tad above our full-year profit estimates but within consensus. The lower profit YoY was due to slower sales of completed units, lower margins achieved and higher sales and marketing costs during the year. Also, FY15's net profit was lifted by one-off gain of c.RM101m on a disposal of a land in KL. Sales achieved were RM1.1bn, which was close to our expected sales target. As for STP2, the strategic partner which was initially expected to be secured by June 2016 is now deferred to end-2016. This is a negative surprise, and coupled with the cancellation of the proposed listing of the overseas assets, eyes will be on its financial strength as net gearing currently is quite high at 0.77x. In addition, the proposed reclamation of STP2 is expected to cost RM1.8bn (including infrastructure costs) and could stretch its balance sheet further to more than 1.3x. Worryingly, current Deputy MD, Mr Eric Chan also announced his resignation due to family reasons. Near term, we believe the combination of STP2 delay of getting the strategic partner and management changes would bode ill for the stock after missing its KPIs and cancellation of UK listing. All told, we maintain our **Trading Buy** call but lower our TP of RM1.80 from RM2.60 previously, after imputing higher discount of c.50% to RNAV (from c.30% previously).

§ **Unbilled sales of RM1.2bn (from RM800m previously).** Unbilled sales were higher in 4QFY16, driven by good take-up of its Tamarind Phase 2 as expected. As for its 3-year net profit KPI, it missed the target of achieving RM450m by c.30% due to weaker-than-expected sales of Andaman, Avira and delay in launches of Puro Place (Jalan Conlay, GDV RM800m) and Avira. Elsewhere, the Group's failed listing of E&O PLC UK caused its net gearing to remain at 0.77x instead of falling to 0.56x as expected earlier. However, we understand that it has unutilized banking facilities in excess of RM2bn which should be enough to finance its project development. Unbilled sales stood at RM1.2bn, with 68% of it from Penang (mainly from The Tamarind). Main launches in FY17 include Puro Place at Jalan Conlay worth c.RM800m, Andorra Skyloft Terraces (RM79m GDV) and Avira Garden Terraces. Also, it still has c.RM200m worth of inventories.

§ **Maintain Trading Buy.** Recent disappointments are disconcerting, and hence impute a higher discount of c.50% from c.30% previously to our RNAV of RM3.70. The execution risks in getting in the strategic partner (which was initially expected by June 2016) could mean its value in its land in STP2 could take longer than expected to monetize. Hence, we now believe its earnings growth will continue to be slow in the interim, given current soft market conditions. As such, we cut our FY17-18 earnings by -52%/-47% respectively to account for lower sales assumption and no land sale gain for now.

KEY FORECAST TABLE

FYE Mar (RM m)	2014A	2015A	2016A	2017F	2018F	CAGR (%)
Revenue	497.1	449.5	421.2	456.0	588.9	3.4%
Operating Profit	192.0	225.1	64.0	82.0	110.0	-10.5%
Pre-tax Profit	168.3	202.1	54.4	81.8	112.0	-7.8%
Net Profit	113.4	147.5	36.8	62.2	85.1	-5.6%
EPS (Sen)	9.1	11.8	2.9	5.0	6.8	-5.6%
P/E (x)	17.1	13.2	52.7	31.2	22.8	
DPS (Sen)	5.4	3.5	0.0	1.5	2.0	
Dividend Yield (%)	3.5	2.3	0.0	1.0	1.3	

Source: Company, PublicInvest Research estimates

Table 1: Results Summary

Results Review (RMm)	4Q16	4Q15	3Q16	YoY (%)	QoQ (%)	YTD FY16	YTD FY15	YTD (%)
Revenue	149.0	143.0	117.6	4.2	26.7	421.2	449.5	-6.3
Gross profit	61.5	65.8	45.7	-6.5	34.6	162.6	226.7	-28.3
EBIT	8.1	129.0	13.0	-93.7	-37.7	64.0	225.1	-71.6
Pretax profit	-0.4	120.7	3.8	-100.4	-111.8	54.4	202.1	-73.1
Net profit	-14.8	100.5	3.9	-114.7	-481.3	36.8	152.1	-75.8
Margins:								
Gross profit	41.3	46.0	38.9	-4.7	2.4	41.3	46.0	-4.7
EBIT	5.4	90.2	11.1	-84.8	-5.6	5.4	90.2	-84.8
Net Profit Margin	-9.9	70.3	3.3	-80.2	-13.2	-9.9	70.3	-80.2

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Mar (RM m)	2014A	2015A	2016A	2017F	2018F
Revenue	497.1	449.5	421.2	456.0	588.9
Operating Profit	192.0	225.1	64.0	82.0	110.0
Other Gains / (Losses)	6.2	11.7	42.9	11.1	15.6
Finance Costs	-29.9	-34.7	-52.5	-11.2	-13.6
Pre-tax Profit	168.3	202.1	54.4	81.8	112.0
Income Tax	-48.3	-45.5	-15.9	-19.6	-26.9
Effective Tax Rate (%)	28.7	22.5	29.2	24.0	24.0
Minorities	-6.5	-4.6	-1.6	0.0	0.0
Net Profit	113.4	147.5	36.8	62.2	85.1
Growth					
Revenue (%)	-17.9	-9.6	-6.3	8.3	29.1
Operating Profit (%)	4.2	17.3	-71.6	28.1	34.2
Net Profit	-12.5	30.1	-75.1	69.0	36.8

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Mar (RM m)	2014A	2015A	2016A	2017F	2018F
Property, Plant & Equipment	353.5	350.4	335.0	386.3	405.6
Cash and Cash Equivalents	277.1	201.2	248.5	209.5	271.1
Receivables	80.0	203.5	76.1	324.9	290.4
Other Assets	1,754.5	2,315.4	3,099.0	2,345.6	2,435.7
Total Assets	2,465.0	3,070.5	3,758.6	3,266.3	3,402.8
Payables	104.7	151.4	135.9	75.0	96.8
Borrowings	728.1	1,164.2	1,518.3	1,330.2	1,385.2
Retirement Benefits	0.0	0.0	0.0	0.0	1.0
Other Liabilities	114.5	107.8	416.6	126.4	125.4
Total Liabilities	947.3	1,423.5	2,070.8	1,531.5	1,608.4
Shareholders' Equity	1,517.7	1,647.1	1,687.8	1,734.8	1,794.4
Total Equity and Liabilities	2,465.0	3,070.5	3,758.6	3,266.3	3,402.8

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Mar	2014A	2015A	2016A	2017F	2018F
Book Value Per Share	1.2	1.3	1.3	1.4	1.4
NTA Per Share	1.2	1.3	1.3	1.4	1.4
EPS (Sen)	9.1	11.8	2.9	5.0	6.8
DPS (Sen)	5.4	3.5	0.0	1.5	2.0
Payout Ratio (%)	59.4	30.0	0.0	30.0	30.0
ROA (%)	4.6	4.8	1.0	1.9	2.5
ROE (%)	7.5	9.0	2.2	3.6	4.7

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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