

25 August 2022

Property | Real Estate

## Eastern & Oriental (EAST MK)

**Buy** (from Neutral)

### Back To The Black In 1QFY23; Upgrade To BUY

Target Price (Return): MYR0.59 (+23%)  
 Price (Market Cap): MYR0.48 (USD155m)  
 ESG score: 2.70 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.02m/0.00m

- **Upgrade to BUY from Neutral, new TP of MYR0.59 from MYR0.50, 23% upside.** Eastern & Oriental's 1QFY23 (Mar) results beat estimates. Sales contributions from The Meg and successful cost-cutting measures in the past boosted its earnings. 1QFY23 property sales already hit MYR207.1m, and the company should be able to achieve MYR500m in property sales by end-FY23. Our ratings upgrade is premised on the notion that E&O is now a turnaround play, and its volatile earnings trend is now history.

- **1QFY23 results review.** The strong revenue growth was mainly driven by sales contributions from The Meg, higher revenue recognition on Seri Tanjung Pinang 2A (STP2A) reclamation works, as well as a stronger performance from the hospitality division. The current percentage of completion for the reclamation works is now at 69.5%, vs 66.3% in Mar 2023. Meanwhile, the average room rate for Eastern & Oriental Hotel in Penang is now at MYR646, vs MYR532 last year. The hotel's average occupancy rate is at 78.8%, ie a significant surge from last year. However, headline net profit was skewed by a MYR22.8m unrealised FX loss. Stripping it off, core net profit would have been around MYR20m. Management guided that apart from the swing in the GBP/MYR rate (and hence the unrealised FX gain/loss), the company will not likely book any further impairments/write-offs going forward. Its current net gearing is relatively unchanged, at 0.59x.

- **Sales momentum on the level.** E&O's new sales reached MYR207.1m (4QFY22: MYR226.1m). The Meg contributed MYR191.9m, followed by The Peak (MYR7.5m), The Conlay (MYR5m) and Avira Phase C (c.MYR2.7m). The Meg is now c.75% sold (63.6% as at June) while the take-up rate for The Conlay is still at c.32%, ie unchanged from 4QFY22.

- **Healthy flow of planned launches next year.** While the remaining units of The Meg, The Conlay and The Peak will drive sales in the coming quarters, management has lined up two more new projects at STP2A to be rolled out next year. These include Plot 16C (indicative GDV: MYR348m) during the Lunar New Year period, as well as 51 units of terraces and 18 units of semi-detached units in Sep 2023 (total GDV: MYR240m). We understand that the terrace and semi-detached homes will be priced around MYR3m and >MYR4m per unit.

- **Forecasts.** In view of the improvement in core earnings, we raise our FY23-25 earnings forecast significantly. Given encouraging sales, unbilled sales increased to MYR597.2m vs MYR455m as at 4QFY22.

- **ESG.** We believe the turnaround in earnings should help to boost investors' confidence. Our higher TP is based on a 70% discount to RNAV (from 75%), with a 6% ESG discount inked in.

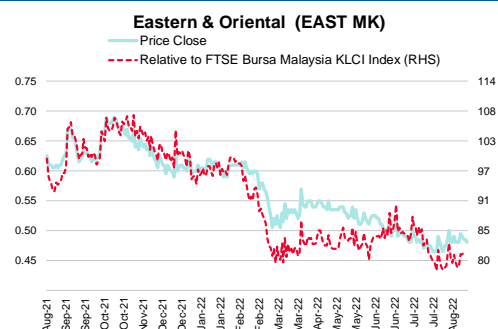
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(20.0)	1.1	(5.9)	(15.8)	(23.2)
Relative	(14.6)	0.0	(2.7)	(10.0)	(18.6)
52-wk Price low/high (MYR)					0.47 – 0.69



Source: Bloomberg

Forecasts and Valuation	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Total turnover (MYRm)	305	140	284	344	372
Recurring net profit (MYRm)	(48)	(29)	65	79	86
Recurring net profit growth (%)	(487.8)	(40.0)	-	22.5	8.2
Recurring EPS (MYR)	(0.03)	(0.02)	0.04	0.06	0.06
Recurring P/E (x)	na	na	10.68	8.72	8.06
P/B (x)	0.42	0.39	0.40	0.38	0.37
Dividend Yield (%)	na	na	na	na	na
Return on average equity (%)	(4.3)	3.7	3.7	4.5	4.6
Net debt to equity (%)	46.6	58.4	59.1	58.6	50.5

Source: Company data, RHB

#### Overall ESG Score: 2.70 (out of 4)

##### E: GOOD

E&O undertook various assessments to minimise the environmental impact, especially on the reclamation works and development of STP2A. A few energy-saving initiatives have also been undertaken for the hospitality and retail divisions.

##### S: GOOD

E&O's social activities planned with schools previously were interrupted last year due to the pandemic. The company typically has various community programmes, particularly for its developments in Penang.

##### G: GOOD

50% of E&O's board members are independent. It has an in-house investor relations team and holds investor meetings regularly, but information disclosure and transparency practices are not sufficient

#### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

## Financial Exhibits

Asia	Financial summary (MYR)	Mar-21	Mar-22	Mar-23F	Mar-24F	Mar-25F
Malaysia	Recurring EPS	(0.03)	(0.02)	0.04	0.06	0.06
Property	EPS	(0.05)	0.04	0.04	0.06	0.06
<b>Eastern &amp; Oriental</b>	BVPS	1.14	1.22	1.20	1.25	1.31
EAST MK	Return on average equity (%)	(4.3)	3.7	3.7	4.5	4.6
Buy	Return on average assets (%)	(2.1)	1.8	1.9	2.2	2.3
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
70% discount to RNAV	Recurring P/E (x)	na	na	10.68	8.72	8.06
	P/B (x)	0.4	0.4	0.4	0.4	0.4
	EV/EBITDA (x)	120.07	13.15	12.20	10.54	9.15
<b>Key drivers</b>	<b>Income statement (MYRm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
i. New property sales;	Total turnover	305	140	284	344	372
ii. Seri Tanjung Pinang 2 land transactions.	Gross profit	123	79	126	165	173
	EBITDA	13	132	142	169	185
	Depreciation and amortisation	(22)	(19)	(14)	(14)	(14)
	Operating profit	(10)	113	128	156	171
	Net interest	(34)	(26)	(30)	(35)	(40)
	Pre-tax profit	(50)	83	99	121	131
	Taxation	(21)	(15)	(28)	(34)	(37)
	Reported net profit	(73)	64	65	79	86
	Recurring net profit	(48)	(29)	65	79	86
<b>Key risks</b>	<b>Cash flow (MYRm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
i. Delay in land transactions;	Change in working capital	221	(145)	(90)	(38)	8
ii. Weaker-than-expected market conditions.	Cash flow from operations	338	107	156	225	279
	Capex	(255)	(176)	0	(106)	(14)
	Cash flow from investing activities	(338)	(365)	59	(108)	(15)
	Cash flow from financing activities	223	(63)	101	102	47
	Cash at beginning of period	296	469	138	139	197
	Net change in cash	223	(321)	316	219	311
	Ending balance cash	520	148	454	358	508
<b>Company Profile</b>	<b>Balance sheet (MYRm)</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Eastern & Oriental is a niche developer focusing on high-end property development. Its flagship project is Seri Tanjung Pinang 1, while other landbanks are located in Kuala Lumpur and Iskandar. It is the key property play to capture the influx of liquidity.	Total cash and equivalents	469	138	139	197	350
	Tangible fixed assets	2,322	2,479	2,385	2,478	2,478
	Intangible assets	0	0	0	0	0
	Total investments	9	121	121	121	121
	Total other assets	134	58	37	36	36
	Total assets	3,641	3,354	3,427	3,655	3,819
	Short-term debt	143	76	26	26	26
	Total long-term debt	1,124	1,107	1,157	1,257	1,307
	Total liabilities	1,926	1,563	1,661	1,802	1,871
	Shareholders' equity	1,667	1,754	1,723	1,802	1,888
	Minority interests	48	37	44	51	60
	Total equity	1,715	1,791	1,767	1,854	1,948
	Total liabilities & equity	3,641	3,354	3,427	3,655	3,819
	<b>Key metrics</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
	Revenue growth (%)	(37.4)	(53.9)	102.1	21.1	8.1
	Recurring net profit growth (%)	(487.8)	(40.0)	0.0	22.5	8.2
	Recurrent EPS growth (%)	(473.2)	(39.7)	0.0	22.5	8.2
	Gross margin (%)	40.3	56.1	44.2	48.0	46.6
	Recurring net profit margin (%)	(15.7)	(20.4)	22.8	23.0	23.1

Source: Company data, RHB

## Results At a Glance

Figure 1: Quarterly results

FYE Mar (MYRm)	1QFY22	4QFY22	1QFY23	QoQ (%)	YoY (%)	Comments
Turnover	26.5	56.7	76.6	35.0	188.5	The increase was due to higher revenue recognition from land reclamation works and the newly launched project, The Meg, as well as from the hospitality segment.
EBIT	3.7	94.2	7.1	(92.5)	90.2	
EBIT margin (%)	14.0	166.1	9.2			
Net interest	(8.7)	(4.9)	(5.0)	1.8	(42.9)	Interest expense reduced gradually, given its successful re-negotiation over interest costs.
Pretax profit	(5.5)	88.2	3.2	(96.4)	(157.8)	
Pretax margin (%)	(20.7)	155.6	4.1			
Taxation	(2.7)	(7.6)	(2.3)	(69.6)	(15.1)	
Tax rate (%)	(49.8)	8.7	73.1			
Minority interest	(0.9)	(1.3)	(2.5)	99.2	185.2	
Net profit	(9.1)	79.3	(1.6)	(102.1)	(81.9)	Headline net profit for 4QFY22 was skewed by a MYR80.8m gain from the fair value adjustment of investment properties, MYR35.1m reversal of impairment loss on right-of-use assets, as well as a MYR13.8m unrealised FX gain. Headline net profit for 1QFY23 also penciled in a MYR22.8m FX loss.
Core net profit	(13.5)	(22.8)	21.2	(192.9)	(256.7)	Above expectations.
Core net margin (%)	(50.9)	(40.1)	27.6			
EPS (sen)	(0.6)	5.5	(0.1)			
Gross DPS (sen)	0.0	0.0	0.0			
NTA/share (MYR)	1.2	1.2	1.2			

Source: Company data, RHB

Figure 2: RNAV estimate

Projects Penang		Remaining GDV (MYR m)	Equity interest	NPV @ 11% (MYR m)			
Andaman Series		687	100%	69.5			
Princes House		36	100%	1.6			
Conlay Place		945	51%	23.6			
The Peak		397	51%	11.8			
Other projects		Land size (acres)	Estimated GDV (MYR m)	Equity interest	NPV @ 11% (MYR m)		
Medini Central		184	2,607	50%	30.5		
Esca House			400	100%	8.9		
Hammersmith		1.2	699	100%	14.2		
Projects in Klang Valley		Land size (acres)	Total estimated GDV (MYR m)	Equity interest	NPV @ 11% (MYR m)		
Ukay Heights, Ampang		9.4	100	100%	6.9		
Kemensah Heights, Ampang		309.5	2,000	88%	90.5		
Elmina West		135.0	1,538	100%	71.9		
Other landbank		Net land (acres)	Estimated GDV (MYR m)	Market value (MYR psf)	Book value (MYR psf)	Equity interest	Net surplus (MYR m)
Remaining Seri Tanjung Pinang 2 (457 acres)		263	40,000	500	275	88%	1,304.5
STP2A (253 acres)		166	17,000	530	250	65%	817.2
Gertak Sanggul		365	2,000	7	7	100%	0.0
Investment properties		No. of rooms	NLA (sqf)	Market value (MYR m)	Book value (MYR m)	Equity interest	Surplus (MYR m)
E&O Hotel + Annexe		239	-	266.6	243.1	100%	16.4
Straits Quay Retail		-	270,000	233.0	233.0	100%	0.0
Total NPVs and surpluses							2,422.6
Shareholders' funds							1,753.9
Proceeds from ICULS							252.8
RNAV							4,176.5
Share base (mil)							1,982.3
RNAV per share (MYR)							2.11
Discount							70%
Intrinsic value (MYR)							0.63
ESG discount							6%
TP (MYR)							0.59

Source: RHB

## Recommendation Chart

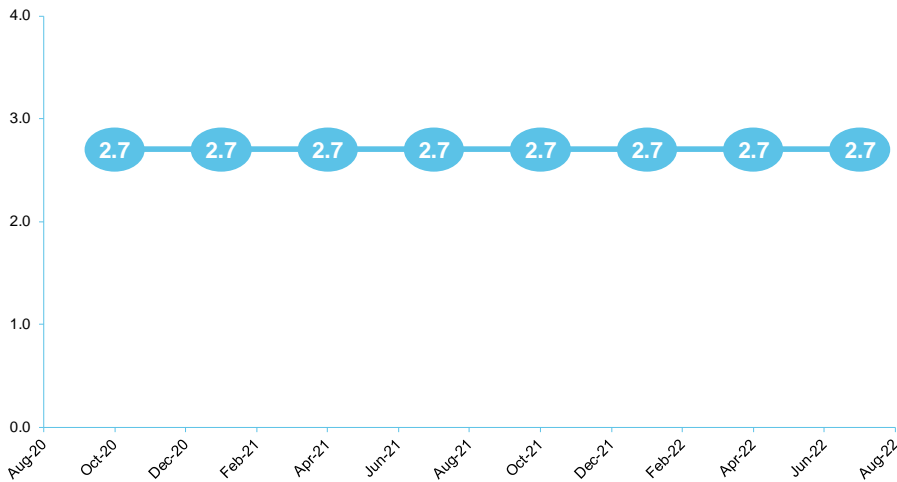


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-05-25	Neutral	0.50	0.52
2022-02-23	Sell	0.48	0.60
2021-11-24	Neutral	0.65	0.63
2021-10-31	Sell	0.60	0.67
2021-08-24	Neutral	0.60	0.63
2021-05-30	Sell	0.60	0.78
2021-03-28	Neutral	0.60	0.59
2021-02-24	Neutral	0.40	0.42
2020-12-01	Neutral	0.40	0.41
2020-06-30	Neutral	0.45	0.40
2020-05-11	Neutral	0.48	0.42
2020-02-19	Neutral	0.63	0.59
2020-02-19	Neutral	0.63	0.59
2019-11-29	Neutral	0.63	0.56
2019-08-28	Neutral	0.89	0.78

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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Analyst	Company
-	-

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