

29 April 2022

IOI Properties Group Bhd

Undervalued Gem

By Lum Joe Shen | lumjs@kenanga.com.my

We hosted a meeting with Dato' Voon Tin How (CEO of IOIPG) to obtain updates on the group's operations in Malaysia, China and Singapore. Given the group's low level of investor engagement all this while, we came away from the meeting with a much stronger conviction due to better clarity over earnings trajectory in the medium-term with new recurring income stream from incoming property investment assets (IOI City Mall Phase 2, Central Boulevard) to provide earnings growth from FY23-24 onwards. Maintain OP with a higher TP of RM1.65 (from RM1.32) on higher Fwd. PBV of 0.45x.

Key incoming assets in FY23 and FY24 have obtained satisfactory pre-commitment leases. IOI City Mall Phase 2 (1.1m sf) and Central Boulevard Towers (1.3m sf) will see tentative completion in 3QCY22 and 2HCY23, respectively. These two key assets will boost IOIPG's existing NLA of 6.5m sf by 36%. Currently, IOI City Mall Phase 2 has obtained >70% pre-commitment leases while Central Boulevard has seen strong demand from global MNCs (tech-related).

We understand that upon operational commencement, there will be minimal gestation period with earnings contributions able to peak and normalise within a short period of time. Based on our estimates, Central Boulevard could deliver c.RM200m bottom-line contributions (extrapolated based on IOIPG's 49.9% JV stake in South Beach's steady contribution of c.RM40-50m/annum). As for IOI City Mall Phase 2, we worked out that earnings could be c.RM30m/annum assuming full occupancy.

IOIPG's management targets RM2.1b sales in FY22E (our target is RM1.9b) with RM2.1b planned launches. As of 1HFY22 (Dec 2021), IOIPG has raked in RM896m sales backed by RM1.15b launches (Malaysia: 66%, China: 34%). For the rest of the year, the remaining RM0.9b launches will mostly come from Klang Valley (64%), Johor (28%) and China (6%). While the current high building material prices could dampen margins in the short term, IOIPG's historically low land costs provide buffer to absorb such shocks. Note, IOIPG has the higher GP margins among developers under our coverage.

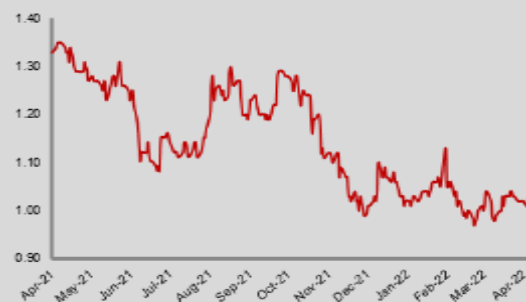
Potential catalyst: REIT-ing of investment properties to unlock value – which management shares that such option is always “on the table”. **Based on yield assumption of 5.5% on pre-Covid bottom-line earnings of c.RM180m**, their existing property investment and hospitality assets (Malaysia only) are worth RM3.3b. If the new IOI City Mall Phase 2 earnings of c.RM30m are included, the cumulative Malaysian assets could fetch c.RM3.8b valuations. Note, this valuation exclude: (i) China's Palm City mixed development which has a mall, upcoming office and hotel, (ii) 49.9%-owned South Beach Tower & Retail, and (iii) the upcoming Central Boulevard Towers. For simplicity, Central Boulevard's potential contribution of RM200m/annum at a 6% yield alone could command equity valuations of RM3.3b. **Based on IOIPG's current market cap of RM5.7b vs. their existing and incoming portfolio of investments (refer overleaf for table), we find its share price undervalued.**

Keep FY22E/FY23E earnings unchanged and maintain OP with higher TP of RM1.65 (from RM1.32) on higher rolled over FY23E PBV valuations of 0.45x (from 0.37x) based on 0.5SD above its 5-year mean. Despite the challenging property outlook now, we believe the group's consequent earnings growth, improving ROEs and event-driven catalyst (i.e. REIT) could eventually provide valuation re-ratings. That said, we note that these catalysts may require some time to materialise.

OUTPERFORM ↔

Price : RM1.04
Target Price : RM1.65 ↑

Share Price Performance



KLCI	1,597.31
YTD KLCI chg	1.9%
YTD stock price chg	-5.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	IOIPG MK EQUITY
Market Cap (RM m)	5,726.4
Shares Outstanding	5,506.1
52-week range (H)	1.38
52-week range (L)	0.96
3-mth avg daily vol:	3,074,286
Free Float	13%
Beta	1.0

Major Shareholders

Vertical Capacity Sdn Bhd	65.7%
Employee Provident Fund Board	8.0%
Amanah Saham Bumiputera	6.4%

Summary Earnings Table

FYE Jun (RM m)	2021A	2022E	2023E
Turnover	2,489	2,036	2,230
EBIT	714	813	917
PBT	1,078	953	1,059
Net Profit (NP)	660	637	709
Core NP	628	637	709
Consensus (CNP)	n.a.	707	747
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	11.4	11.6	12.9
Core EPS growth (%)	1.6	1.4	11.3
NDPS (sen)	2.0	2.8	3.1
BV/Share (RM)	3.48	3.57	3.66
Core PER (x)	9.1	9.0	8.1
Price/BV (x)	0.30	0.29	0.28
Net Gearing (x)	0.6	0.6	0.4
Dividend Yield (%)	1.9	2.7	3.0

*CNP excludes Fair Value/Revaluation (FV) adjustments, one-off PPE write-off from property investment, unrealized FOREX gains/losses, share of impairment loss,

** Note that subsidiary sales figure does not include JCE project sales (e.g. South Beach, Sentosa Cove, PJ Midtown)

29 April 2022

Other meeting highlights

Current stretched net gearing of 0.7x due to Marina View land purchase (SGD1.508b) will come off once residential units within this mixed development are built and sold. For the time being, IOIPG is no longer looking for any land banks whether in Singapore or China. IOIPG assured that no equity fund raising exercise is required.

No more rental rebates provided. IOIPG no longer provides any rental rebates to their tenants. Hence, alongside the reopening of borders and relaxed SOPs, we anticipate earnings from key retail assets to revert back to pre-pandemic levels. Management shared that all their retail malls have few dropouts with healthy occupancy rates. IOI City Mall Phase 1 is 95% occupied.

Unsold inventory stood at RM2.2b in which Malaysia made up 85% while China made up the rest. Within the 85% Malaysian completed inventory, 67% is in the Klang Valley, 20% in Johor and the remainder 13% from other states. In terms of property type breakdown, the RM2.2b inventory comprises 78% residential and 22% commercial.

As of 1HFY22, China has a remaining GDV of c.RMB1.0b and these remaining GDV will be depleted in the next three years.

IOIPG's property investment and hospitality assets

Business Segment	Existing Assets	Timeline	NLA (m sf)	Hotel Keys (#)
Prop Investment	IOI City Mall Phase 1	2014	1.437	-
Prop Investment	IOI Mall Puchong	-	0.899	-
Prop Investment	IOI Mall Kulai	2001	0.270	-
Prop Investment	PFCC - Puchong Financial Corporate Centre; Four 12 to 21-storey purpose-built office buildings	2014	0.883	-
Prop Investment	One IOI Square and Two IOI Square in IOI Resort City, Putrajaya; two 12-storey purpose-built office towers	-	0.434	-
Prop Investment	IOI City Tower 1 and IOI City Tower 2 situated in IOI Resort City, Putrajaya; two office towers.	-	0.968	-
Prop Investment	Conezion in IOI Resort City, Putrajaya	2018	0.925	-
Prop Investment	Palm City Xia Men Retail Mall Component	NEW: 4QCY21 (2QFY22)	0.656	-
Hospitality & Leisure	Le Méridien Putrajaya, IOI Resort City	-	-	353
Hospitality & Leisure	Putrajaya Marriott Hotel: 380 guest rooms, 73 executive rooms, 35 exclusive suites	-	-	488
Hospitality & Leisure	Four Points by Sheraton Puchong	-	-	249
Hospitality & Leisure	Palm Garden Hotel	-	-	151
Hospitality & Leisure	IOI Palm Villa Golf and Country Resort : 27-hole golf course	-	-	-
Hospitality & Leisure	Palm Garden Golf Club : 18-hole golf course	-	-	-
	Total		6.472	1241
	Incoming Assets			
Prop Investment	IOI City Mall Phase 2	3QCY22 (FY23)	1.1	-
Prop Investment	Palm City Xia Men Office Component	2HCY23 (FY24)	0.377	-
Hospitality & Leisure	Palm City Xia Men Hotel Component: Sheraton Grand, Xiamen	2HCY23 (FY24)	-	370
Prop Investment	Central Boulevard Towers, Singapore	end-23 (FY24)	1.279	-
Hospitality & Leisure	Moxy, Marriot, IOI Resort City	2023	-	495
	Total		2.756	865
			+43%	+70%
	Grand Total Existing + Incoming (Subsidiaries)		9.228	2106
Hospitality & Leisure	JW Marriott Hotel Singapore South Beach (49.9% JV)	-	-	634
Prop Investment	South Beach Tower (49.9% JV)	-	0.500	
Prop Investment	South Beach Avenue Retail Space (49.9% JV)	-	0.032	
	Total JV		0.532	634
	Grand Total (Subsidiaries + JV)		9.760	2740

Source: Company, Kenanga Research

Risks to our call include: (i) weaker-than-expected property sales, (ii) margin compressions, and (iii) changes in real estate policies/lending environments.

29 April 2022

Peer Comparison														
Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>STOCKS UNDER COVERAGE</u>														
ECO WORLD DEVELOPMENT GROUP	0.960	2,826.6	Y	10/2022	12.0	12.0	10.7	0.6	0.6	4.9%	4.2%	0.850	MP	
IOI PROPERTIES GROUP BHD	1.04	5,726.4	Y	06/2022	9.1	9.0	8.1	0.3	0.3	3.4%	2.7%	1.65	OP	
MAH SING GROUP BHD	0.680	1,650.8	Y	12/2022	15.5	13.0	11.7	0.5	0.5	4.3%	4.4%	0.650	MP	
MALAYSIAN RESOURCES CORP BHD	0.380	1,697.7	Y	12/2022	N.A.	172.7	N.A.	0.3	0.3	0.2%	2.6%	0.345	MP	
SIME DARBY PROPERTY BHD	0.595	4,046.5	Y	12/2022	28.9	17.1	16.2	0.4	0.4	2.5%	2.2%	0.725	OP	
SP SETIA BHD	1.19	4,841.1	Y	12/2022	29.9	9.5	15.0	0.4	0.4	4.6%	3.2%	0.950	UP	
SUNWAY BHD	1.82	8,898.1	Y	12/2022	29.4	22.7	13.6	0.9	0.9	4.4%	1.6%	2.05	OP	
UEM SUNRISE BHD	0.340	1,719.9	Y	12/2022	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.400	OP	
UOA DEVELOPMENT BHD	1.81	4,210.9	Y	12/2022	12.1	12.9	12.1	0.7	0.7	3.9%	7.2%	1.76	MP	
Simple Average					19.6	33.6	12.5	0.5	0.5	3.1%	3.1%			

Source: Bloomberg, Kenanga Research

29 April 2022

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, JalanTunRazak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my