

26 June 2024

Property | Real Estate

IOI Properties (IOIPG MK)

Neutral (From Buy)

Received Proposal To Develop Shenton House

- **Downgrade to NEUTRAL from Buy, new MYR2.47 TP from MYR2.75, 10% upside with c.3% FY25F yield.** We expect to see a potential change in IOI Properties' capital structure if the company undertakes the whole development of Shenton House in Singapore. While we like the Shenton Way property, given its strategic location, total consideration cost that may amount to SGD1.014bn may bring its net gearing to 0.9x. Our TP is now based on a 55% discount to RNAV (from 50%).
- **Proposal to IOIPG.** IOIPG's board of directors has received a letter of proposal from Group CEO and substantial shareholder Lee Yeow Seng to participate in the joint development of Shenton House in Singapore. Mr Lee, via his private company Shenton 101, successfully bid for Shenton House with a consideration of SGD538m in Nov 2023.
- **Details of Shenton House.** The property is located in Singapore's central business district (CBD), which spans 3,377sqm and is zoned as "commercial" with a gross plot ratio (GPR) of 11.2. The current land lease of Shenton House has approximately 44 years left, with the potential to be extended to a fresh 99-year lease. Furthermore, according to Singapore's CBD incentive scheme, Shenton House is eligible for a 25% bonus GFA which can be redeveloped into a mixed-use commercial project with residential redevelopment or a hotel at a GPR of 14. As such, Shenton House is earmarked for redevelopment into a fresh 99-year leasehold commercial development. The current additional existing capital commitment (excluding development costs) is SGD476m, including a land betterment premium, lease top-up premium, and transaction expenses. The proposal is valid for four months, and may be extended by another two months. Lee and his brother Dato' Lee Yeow Chor have abstained from voting on the proposal.
- **Reasonable valuations.** The total cost of SGD1.014bn (SGD538m + SGD476m) works out to c.SGD1,900psf per plot ratio – which is considered reasonable when compared to SGD1,700psf per plot ratio for the Central Boulevard land acquired by IOIPG in 2016.
- **Net gearing is already high.** While it makes sense for IOIPG to take over the development of Shenton House – since it is strategically located between its IOI Central Boulevard office and upcoming Marina View Residences – we think this potential participation of Shenton House development may be too sizeable if IOIPG is to undertake the whole development on its own. Current net gearing stands at 0.74x, and the company has yet to launch its Marina View Residences, which has been re-designed to be an upmarket residential project with an indicative ASP of SGD5k psf. The project is slated to be launched by end-2024, and we expect take-up to be slow, given the premium pricing.

Target Price (Return): MYR2.47 (+10%)
 Price (Market Cap): MYR2.25 (USD2,633m)
 ESG score: 2.9 (out of 4)
 Avg Daily Turnover (MYR/USD) 16.8m/3.56m

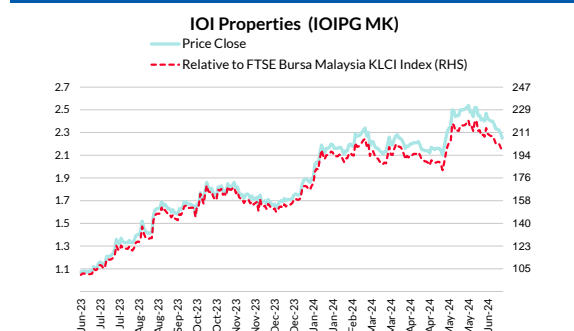
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	28.6	(10.7)	(0.9)	31.6	110.3
Relative	19.6	(8.6)	(4.0)	22.6	96.3
52-wk Price low/high (MYR)				1.07	–2.54



Source: Bloomberg

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	2,590	2,846	2,731	2,810	3,010
Recurring net profit (MYRm)	542	830	702	710	769
Recurring net profit growth (%)	(21.0)	53.0	(15.4)	1.0	8.4
Recurring EPS (MYR)	0.10	0.15	0.13	0.13	0.14
DPS (MYR)	0.05	0.05	0.05	0.06	0.07
Recurring P/E (x)	22.84	14.93	17.64	17.46	16.11
P/B (x)	0.61	0.56	0.55	0.54	0.53
Dividend Yield (%)	2.3	2.3	2.2	2.7	2.9
Return on average equity (%)	3.4	4.1	3.1	3.1	3.3
Net debt to equity (%)	70.2	67.5	64.5	64.0	64.3

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E: GOOD

IOIPG has a tree-planting programme and discloses its electricity consumption every year. It has also set the energy intensity reduction target at 8% from FY21 to FY25, with FY20 as the base year.

S: GOOD

IOIPG is a member of the Malaysian Employers Federation, and upholds labour practice standards. In FY22, the company donated >MYR30m to schools, COVID-19 rental relief assistance and various charity activities.

G: GOOD

57% of IOIPG's board members are independent, with full disclosure on director remuneration including salaries and bonuses on a named basis. IOIPG has an in-house investor relations team.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Malaysia	Recurring EPS	0.10	0.15	0.13	0.13	0.14
Property	EPS	0.12	0.16	0.13	0.13	0.14
IOI Properties	DPS	0.05	0.05	0.05	0.06	0.07
IOIPG MK	BVPS	3.71	4.05	4.13	4.20	4.27
Buy	Return on average equity (%)	3.4	4.1	3.1	3.1	3.3
	Return on average assets (%)	1.9	2.1	1.6	1.6	1.8
Valuation basis						
55% discount to RNAV						
Key drivers	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
i. New property sales;	Recurring P/E (x)	22.84	14.93	17.64	17.46	16.11
ii. New acquisitions of land.	P/B (x)	0.6	0.6	0.5	0.5	0.5
	Dividend Yield (%)	2.3	2.3	2.2	2.7	2.9
	EV/EBITDA (x)	22.32	24.70	26.02	25.88	24.07
Key risks	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Weaker-than-expected market conditions	Total turnover	2,590	2,846	2,731	2,810	3,010
	Gross profit	1,294	1,346	1,323	1,372	1,511
	EBITDA	1,090	1,025	960	971	1,062
	Depreciation and amortisation	(50)	(63)	(69)	(71)	(72)
	Operating profit	1,040	961	891	900	989
	Net interest	8	43	47	50	52
	Pre-tax profit	1,103	1,360	989	1,014	1,099
	Taxation	(415)	(476)	(277)	(294)	(319)
	Reported net profit	687	870	702	710	769
	Recurring net profit	542	830	702	710	769
Company Profile	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
IOI Properties Group is a specialised township developer in Malaysia, with anchor projects in Puchong, the Klang Valley and Kulai, Johor. Its overseas exposure includes Xiamen, China and Singapore.	Change in working capital	85	(3,392)	280	(175)	(455)
	Cash flow from operations	1,580	(1,989)	1,824	1,366	1,155
	Capex	(2,456)	(2,891)	(500)	(500)	(500)
	Cash flow from investing activities	(6,360)	582	(495)	(494)	(493)
	Dividends paid	(79)	(279)	(289)	(275)	(330)
	Cash flow from financing activities	5,544	1,359	(956)	(942)	(996)
	Cash at beginning of period	1,848	2,351	2,711	3,098	2,983
	Net change in cash	764	(48)	373	(69)	(333)
	Ending balance cash	2,612	2,303	3,084	3,029	2,650
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	2,351	2,711	3,098	2,983	2,623
	Tangible fixed assets	27,909	27,268	27,699	28,128	28,556
	Intangible assets	11	11	11	11	11
	Total investments	4,444	4,285	4,285	4,285	4,285
	Total other assets	198	188	88	(12)	(112)
	Total assets	39,501	42,624	43,002	43,432	43,956
	Short-term debt	13,486	15,035	15,035	15,035	15,035
	Total long-term debt	3,331	2,829	2,829	2,829	2,829
	Total liabilities	18,891	20,183	20,125	20,165	20,267
	Shareholders' equity	20,452	22,292	22,719	23,099	23,510
	Minority interests	158	148	158	168	179
	Total equity	20,610	22,441	22,877	23,267	23,689
	Total liabilities & equity	39,501	42,624	43,002	43,432	43,956
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	4.1	9.9	(4.1)	2.9	7.1
	Recurring net profit growth (%)	(21.0)	53.0	(15.4)	1.0	8.4
	Recurrent EPS growth (%)	(21.0)	53.0	(15.4)	1.0	8.4
	Gross margin (%)	50.0	47.3	48.5	48.8	50.2
	Recurring net profit margin (%)	20.9	29.2	25.7	25.3	25.6
	Dividend payout ratio (%)	40.6	33.2	39.2	46.6	46.5

Source: Company data, RHB

26 June 2024

Property | Real Estate

Figure 1: RNAV estimate

Projects	Land area (acres)	GDV (MYRm)	Effective stake	NPV @ 10% (MYRm)
<u>Malaysia</u>				
Klang Valley:				
16 Sierra	163.0	6,486	100%	889.1
Bandar Puteri Puchong	142.0	12,852	100%	1,771.7
Bandar Puchong Jaya	17.0	927	100%	162.0
Bdr Puteri Warisan @ Sepang	159.0	2,732	100%	337.5
Bdr Puteri @ Bangi	204.0	5,469	100%	796.8
IOI Resort City	293.0	14,879	100%	1,747.2
BC Industrial Park, Banting	325.0	2,060	100%	276.0
Johor:				
Kempas Utama	29.0	770	100%	50.2
Bandar Putra Kulai	3,474.0	4,771	100%	677.8
Bandar IOI Segamat	82.0	485	100%	26.5
Taman Legenda Putra, Kulaijaya	18.0	97	100%	10.2
i-Synergy, Senai	265.0	1,794	100%	259.4
Tebrau (ADSB)	37.4	4,500	100%	377.1
Others:				
Desaria, Sg Ara Penang	0.0	0	100%	-
Bandar IOI Bahau	21.0	158	100%	23.6
Ayer Keroh, Melaka	1,074.4	4,942	100%	342.4
<u>Singapore</u>				
Marina View	2.0	12,250	100%	643.0
Cape Royale @ Sentosa Cove		4,000	65%	119.8
<u>China, Xiamen</u>				
IOI Palm City	0.0	59	100%	2.2
IOI Palm International Parkhouse, XiangAn	1.0	589	100%	10.1
Other landbank in Malaysia *:		<u>BV (MYR mil)</u>		<u>Net surplus (MYR mil)</u>
Tangkak land, Johor	273.0	7	100%	-
Segamat estate, Johor	1,279.2	216	100%	-
Paya Rumpul, Melaka	264.0	27	100%	-
Jasin Lalang, Melaka	4,077.1	248	24%	-
Bahau land, Seremban	1,118.2	92	100%	-
Subtotal	13,409.7	87,488.3		8,522.4
<u>Investment properties</u>				
	<u>Description</u>	<u>BV (MYR mil)</u>	<u>MV (MYR mil)</u>	<u>Net surplus (MYR mil)</u>
PFCC (Tower 1 & 2, 4 & 5)	Office: NLA = 883k sqf	375	375	0
IOI Mall Puchong	NLA = 902k sqf	672	672	0
IOI Mall Kulai	NLA = 264k sqf	71	71	0
One IOI Square				
Two IOI Square	Office: NLA = 434k sqf	170	170	0
IOI Palm City Office, Xiamen	NLA = 371k sqf	254	254	0
IOI Central Boulevard	NLA = 1.279m sqf	9,930	9,930	0
Putrajaya Marriott Hotel	488 rooms	145	145	0
Palm Garden Hotel	151 rooms	62	62	0
IOI City Mall (Ph 1 & 2)	Retail: NLA = 2.517m sqf	2,648	2,648	0
IOI Palm City Mall, Xiamen	Retail: NLA = 639k sqf	810	810	0
IOI Palm Garden Golf club	18-hole golf course & club house	206	206	0
Four Points by Sheraton Puchong	249 rooms	102	102	0
Le Meridien Putrajaya	353 rooms	182	182	0
Sheraton Grand, Xiamen	370 rooms	271	271	0
IOI City Tower 1 & 2 Putrajaya	Office: NLA = 968k sqf	344	344	0
Conezion IOI Resort City	NLA = 925k sqf	317	317	0
Subtotal				0
Total				8,522.4
Shareholders' fund				22,378.6
Total RNAV				30,901.0
Share cap				5,506.1
RNAV/share				5.61
Discount				55%
Intrinsic value				2.53
ESG discount				2%
Target price				2.47

Source: RHB

Emissions And ESG

Trend analysis

In FY23, IOIPG's Scope 2 emissions intensity fell by 31% YoY, as the property investment and hospitality & leisure segments subscribed to the green electricity tariff, which has helped to decrease carbon emissions.

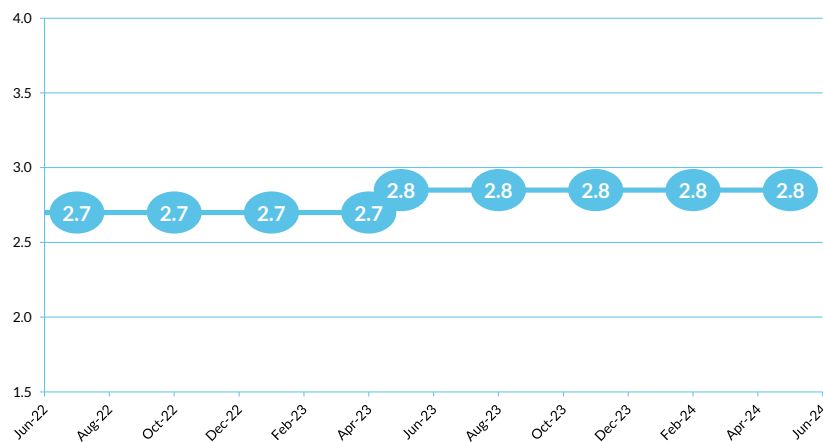
Emissions (tCO2e)	Jun-21	Jun-22	Jun-23
Scope 1	2,264	2,581	4,058
Scope 2	70,233	72,724	59,271
Scope 3	na	25,982	57,114
Total emissions	72,497	101,287	120,443

Source: Company data, RHB

Latest ESG-Related Developments

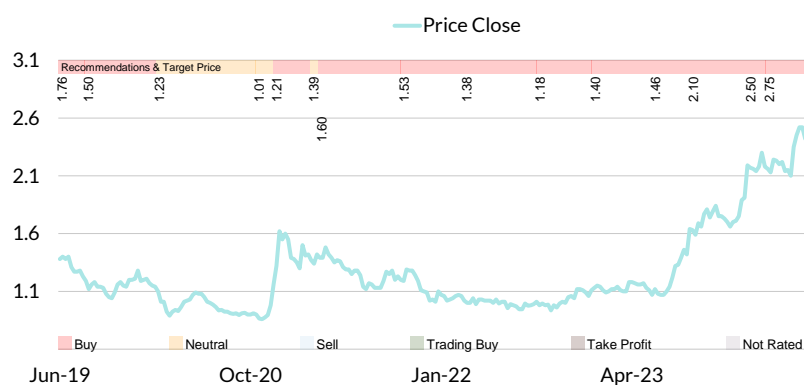
- In FY23, its Scope 2 emissions intensity dropped by 31% from the levels recorded in FY22, as the property investment and hospitality & leisure segments subscribed to the Green Electricity Tariff, which has helped to decrease carbon emissions.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-28	Buy	2.75	2.27
2024-01-14	Buy	2.50	1.91
2023-11-26	Buy	2.10	1.73
2023-08-29	Buy	2.10	1.62
2023-06-20	Buy	1.46	1.08
2023-05-28	Buy	1.46	1.11
2023-02-26	Buy	1.40	1.12
2023-01-03	Buy	1.40	1.07
2022-11-23	Buy	1.18	1.01
2022-08-23	Buy	1.18	0.98
2022-05-25	Buy	1.38	1.01
2022-03-21	Buy	1.38	1.01
2022-02-27	Buy	1.38	1.06
2021-09-29	Buy	1.53	1.21
2021-08-27	Buy	1.60	1.27

Source: RHB, Bloomberg

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