

23 January 2024

Property | Real Estate

Eco World (ECW MK)

Not Rated

Time To Pursue The Next Phase Of Growth

Fair Value (Return): MYR1.88 (+46%)
 Price: MYR1.29
 Market Cap: USD805m
 Avg Daily Turnover (MYR/USD): 3.43m/0.71m

- **MYR1.88 FV based on a 35% discount to RNAV.** With 3,640 acres of landbank spread across key hotspots in Malaysia, Eco World is well-positioned to pursue the next growth phase due to the increasing maturity of its current township developments. We believe the recent land acquisitions will be the key driver. Recently, the company announced two land deals in the high-growth Iskandar Malaysia region. Dividend payment from Eco World International (ECWI MK, NR) should also come in handy for more landbanking activities this year.
- **Prime beneficiary for broad-based sector re-rating.** Eco World should benefit from any uptick in demand in any of the major markets. Currently, the company has 1,800 acres in the Klang Valley (50%), 1,600 acres in Johor (44%) and 214 acres in Penang (6%), with products ranging the evergreen residential township homes, its high-rise duduk series, commercial, as well as the increasingly popular industrial properties. In FY23 (Oct), Eco World raked in MYR3.6bn worth of property sales, of which MYR1.04bn was from all the business park projects.
- **Better cash flow as township lifecycle entering matured stage.** Most of Eco World's township projects are entering their 8-10-year lifecycle. Therefore, cash flow and profit margin from these developments are expected to be more consistent and lucrative going forward. Net margin in FY23 improved to 8.5% from 7.7% in FY22. As such, the maturing phase should enable management to pursue the next phase of growth.
- **Aggressive landbanking in Johor indicates management's strong confidence in Iskandar Malaysia.** Over the last five months, Eco World has successfully added 644 acres of land in Johor, including 404 acres in Kulai and 240 acres in Iskandar Puteri near the Second Link. Both parcels of land are expected to boost the total remaining GDV by 11% (+MYR5.46bn) to MYR56bn. Note, with only three township and three business park projects, the Johor region contributed MYR1.59bn in Eco World's property sales, representing 44% of the total in FY23.
- **Solid financial position for more landbanking opportunities.** ECWI announced its proposed capital reduction exercise in Apr 2023. A total of MYR253m cash distributed back (via dividend) is now Eco World's important war chest to acquire more landbank. In addition to the various cost-cutting initiatives over the last few years, Eco World's net gearing has improved to 0.25x in FY23 from 0.62x in FY20.
- **Valuation.** Our FV is based on 35% discount to RNAV. The slight premium compared to our valuation for other developers under our coverage reflects the company's strong execution track record, better growth prospects ahead as well as the potential upside in dividend given the cash returns from ECWI.

Analyst

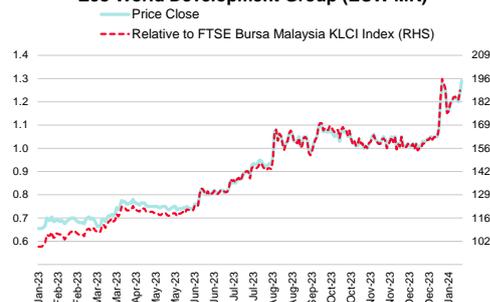
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	22.9	24.0	25.2	43.3	96.9
Relative	20.7	21.8	22.1	38.1	97.8
52-wk Price low/high (MYR)	0.66 – 1.29				

Eco World Development Group (ECW MK)



Source: Bloomberg

Forecasts and Valuation	Oct-22	Oct-23	Oct-24F	Oct-25F	Oct-26F
Total turnover (MYRm)	2,044	2,227	2,315	2,579	2,676
Recurring net profit (MYRm)	156	189	198	227	239
Recurring net profit growth (%)	(14.4)	21.1	4.6	14.6	5.3
Recurring EPS (MYR)	0.05	0.06	0.07	0.08	0.08
DPS (MYR)	0.05	0.06	0.06	0.07	0.07
Recurring P/E (x)	24.30	20.06	19.19	16.74	15.90
P/B (x)	0.80	0.80	0.79	0.79	0.78
Dividend Yield (%)	3.9	4.7	4.8	5.0	5.3
Return on average equity (%)	3.3	4.0	4.1	4.7	4.9
Net debt to equity (%)	31.7	25.2	27.0	34.2	33.9

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Oct-22	Oct-23	Oct-24F	Oct-25F	Oct-26F
Malaysia	Recurring EPS	0.05	0.06	0.07	0.08	0.08
Property	EPS	0.05	0.06	0.07	0.08	0.08
Eco World	DPS	0.05	0.06	0.06	0.07	0.07
ECW MK	BVPS	1.61	1.62	1.63	1.64	1.65
Not Rated	Return on average equity (%)	3.3	4.0	4.1	4.7	4.9
	Return on average assets (%)	1.6	2.1	2.2	2.5	2.6
Valuation basis						
35% discount to RNAV						
Key drivers						
Stronger demand for properties given better economic growth and catalysts from infrastructure developments.						
Key risks						
Unexpected slowdown in economic growth						
Company Profile						
Eco World has presence across all the key economic regions – the Klang Valley, Johor and Penang. Its products include landed and high-rise residential developments, commercial and industrial properties.						
	Valuation metrics	Oct-22	Oct-23	Oct-24F	Oct-25F	Oct-26F
	Recurring P/E (x)	24.30	20.06	19.19	16.74	15.90
	P/B (x)	0.8	0.8	0.8	0.8	0.8
	Dividend Yield (%)	3.9	4.7	4.8	5.0	5.3
	EV/EBITDA (x)	15.14	11.80	11.53	11.26	10.78
	Income statement (MYRm)	Oct-22	Oct-23	Oct-24F	Oct-25F	Oct-26F
	Total turnover	2,044	2,227	2,315	2,579	2,676
	Gross profit	490	539	583	639	663
	EBITDA	281	328	343	383	400
	Depreciation and amortisation	(22)	(22)	(23)	(22)	(22)
	Operating profit	259	306	321	361	378
	Net interest	(97)	(123)	(124)	(125)	(127)
	Pre-tax profit	225	270	283	324	341
	Taxation	(69)	(81)	(85)	(97)	(102)
	Reported net profit	156	189	198	227	239
	Recurring net profit	156	189	198	227	239
	Cash flow (MYRm)	Oct-22	Oct-23	Oct-24F	Oct-25F	Oct-26F
	Change in working capital	176	(466)	(68)	(27)	11
	Cash flow from operations	292	(342)	67	134	181
	Cash flow from financing activities	(113)	(253)	0	0	0
	Cash at beginning of period	785	1,316	1,337	1,284	964
	Net change in cash	179	(594)	67	134	181
	Ending balance cash	963	722	1,403	1,418	1,145
	Balance sheet (MYRm)	Oct-22	Oct-23	Oct-24F	Oct-25F	Oct-26F
	Total cash and equivalents	1,316	1,337	1,284	964	1,004
	Tangible fixed assets	3,959	3,357	3,392	3,758	3,805
	Total investments	1,044	1,131	1,131	1,131	1,131
	Total other assets	1,484	1,178	1,178	1,178	1,178
	Total assets	9,400	8,903	8,871	9,030	9,145
	Short-term debt	1,082	740	740	740	740
	Total long-term debt	1,734	1,801	1,837	1,874	1,911
	Total liabilities	4,661	4,129	4,082	4,205	4,282
	Shareholders' equity	4,738	4,774	4,789	4,825	4,863
	Total equity	4,738	4,774	4,789	4,825	4,863
	Total liabilities & equity	9,400	8,903	8,871	9,030	9,145
	Key metrics	Oct-22	Oct-23	Oct-24F	Oct-25F	Oct-26F
	Revenue growth (%)	0.0	9.0	4.0	11.4	3.8
	Recurring net profit growth (%)	(14.4)	21.1	4.6	14.6	5.3
	Recurrent EPS growth (%)	(14.4)	21.1	4.6	14.6	5.3
	Gross margin (%)	24.0	24.2	25.2	24.8	24.8
	Recurring net profit margin (%)	7.6	8.5	8.6	8.8	8.9
	Dividend payout ratio (%)	94.2	93.3	92.2	84.3	83.8

Source: Company data, RHB

Time To Pursue The Next Phase Of Growth

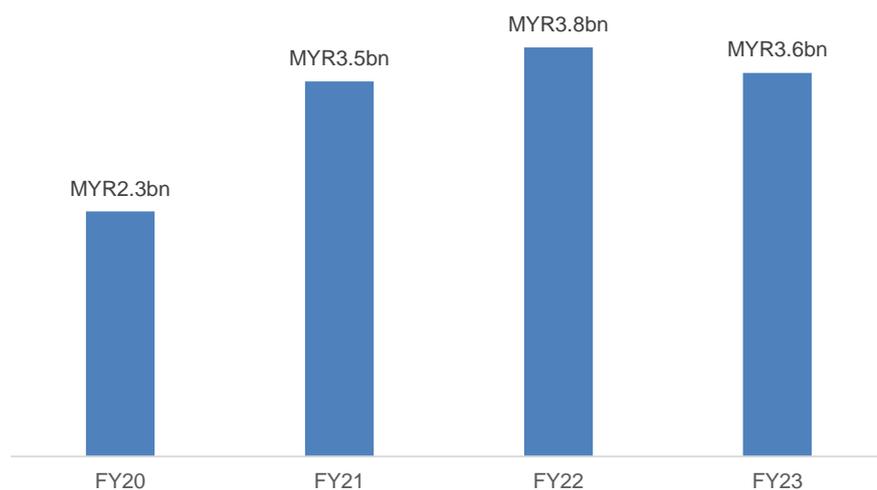
Prime beneficiary for broad-based sector re-rating

Eco World is well-positioned for the prevailing broad-based sector re-rating. The company has a total of 3,600 acres of land across the key hotspots in Malaysia that should capture any uptick in demand. These include 1,800 acres in the Klang Valley (50%), 1,600 acres in Johor (44%) and 214 acres in Penang (6%).

The landbank in the Klang Valley strategically covers the key thriving areas in the northern, western and southern part of the region. There are a total of seven ongoing projects in the Klang Valley, with a combined GDV of MYR34.56bn. Meanwhile, the company has 1,617 acres of undeveloped land (including the new land announced last week) in Johor that yield a total GDV of MYR14bn with six projects, while exposure in Penang is the smallest with only 214 acres of remaining land with MYR5.5bn GDV for only two projects.

Currently Eco World has 16 projects, with a variety of products including the bread-and-butter residential township homes, the high-rise duduk series, commercial developments as well as the increasingly popular industrial properties brand under Eco Business Park. Over the last three years, despite the COVID-19 pandemic, the company has consistently achieved over MYR3.5bn in property sales per financial year (FY21: MYR3.52bn; FY22: MYR3.84bn; FY23: MYR3.60bn). In FY23, Eco Ardence and Eco Business Park V were the top sales performers in the Klang Valley, while Eco Botanic in Johor was the best overall sales contributor. Eco Business Park I, II and III in Johor contributed MYR729.9m in sales.

Figure 1: Eco World's historical property sales

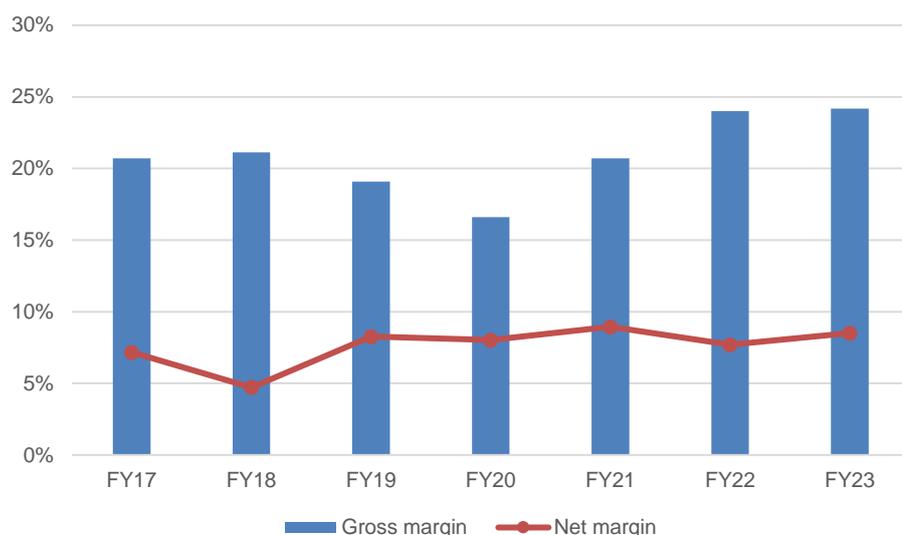


Source: Company data

Existing projects entering high cash-generative phase

FY23 marks the 10th anniversary of the Eco World brand's presence in Malaysia. Recall, 8-10 years ago, management aggressively acquired landbank in different locations to kick start its development business. In addition to the heavy expenditure on land clearing, provision of infrastructure, as well as impressive landscaping for all its new greenfield townships, the company also invested heavily on building its brand, advertising, sales & marketing.

In 2024, most of Eco World's township projects are entering their 8-10-year lifecycle, ie already passed the cash-intensive stage. The timing is good, as this would mean that the company is able to embark on the next phase of growth in tandem with the pick-up in overall demand for property, capitalising on the consistent cash flow from the existing projects. At the same time, profit margin from each project is expected to improve and normalise as these townships mature. Net margin, on a blended basis, will likely gradually expand towards the 10% region over the next 1-2 years. Note that net margin in FY23 improved to 8.5% from 7.7% in FY22.

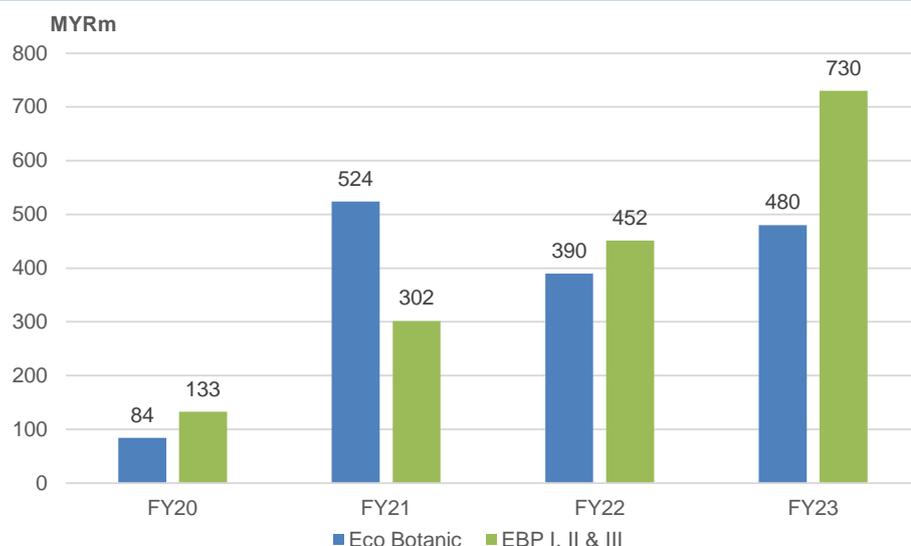
Figure 2: Improving profit margin as projects entering maturing phase

Source: Company data

Entrenching its presence in Iskandar Malaysia

Over the last five months, Eco World has replenished 644 acres of land in Johor, including 404 acres in Kulai and 240 acres in Iskandar Puteri near the Second Link. The aggressive landbanking effort in Johor simply indicates that the company is able to sell its existing products successfully and more importantly, it reflects management's confidence in the growth prospects of Iskandar Malaysia.

Both parcels of land are expected to boost the total remaining GDV in the portfolio by 11% (+MYR5.46bn) to MYR56bn. While the Kulai land is planned for the development of Eco Business Park VI, the 240 acres in Iskandar Puteri is for the extension of Eco Botanic, as the balance undeveloped landbank of the township is only 97 acres. Note, this is one of the most successful townships around the Second Link as its sales surged post pandemic from MYR84.1m in FY20 to MYR524m in FY21. Last year, the township achieved MYR480m sales.

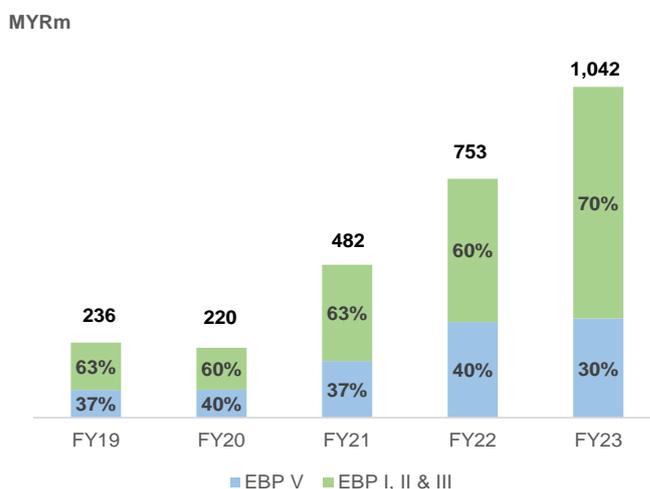
Figure 3: Sales in Eco Botanic and Eco Business Parks in Johor picked up immediately after the pandemic

Source: Company data

We highlight that, Eco World managed to rake in over MYR1bn worth of property sales pa from Iskandar Malaysia alone over the last three years, and even during the COVID-19 pandemic, it managed to secure MYR608m sales from that region. In addition, the company's industrial developments also saw a rapid increase in sales, especially after the pandemic, which reaffirms our view that multinational corporations are looking to expand or decentralise their operations as part of their risk management strategy.

Figure 4: Eco World's historical property sales and sales contribution from Iskandar Malaysia

Figure 5: Increasing sales contribution from Eco Business Park I, II and III that are located at Iskandar Malaysia

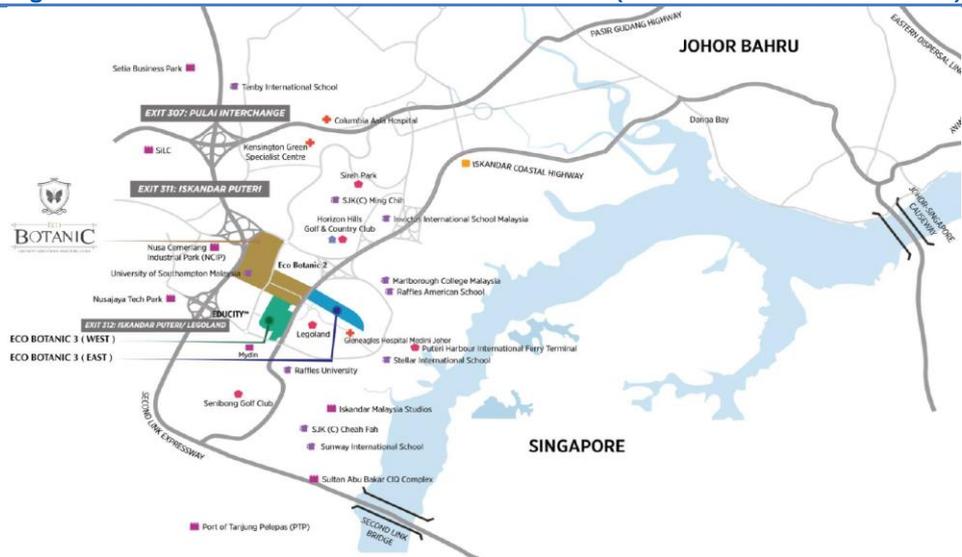


Source: Company data

Source: Company data

Given its landbank exposure in Johor, Eco World is also a potential beneficiary of the upcoming Johor-Singapore Special Economic Zone (JS-SEZ) and KL-Singapore High Speed Rail (HSR). The JS-SEZ is expected to see an influx of investments from Singapore as well as the region. The proposed passport-free QR code clearance of people at land checkpoints suggests that movement of business travellers and workers between Johor and Singapore will be fairly fast and smooth. We also highlight that the location of Eco World's Eco Botanic township is strategically located along the Second Link Expressway, and near to the proposed HSR station (under the previous alignment plan).

Figure 6: Location of the new land in Iskandar Puteri (Eco Botanic 3 East and West)



Source: Company data

Any new landbank will likely re-rate RNAV further

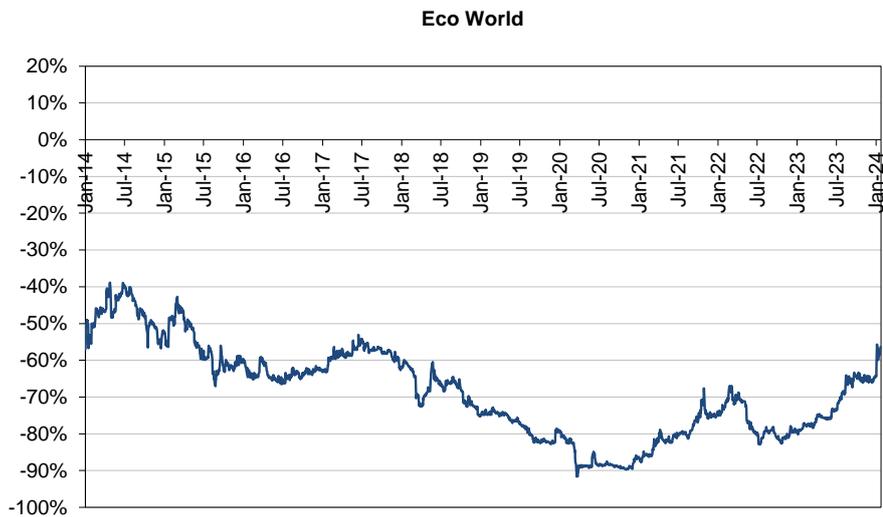
Recall, ECWI announced its proposed capital reduction exercise in Apr 2023. A total of MYR253m cash distributed back via dividend is now Eco World's important war chest for more landbanking activities. In addition, as ECWI clears the balance MYR850m worth of completed and nearly-completed stocks in the UK (effective share of MYR650m) over the next 1-2 years, the excess cash generated will also be distributed back to shareholders.

Financially, we think Eco World has sufficient capability to acquire more landbank, and can afford to gear up if strategic opportunities arise. The company's net gearing has improved to 0.25x in FY23 from 0.62x in FY20, and internally, management has also undertaken various cost-cutting initiatives over the past few years. As such, operational efficiency, stable cash flow from ongoing developments as well as decent net gearing should support the company to embark on more development opportunities.

Valuation

We value Eco World based on a 35% discount to RNAV. The slight premium compared to our valuation for other developers under our coverage reflects the company's strong execution track record, strategic exposure in Iskandar Malaysia from the two recent land deals, and as such, better growth prospects ahead. The cash returning from ECWI could indicate a potential upside in dividend in FY24F-25F.

Figure 7: Eco World's historical discount to RNAV



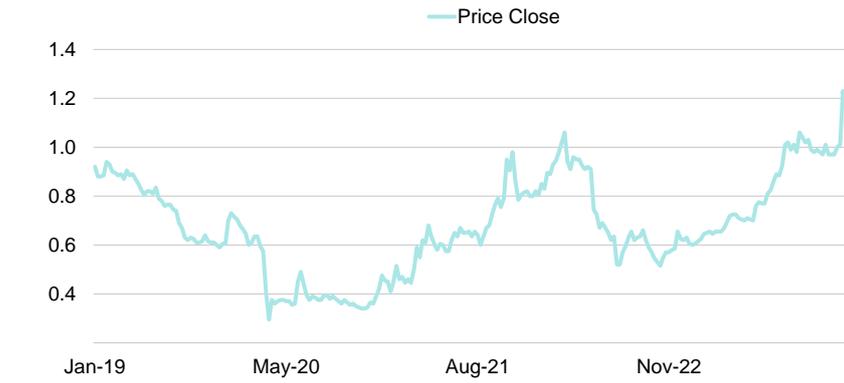
Source: Bloomberg, RHB

Figure 8: RNAV estimate

Project	Remaining landbank (acres)	Remaining GDV (MYRm)	Effective stake	Net surplus @ 10% (MYRm)
Eco Central				
Eco Majestic	323.1	6,940	100%	466.0
Eco Forest	136.0	1,530	100%	123.9
Eco Sanctuary	36.1	4,040	100%	314.6
BBCC	7.6	6,420	40%	128.4
Eco Grandeur	799.3	7,870	60%	354.1
Eco Business Park V	377.2	2,160	60%	148.6
Eco Ardence	122.6	5,110	50%	233.5
Se. Duduk D' Kajang	6.9	500	100%	41.7
Eco South				
Eco Botanic & Eco Botanic 2	96.6	2,370	100%	234.4
Eco Botanic 3	240.3	3,880	80%	184.0
Eco Spring & Eco Summer	88.1	2,330	100%	196.5
Eco Tropics	393.9	2,210	100%	202.7
Eco Business Park I, II & III	394.9	2,040	100%	244.2
Eco Business Park VI	403.8	1,580	100%	150.6
Eco North				
Eco Meadows	15.4	480	100%	40.0
Eco Horizon & Eco Sun	198.5	4,970	60%	222.9
Unbilled sales				453.3
Subtotal				3,739.3
Shareholders' fund				4,773.5
Total RNAV				8,512.9
Shares base (mil)				2,944.4
RNAV per share (MYR)				2.89
Discount				35%
Intrinsic value				1.88

Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-01-22			

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Not Rated:	Stock is not within regular research coverage

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