

28 May 2021

Property | Real Estate

IOI Properties (IOIPG MK)

Buy (Maintained)

Stable Performance From All Divisions; Keep BUY

Target Price (Return): MYR1.60 (24.0%)
 Price: MYR1.29
 Market Cap: USD1,716m
 Avg Daily Turnover (MYR/USD) 1.33m/0.32m

- **Maintain BUY with unchanged TP of MYR1.60, 24% upside and c.2% yield.** IOIPG's 3QFY21 (Jun) results beat our expectation but were in line with consensus. Performance for all divisions was largely stable compared to the previous quarter, but the bottom line was partly lifted by higher associate's profit due to land disposal. 9M new sales hit MYR1.56bn, and we think the company may potentially achieve MYR2bn property sales for FY21 (vs MYR1.8bn in FY20).
- **3QFY21 results.** Revenue and earnings for all divisions were largely stable QoQ. EBIT for property investment and leisure & hospitality remained relatively unchanged from last quarter, due to continued rental relief assistance as well as low occupancy for the hotels. However, the sequential improvement in earnings was largely driven by higher share of associate's profit arising from a land sale in Jasin that was completed during the quarter. The higher effective tax rate was mainly due to high tax rate in China.
- **Encouraging property sales in 3QFY21** as new property sales achieved MYR645m vs MYR443m in 2Q, bringing 9M new sales to MYR1.558bn. 61% of the sales was contributed from Malaysia with the remaining 38% from China and 1% from Singapore. IOI Properties has thus far launched RM400m worth of projects in China (D4 and D5), and 4QFY21 should continue to see contribution from the balance sales. Management guided that there is still about RM650m remaining GDV to be launched in D4/D5. Meanwhile, South Beach Residences is now about 65% sold, and including the bookings, the take-up rate would be > 80%.
- **Xiamen mall to open in 3Q21.** We understand that the committed lease for IOI Palm City Mall is already quite encouraging, and it is on track to open its door in 3QCY21. The mall has an NLA of 650k sqf for Phase 1 and 1.05m sqf for Phase 2 (yet to be constructed), and will be surrounded by boutique office blocks and Sheraton Grand Hotel. As for the construction of the Central Boulevard Towers in Singapore, management expects some interruptions again given the Singapore Government's recent safety measures to contain the pandemic. Nevertheless, management has received good response on recent leasing activities, and is currently in talks with a few high-profile international corporates. The office towers are scheduled for completion in 2H2023.
- **Raise earnings forecast.** In view of the stronger than expected 9M results, we raise our FY21F earnings by 7%. 4QFY21 earnings may ease slightly due to the surge in COVID-19 cases and the imposition of MCO 3.0. Unbilled sales increased to MYR641m vs MYR477m as at 3QFY21.
- **Maintain TP.** Our TP is based on an unchanged 60% discount to RNAV.

Analyst

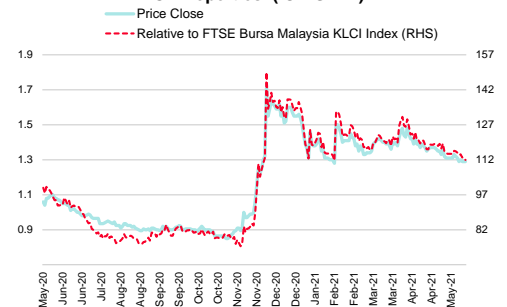
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.8)	(5.8)	(5.8)	11.2	21.7
Relative	(14.7)	(5.0)	(6.8)	12.1	11.9
52-wk Price low/high (MYR)				0.85	1.71

IOI Properties (IOIPG MK)



Source: Bloomberg

Forecasts and Valuation	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Total turnover (MYRm)	2,198	2,116	2,415	2,562	2,684
Recurring net profit (MYRm)	609	564	633	670	698
Recurring net profit growth (%)	(0.1)	(7.5)	12.4	5.7	4.2
Recurring EPS (MYR)	0.11	0.10	0.12	0.12	0.13
DPS (MYR)	0.03	0.01	0.02	0.03	0.04
Recurring P/E (x)	11.66	12.60	11.21	10.61	10.18
P/B (x)	0.38	0.37	0.36	0.35	0.35
Dividend Yield (%)	2.5	0.9	1.2	2.3	2.7
Return on average equity (%)	3.6	2.4	3.3	3.4	3.4
Net debt to equity (%)	51.3	49.2	53.8	56.0	57.9

Source: Company data, RHB

Overall ESG Score: 2.7 (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 - FY25, with FY20 as the base year..

S: Good

IOIPG is a member of the Malaysian Employers Federation and uphold labour practice standards. It also invests in building interchanges and road enhancements for its projects, and collaborates with local institutions to support youth education.

G: Good

57% of IOIPG's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on named basis. IOIPG has an in-house investor relations personnel but disclosure practices are lagging behind its peers in general.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Malaysia	Recurring EPS	0.11	0.10	0.12	0.12	0.13
Property	EPS	0.12	0.08	0.12	0.12	0.13
IOI Properties	DPS	0.03	0.01	0.02	0.03	0.04
IOIPG MK	BVPS	3.42	3.45	3.55	3.64	3.73
Buy	Return on average equity (%)	3.6	2.4	3.3	3.4	3.4
	Return on average assets (%)	2.0	1.4	1.9	1.9	1.9
Valuation basis	Valuation metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
60% discount to RNAV	Recurring P/E (x)	11.66	12.60	11.21	10.61	10.18
	P/B (x)	0.4	0.4	0.4	0.4	0.3
Key drivers	Dividend Yield (%)	2.5	0.9	1.2	2.3	2.7
New property sales, new landbank acquisitions	EV/EBITDA (x)	14.54	17.50	20.44	19.45	19.00
Key risks	Income statement (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
Weaker/better-than-expected market conditions	Total turnover	2,198	2,116	2,415	2,562	2,684
	Gross profit	1,282	1,286	1,156	1,239	1,298
	EBITDA	1,037	855	793	874	933
	Depreciation and amortisation	(125)	(121)	(52)	(56)	(59)
	Operating profit	912	734	741	818	874
	Net interest	69	50	53	55	58
	Pre-tax profit	1,086	897	932	1,014	1,057
	Taxation	(426)	(438)	(280)	(335)	(349)
	Reported net profit	661	456	643	670	698
	Recurring net profit	609	564	633	670	698
Company Profile	Cash flow (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
IOI Properties Group (IOIPG) 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	41	305	(607)	(302)	(248)
	Cash flow from operations	1,530	1,581	769	1,103	1,206
	Capex	(1,000)	(940)	(1,200)	(1,000)	(1,000)
	Cash flow from investing activities	(1,134)	(1,144)	(1,198)	(997)	(996)
	Dividends paid	(354)	(179)	(67)	(84)	(165)
	Cash flow from financing activities	(1,611)	(1,510)	(737)	(753)	(833)
	Cash at beginning of period	2,683	1,577	1,472	1,286	1,554
	Net change in cash	(1,214)	(1,073)	(1,166)	(647)	(623)
	Ending balance cash	1,469	504	306	639	931
	Balance sheet (MYRm)	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Total cash and equivalents	1,577	1,472	1,286	1,554	1,881
	Tangible fixed assets	19,580	20,604	21,752	22,697	23,638
	Intangible assets	11	11	11	11	11
	Total investments	5,111	4,586	4,586	4,586	4,586
	Total other assets	189	152	152	152	152
	Total assets	32,719	32,900	34,698	36,313	37,913
	Short-term debt	1,176	1,181	1,181	1,181	1,181
	Total long-term debt	10,150	9,714	10,714	11,714	12,714
	Total liabilities	13,726	13,748	14,978	16,078	17,162
	Shareholders' equity	18,834	18,995	19,555	20,059	20,564
	Minority interests	159	157	166	176	187
	Total equity	18,994	19,152	19,721	20,235	20,751
	Total liabilities & equity	32,719	32,900	34,698	36,313	37,913
	Key metrics	Jun-19	Jun-20	Jun-21F	Jun-22F	Jun-23F
	Revenue growth (%)	(21.3)	(3.7)	14.1	6.1	4.8
	Recurring net profit growth (%)	(0.1)	(7.5)	12.4	5.7	4.2
	Recurrent EPS growth (%)	(4.7)	(7.5)	12.4	5.7	4.2
	Gross margin (%)	58.3	60.8	47.9	48.4	48.4
	Recurring net profit margin (%)	27.7	26.6	26.2	26.1	26.0
	Dividend payout ratio (%)	27.1	14.7	13.0	24.7	27.6

Source: Company data, RHB

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Results At a Glance

Figure 1: Results review

FYE Jun (MYRm)	3Q20	2Q21	3Q21	QoQ (%)	YoY (%)	9MFY20	9MFY21	YoY (%)	Comments
Turnover	401.4	591.3	579.0	(2.1)	44.2	1,505.9	1,830.0	21.5	
Prop Dev.	284.1	494.9	485.2	(2.0)	70.8	1,093.9	1,529.8	39.9	The stronger revenue YoY was largely due to higher property sales from Malaysia and Xiamen, as well as more advance construction progress in China.
Prop Investment	80.9	73.6	72.4	(1.7)	(10.4)	266.4	229.2	(14.0)	
Leisure & Hospitality	35.4	21.1	19.1	(9.3)	(46.1)	140.2	64.6	(53.9)	
Others	1.0	1.7	2.2	31.2	117.6	5.3	6.3	18.3	
EBIT	120.7	217.3	208.1	(4.3)	72.4	583.3	719.3	23.3	
Prop Dev.	85.5	192.6	182.3	(5.3)	113.2	424.0	624.0	47.2	
Prop Investment	40.1	31.3	32.9	5.1	(18.0)	147.9	111.2	(24.8)	QoQ EBIT was largely flat because of continuous rental relief assistance extended to tenants due to MCO 2.0.
Leisure & Hospitality	(5.0)	(7.7)	(7.5)	(1.9)	49.7	9.7	(18.5)	(290.2)	The segment continued to be negatively affected by MCO 2.0 during the quarter.
Others	0.1	1.1	0.4	(65.7)	309.7	1.6	2.6	58.0	
Net interest	12.4	8.2	8.1	(1.2)	(34.8)	40.1	24.6	(38.6)	
Pretax profit	139.3	272.8	281.4	3.2	102.0	681.3	893.7	31.2	
Taxation	(66.8)	(100.4)	(102.5)	2.0	53.4	(271.4)	(349.8)	28.9	Effective tax rate was higher due to higher tax rate in China
Minority interest	(1.1)	(1.4)	(0.2)	(87.0)	(84.2)	(2.1)	(2.1)	(3.5)	
Net profit	71.4	171.0	178.8	4.5	150.5	407.8	541.8	32.9	
Core net profit	82.2	147.4	178.8	21.3	117.5	445.4	501.4	12.6	Above our expectation but in line with consensus
EPS (sen)	1.3	3.1	3.3	4.5	150.0	7.4	9.9	32.9	
Gross DPS (sen)	0.0	0.0	0.0			0.0	0.0		
NTA/share (RM)	3.4	3.5	3.5			3.4	3.5		
EBIT margin (%)	30.1	36.7	35.9			38.7	39.3		
Pretax margin (%)	34.7	46.1	48.6			45.2	48.8		
Tax rate (%)	48.0	36.8	36.4			39.8	39.1		

Source: Company data, RHB

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Figure 2: RNAV estimate

Projects	Land area (acres)	GDV (MYRm)	Effective stake	NPV @ 10% (MYRm)
Malaysia				
Klang Valley:				
16 Sierra	184.0	3,800	100%	236.2
Bandar Puteri Puchong	151.0	10,900	100%	604.5
Bandar Puchong Jaya	8.0	600	100%	47.4
Bdr Puteri Warisan @ Sepang	111.0	1,900	100%	104.6
Bdr Puteri @ Bangi	213.0	3,500	100%	228.0
IOI Resort City	307.0	15,700	100%	712.4
Johor:				
Kempas Utama	40.0	900	100%	35.1
Bandar Putra Kulai	3,526.0	5,400	100%	264.3
Bandar Putra Segamat	49.0	300	100%	8.2
Taman Legenda Putra, Kulajaya	27.0	200	100%	8.2
i-Synergy, Senai	482.0	1,800	100%	72.1
Tebrau (ADSB)	37.4	4,500	100%	103.1
Others:				
Desaria, Sg Ara Penang	5.0	200	100%	12.0
Bandar IOI Bahau	23.0	400	100%	26.5
Ayer Keroh, Melaka	1,074.4	4,942	100%	130.7
Singapore				
South Beach	8.6	8,497	50%	233.0
Cape Royale @ Sentosa Cove		4,000	65%	67.8
China, Xiamen				
IOI Palm City	13.0	2,000	100%	121.0
IOI Palm International Parkhouse,	6.2	1,750	100%	79.2
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	13,469.9	76,965.6		3,094.3
Investment properties				
	<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 = 886k sqf	389	389	0
IOI Mall Puchong	NLA = 856k sqf	568	568	0
IOI Mall Kulai	NLA = 274,863 sqf	71	71	0
One IOI Square	Office: NLA = 441k sqf	209	209	0
Two IOI Square				
Putrajaya Marriott Hotel	488 rooms	142	142	0
Palm Garden Hotel	151 rooms	44	44	0
IOI City Mall	Retail: NLA = 1.45mil sqf	1,451	1,451	0
IOI Palm Garden Golf club	18-hole golf course & club house	206	206	0
Four Points by Sheraton Puchong	249 rooms	111	111	0
Le Meridien Putrajaya	353 rooms	155	155	0
IOI Palm City Hotel Jimei	280 rooms	112	112	0
IOI City Tower 1 & 2 Putrajaya	Office: NLA = 966k sqf	448	448	0
Subtotal				0
Total				3,094.3
Shareholders' fund				18,995.1
Total RNAV				22,089.4
Share cap				5,506.1
RNAV/share				4.01
Discount				60%
Target price				1.60

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-03-14	Buy	1.60	1.42
2021-02-23	Neutral	1.39	1.39
2020-11-25	Buy	1.21	1.00
2020-10-13	Neutral	1.01	0.91
2020-02-16	Neutral	1.23	1.14
2019-08-30	Buy	1.50	1.19
2019-04-22	Buy	1.76	1.36
2018-08-28	Neutral	1.76	1.85
2018-07-27	Neutral	na	1.77
2018-07-26	Neutral	1.76	1.77

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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