

17 May 2021

Property | Real Estate

Eastern & Oriental (EAST MK)

Neutral (Maintained)

Will New Major Shareholder Change E&O's DNA?

- **Maintain NEUTRAL and MYR0.60 TP, 0% downside.** Although major shareholder Datuk Tee Eng Ho explained his future plans for E&O, we think the "value add" he can bring in will take time to translate into meaningful earnings. However, Datuk Tee, as a major shareholder now, should help to strengthen the company's financial position given the solid balance sheets that Kerjaya Prospek (KPG MK, BUY, TP: MYR1.71) and Kerjaya Prospek Property (KPPROP MK, NR) (of which Datuk Tee is also a major shareholder) have.
- **"Value add" to be brought by Datuk Tee.** Both E&O and KPG hosted a virtual briefing last week to provide clarification on Datuk Tee's intention and value that he can bring to E&O. Recall, in end-March, Datuk Tee, via Amazing Parade SB, launched a takeover offer to acquire the remaining shares in E&O at MYR0.60 each. The acceptance as of 11 May 2021 has reached 55.2%, and the closing date is on 18 May. Datuk Tee indicated that he will bring in value to E&O, backed by the strong financial background of his two other companies, namely KPG and KPPROP. During the briefing, he indicated that the company will look into cutting down borrowing cost and increasing cost efficiency for all the projects without compromising product quality. Meanwhile, Dato' Seri Tham Ka Hon, who is the second largest shareholder, will continue to oversee the UK projects and E&O Hotel.
- **Changes in board composition.** E&O also announced changes in the board of directors. Three new board members were appointed – two of which (Khoo Siong Kee, Lim Kien Lai) have just resigned from KPG's board. Meanwhile, all board of directors have resigned from E&O except Dato' Seri Tham (Executive Deputy Chairman) and Kok Tuck Cheong (Managing Director). Datuk Tee mentioned that the management team will remain the same, but there should be some changes in the management style and operational efficiency going forward.
- **Issues on conflict of interest.** We think E&O and Datuk Tee will have to handle the issues on conflict of interest carefully. Datuk Tee said that there will still be open or invited tenders for all property construction jobs and infrastructure works at Seri Tanjung Pinang 2A (STP 2A). In case there are no other bidders participating, we believe KPG will end up be the sole contractor for all E&O's projects going forward since the former has already been doing building works for the latter.
- **M&A in future?** M&A among Datuk Tee's companies will be highly unlikely at this juncture. In our view, both E&O and KPPROP are in different product segments – the former has a strong brand equity as a high-end premium developer. Depending on how all the companies evolve, we do not discount the possibility of an M&A in a longer term.

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover (MYRm)	886	487	215	303	343
Recurring net profit (MYRm)	99	(196)	1	35	41
Recurring net profit growth (%)	(0.1)	(298.7)	-	3,505.3	15.9
Recurring EPS (MYR)	0.07	(0.14)	0.00	0.02	0.03
DPS (MYR)	0.03	0.01	-	0.01	0.01
Recurring P/E (x)	8.08	na	894.66	24.81	21.41
P/B (x)	0.40	0.49	0.51	0.51	0.50
Dividend Yield (%)	5.0	1.7	na	1.7	1.7
Return on average equity (%)	3.2	(10.4)	0.1	2.1	2.3
Net debt to equity (%)	27.3	41.3	52.7	59.3	58.7

Source: Company data, RHB

Target Price (Return):	MYR0.60 (0.0%)
Price:	MYR0.60
Market Cap:	USD208m
Avg Daily Turnover (MYR/USD)	3.68m/0.89m

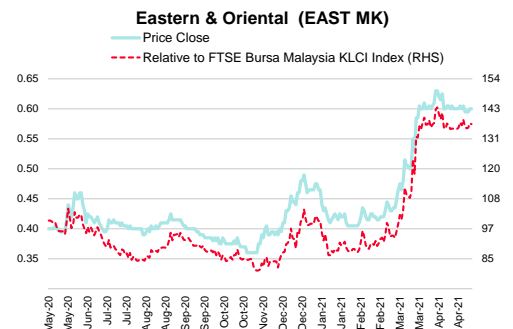
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	29.0	(4.8)	44.6	53.8	48.1
Relative	31.8	(3.2)	45.7	54.3	33.4
52-wk Price low/high (MYR)	0.36 – 0.63				



Source: Bloomberg

Overall ESG Score: 2.7 (out of 4)

E: Good

E&O undertook various assessments to minimise the environmental impact, especially on the reclamation and development of STP2A. A few energy saving initiatives are also 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

40% of E&O's board members are independent. E&O 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 capitalisation of less than USD1bn.

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Financial Exhibits

Asia	Financial summary (MYR)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Malaysia	Recurring EPS	0.07	(0.14)	0.00	0.02	0.03
Property	EPS	0.05	(0.14)	0.00	0.02	0.03
Eastern & Oriental	DPS	0.03	0.01	-	0.01	0.01
EAST MK	BVPS	1.49	1.21	1.17	1.18	1.20
Neutral	Return on average equity (%)	3.2	(10.4)	0.1	2.1	2.3
	Return on average assets (%)	1.5	(5.2)	0.0	1.0	1.1
Valuation basis	Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
78% discount to RNAV	Recurring P/E (x)	8.08	na	894.66	24.81	21.41
	P/B (x)	0.4	0.5	0.5	0.5	0.5
Key drivers	Dividend Yield (%)	5.0	1.7	-	1.7	1.7
i. New property sales;	EV/EBITDA (x)	5.46	na	24.09	17.76	15.86
ii. STP2 land transactions						
Key risks	Income statement (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
i. Delay in land transactions;	Total turnover	886	487	215	303	343
ii. Weaker-than-expected market conditions	Gross profit	393	202	169	198	218
	EBITDA	254	(66)	76	111	125
	Depreciation and amortisation	(15)	(23)	(12)	(13)	(14)
	Operating profit	239	(89)	64	98	112
	Net interest	(77)	(62)	(36)	(38)	(42)
	Pre-tax profit	162	(156)	28	60	70
	Taxation	(86)	(37)	(25)	(21)	(24)
	Reported net profit	62	(196)	1	35	41
	Recurring net profit	99	(196)	1	35	41
Company Profile	Cash flow (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
E&O is a niche developer focusing on the high-end property development. Key flagship project is Seri Tanjung Pinang 1. Other landbanks are located in KL and Iskandar. It is the key property play to capture the influx of liquidity.	Change in working capital	668	26	171	(64)	(26)
	Cash flow from operations	917	19	345	149	194
	Capex	0	(12)	(298)	(104)	(27)
	Cash flow from investing activities	(4)	(63)	(300)	(106)	(29)
	Dividends paid	(40)	(15)	0	(15)	(15)
	Cash flow from financing activities	(195)	(413)	312	32	29
	Cash at beginning of period	532	855	296	371	292
	Net change in cash	717	(457)	357	75	194
	Ending balance cash	1,249	398	654	446	487
	Balance sheet (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Total cash and equivalents	855	296	371	292	335
	Tangible fixed assets	2,100	2,089	2,375	2,466	2,479
	Intangible assets	0	0	0	0	0
	Total investments	3	3	3	3	3
	Total other assets	161	210	209	208	207
	Total assets	4,198	3,386	3,388	3,522	3,631
	Short-term debt	505	318	368	318	268
	Total long-term debt	908	726	926	1,026	1,126
	Total liabilities	2,149	1,573	1,637	1,747	1,826
	Shareholders' equity	2,008	1,767	1,704	1,724	1,750
	Minority interests	42	45	47	51	55
	Total equity	2,049	1,813	1,751	1,775	1,806
	Total liabilities & equity	4,198	3,386	3,388	3,522	3,631
	Key metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Revenue growth (%)	(9.8)	(45.1)	(55.8)	40.8	13.1
	Recurring net profit growth (%)	(0.1)	(298.7)	0.0	3505.3	15.9
	Recurrent EPS growth (%)	(3.3)	(288.1)	0.0	3505.3	15.9
	Gross margin (%)	44.3	41.6	78.6	65.4	63.5
	Recurring net profit margin (%)	11.1	(40.3)	0.5	11.6	11.9

Source: Company data, RHB

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Figure 1: RNAV estimate

Projects Penang		Remaining GDV (MYR m)	Equity interest	NPV @ 11% (MYR m)			
Andaman Series		687	100%	66.9			
Princes House		36	100%	1.6			
Conlay Place		945	51%	22.4			
The Peak		397	100%	22.1			
Other projects		Land size (acres)	Estimated GDV (MYR m)	Equity interest	NPV @ 11% (MYR m)		
Medini Central		184	2,607	50%	28.8		
Esca House			400	100%	8.3		
Hammersmith		1.2	699	100%	13.1		
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%	6.6		
Jalan Liew Weng Chee (Off Jln YKS)		0.9	110	100%	30.0		
Kemensah Heights, Ampang		309.5	2,000	88%	82.3		
Elmina West		135.0	1,538	100%	67.0		
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	81%	1,040.6
STP2A (253 acres)		166	17,000	530	250	65%	686.1
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	-	247.2	243.1	100%	2.8
Straits Quay Retail		-	270,000	233.0	233.0	100%	0.0
Total NPVs and surpluses							2,023.3
Proceeds from 10% placement @ MYR0.98							127.6
Shareholders' funds							1,767.5
RNAV							3,918.4
Share base (mil)							1,456.9
RNAV per share (MYR)							2.69
Discount							78%
Fair value (MYR)							0.60

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-03-28	Neutral	0.60	0.59
2020-12-01	Neutral	0.40	0.41
2020-06-30	Neutral	0.45	0.40
2020-05-11	Neutral	0.48	0.42
2019-11-29	Neutral	0.63	0.56
2019-05-27	Neutral	0.89	0.83
2019-03-22	Neutral	1.00	0.91
2019-03-13	Trading Buy	1.00	0.86
2019-02-12	Neutral	1.00	0.85

Source: RHB, Bloomberg

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