

26 May 2022

Property | Real Estate

IOI Properties (IOIPG MK)

Buy (Maintained)

Promising Office Leasing For Central Boulevard

Target Price (Return): MYR1.38 (+37%)
 Price (Market Cap): MYR1.01 (USD1,265m)
 ESG score: 2.70 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.92m/0.69m

- **Maintain BUY and MYR1.38 TP, 37% upside and 3% FY22F (Jun) yield.** IOI Properties' 3QFY22 results missed expectations, largely due to the MYR111m write-off for the XiangAn project in China. 9M property sales reached MYR1.3bn, and management expects to hit MYR2bn property sales by end FY22. We remain positive on the leasing prospects for the company's Central Boulevard office in Singapore. The property, which is scheduled to be completed in 2HCY23, is expected to lift IOIPG's earnings for the investment property division significantly.

- **3QFY22 results.** The stronger revenue for the property development division was largely attributed to higher billings from ongoing projects, as well as higher number of vacant possession of completed projects as construction activities in the past have been disrupted by multiple lockdowns in Malaysia. However, earnings for the division was affected by MYR111m write-off for the XiangAn project. Meanwhile, performance for the property investment division continued to improve, due to lower rental rebates being offered to tenants following the re-opening of the economy. Net gearing crept up to 0.72x vs 0.69x in the previous quarter.

- **Slower property sales in 3QFY22.** New property sales achieved MYR417.9m in 3QFY22, vs MYR646.4m in 2QFY22. The slower sales in Jan-Mar 2022 were within expectations given the expiry of the Home Ownership Campaign in Dec 2021. As 9MFY22 new sales only reached MYR1.31bn, management is hopeful that the Xiamen project will be the key sales contributor in 4QFY22, as about MYR960m worth of properties were launched in China in Dec 2021. However, we are somewhat conservative given the prevailing lockdowns in China, although the restrictions in Xiamen are relatively minor.

- **Update on Central Boulevard office.** We expect the Central Boulevard office space in Singapore to be well-received. The building is scheduled to be completed in 2HCY23, and recently, it was reported that Amazon is currently in advanced negotiations to take up 350,000 sqf (about 27% of total NLA of the property). We estimate that Central Boulevard could potentially generate a whopping MYR350-450m in rental income per year, assuming a conservative rental rate of SGD10-11 psf.

- **Forecast.** We cut our FY22 earnings forecast by about 5% given the MYR111m write-down. Unbilled sales fell to MYR537m vs MYR787.3m as at 2QFY22.

- **Maintain TP.** Our TP is based on an unchanged 65% discount to RNAV, and includes a 6% discount given IOIPG's ESG score of 2.70.

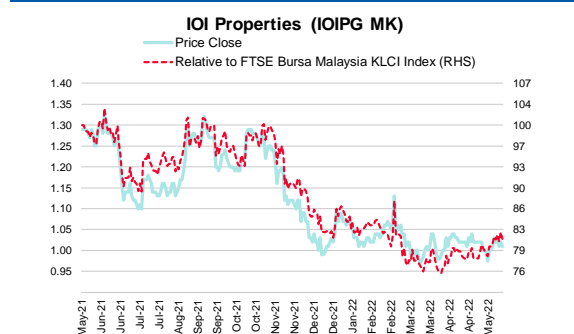
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.2)	0.0	(4.7)	(9.0)	(21.7)
Relative	(6.2)	3.4	(1.2)	(10.2)	(19.0)
52-wk Price low/high (MYR)				0.97	1.33



Source: Bloomberg

Forecasts and Valuation	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Total turnover (MYRm)	2,116	2,489	2,417	2,573	2,902
Recurring net profit (MYRm)	564	686	667	714	861
Recurring net profit growth (%)	(7.5)	21.7	(2.7)	7.0	20.6
Recurring EPS (MYR)	0.10	0.12	0.12	0.13	0.16
DPS (MYR)	0.01	0.01	0.03	0.04	0.05
Recurring P/E (x)	9.87	8.11	8.33	7.79	6.46
P/B (x)	0.29	0.28	0.28	0.27	0.26
Dividend Yield (%)	1.2	1.4	3.0	3.5	5.0
Return on average equity (%)	2.4	3.4	3.4	3.5	4.1
Net debt to equity (%)	49.2	46.5	70.4	72.3	71.4

Source: Company data, RHB

Overall ESG Score: 2.70 (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-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Malaysia	Recurring EPS	0.10	0.12	0.12	0.13	0.16
Property	EPS	0.08	0.12	0.12	0.13	0.16
IOI Properties	DPS	0.01	0.01	0.03	0.04	0.05
IOIPG MK	BVPS	3.45	3.55	3.64	3.74	3.84
Buy	Return on average equity (%)	2.4	3.4	3.4	3.5	4.1
	Return on average assets (%)	1.4	2.0	1.8	1.8	2.1
Valuation basis	Valuation metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
60% discount to RNAV	Recurring P/E (x)	9.87	8.11	8.33	7.79	6.46
	P/B (x)	0.3	0.3	0.3	0.3	0.3
Key drivers	Dividend Yield (%)	1.2	1.4	3.0	3.5	5.0
New property sales, new landbank acquisitions	EV/EBITDA (x)	15.58	14.53	20.57	20.47	16.96
Key risks	Income statement (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Weaker/better-than-expected market conditions	Total turnover	2,116	2,489	2,417	2,573	2,902
	Gross profit	1,316	1,228	1,175	1,249	1,475
Company Profile	EBITDA	885	937	911	955	1,169
IOI Properties (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.	Depreciation and amortisation	(121)	(42)	(54)	(58)	(61)
	Operating profit	765	894	856	897	1,108
	Net interest	50	34	36	38	40
	Pre-tax profit	897	1,078	1,011	1,082	1,304
	Taxation	(438)	(415)	(334)	(357)	(430)
	Reported net profit	456	660	667	714	861
	Recurring net profit	564	686	667	714	861
	Cash flow (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Change in working capital	305	1,095	152	(163)	(493)
	Cash flow from operations	1,611	2,462	1,576	1,285	1,099
	Capex	(940)	(712)	(1,300)	(1,200)	(500)
	Cash flow from investing activities	(1,144)	(1,033)	(5,797)	(1,196)	(495)
	Dividends paid	(179)	(67)	(79)	(165)	(193)
	Cash flow from financing activities	(1,510)	(640)	(749)	(833)	(860)
	Cash at beginning of period	1,577	1,472	1,848	1,767	1,994
	Net change in cash	(1,043)	789	(4,970)	(744)	(256)
	Ending balance cash	534	2,261	(3,122)	1,023	1,738
	Balance sheet (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Total cash and equivalents	1,472	1,848	1,767	1,994	1,761
	Tangible fixed assets	20,604	21,597	27,342	28,484	28,923
	Intangible assets	11	11	11	11	11
	Total investments	4,586	4,486	4,486	4,486	4,486
	Total other assets	152	209	209	209	109
	Total assets	32,900	33,433	38,936	40,620	41,398
	Short-term debt	1,181	334	334	334	334
	Total long-term debt	9,714	10,676	15,676	16,676	16,676
	Total liabilities	13,748	13,714	18,705	19,857	20,037
	Shareholders' equity	18,995	19,558	20,061	20,582	21,167
	Minority interests	157	160	170	181	194
	Total equity	19,152	19,719	20,231	20,763	21,361
	Total liabilities & equity	32,900	33,433	38,936	40,620	41,398
	Key metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Revenue growth (%)	(3.7)	17.6	(2.9)	6.5	12.8
	Recurring net profit growth (%)	(7.5)	21.7	(2.7)	7.0	20.6
	Recurrent EPS growth (%)	(7.5)	21.7	(2.7)	7.0	20.6
	Gross margin (%)	62.2	49.3	48.6	48.5	50.8
	Recurring net profit margin (%)	26.6	27.6	27.6	27.7	29.7
	Dividend payout ratio (%)	14.7	12.0	24.8	27.0	32.0

Source: Company data, RHB

Results At a Glance

Figure 1: Results review

FYE Jun (MYRm)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)	Comments
Turnover	579.0	704.8	737.8	4.7	27.4	1,830.0	1,874.4	2.4	
Prop Dev.	485.2	571.6	605.9	6.0	24.9	1,529.8	1,540.8	0.7	The higher revenue was mainly due to higher work progress in ongoing projects as well as higher number of vacant possession of completed projects as construction activities have been disrupted in the past by multiple lockdowns in Malaysia
Prop Investment	72.4	96.7	99.7	3.1	37.7	229.2	255.5	11.5	The higher revenue was due to the impact of re-opening of economy as well as income from IOI Mall in Xiamen since its commencement of operations on 28 Oct 2021
Leisure & Hospitality	19.1	33.1	30.1	(9.3)	57.4	64.6	70.7	9.4	
Others	2.2	3.4	2.2	(37.0)	(3.7)	6.3	7.4	18.0	
EBIT	208.1	156.8	217.1	38.4	4.3	719.3	586.8	(18.4)	
Prop Dev.	182.3	206.5	171.7	(16.8)	(5.8)	624.0	580.4	(7.0)	
Prop Investment	32.9	(49.4)	61.3	(224.1)	86.3	111.2	36.9	(66.8)	The stronger EBIT was mainly due to lower rental rebate being offered to tenants following the re-opening of the economy
Leisure & Hospitality	(7.5)	(1.2)	(15.9)	1266.4	111.6	(18.5)	(32.3)	74.8	
Others	0.4	0.9	0.0	(98.7)	(97.1)	2.6	1.8	(29.6)	
Net interest	8.1	11.5	(3.4)	(129.8)	(142.5)	24.6	20.0	(18.7)	
Pretax profit	281.4	232.9	237.0	1.7	(15.8)	893.7	730.6	(18.3)	Headline PBT included MYR86m gain on disposal of a parcel of plantation land in 1QFY22, MYR98.4m fair value loss on IOI Mall Xiamen in 2QFY22, and MYR111m write-down for the XiangAn project.
Taxation	(102.5)	(107.6)	(155.1)	44.1	51.3	(349.8)	(314.9)	(10.0)	The higher effective tax rate was due to higher tax rate in China
Minority interest	(0.2)	0.5	(0.3)	(166.8)	69.7	(2.1)	0.4	(120.6)	
Net profit	178.8	125.7	81.6	(35.1)	(54.4)	541.8	416.1	(23.2)	
Core net profit	178.8	224.1	81.6	(63.6)	(54.4)	501.4	429.5	(14.3)	Below expectations
EPS (sen)	3.3	2.3	1.1	(52.8)	(66.8)	9.9	7.2	(27.3)	
Gross DPS (sen)	0.0	0.0	0.0			0.0	0.0		
NTA/share (RM)	3.5	3.6	3.6			3.5	3.6		
EBIT margin (%)	35.9	22.2	29.4			39.3	31.3		
Pretax margin (%)	48.6	33.0	32.1			48.8	39.0		
Tax rate (%)	36.4	46.2	65.5			39.1	43.1		

Source: Company data, RHB

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Figure 2: RNAV estimate

Projects	Land area (acres)	GDV (MYRm)	Effective stake	NPV @ 10% (MYRm)
<u>Malaysia</u>				
Klang Valley:				
16 Sierra	183.0	5,600	100%	343.0
Bandar Puteri Puchong	142.0	12,000	100%	654.3
Bandar Puchong Jaya	8.0	600	100%	47.1
Bdr Puteri Warisan @ Sepang	232.0	3,500	100%	190.3
Bdr Puteri @ Bangi	206.0	5,400	100%	348.7
IOI Resort City	293.0	14,900	100%	664.7
BC Industrial Park, Banting	325.0	2,100	100%	138.0
<u>Johor:</u>				
Kempas Utama	36.0	800	100%	31.1
Bandar Putra Kulai	3,502.0	5,500	100%	265.8
Bandar Putra Segamat	90.0	500	100%	13.6
Taman Legenda Putra, Kulaijaya	27.0	200	100%	8.2
i-Synergy, Senai	265.0	1,800	100%	71.0
Tebrau (ADSB)	37.4	4,500	100%	101.0
<u>Others:</u>				
Desaria, Sg Ara Penang	5.0	200	100%	11.9
Bandar IOI Bahau	28.0	200	100%	13.2
Ayer Keroh, Melaka	1,074.4	4,942	100%	127.5
<u>Singapore</u>				
South Beach	8.6	1,000	50%	23.7
Marina View	1.9	7,750	100%	278.4
Cape Royale @ Sentosa Cove		4,000	65%	67.0
<u>China, Xiamen</u>				
IOI Palm City	1.0	730	100%	43.8
IOI Palm International Parkhouse, XiangAn	1.0	1,250	100%	55.7
<u>Other landbank in Malaysia *:</u>				
		<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	13,560.6	83,479.3		3,497.9
<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 = 899k sqf	627	627	0
IOI Mall Kulai	NLA = 270k sqf	71	71	0
One IOI Square				
Two IOI Square	Office: NLA = 434k sqf	164	164	0
Putrajaya Marriott Hotel	488 rooms	142	142	0
Palm Garden Hotel	151 rooms	44	44	0
IOI City Mall	Retail: NLA = 1.47mil sqf	1,753	1,753	0
IOI Palm City Mall, Xiamen	Retail: NLA = 643k sqf	942	942	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
Sheraton Grand, Xiamen	370 rooms	183	183	0
IOI City Tower 1 & 2 Putrajaya	Office: NLA = 968k sqf	343	343	0
Conezion IOI Resort City	NLA = 925k sqf	313	313	0
Subtotal				0
Total				3,497.9
Shareholders' fund				19,558.4
Total RNAV				23,056.3
Share cap				5,506.1
RNAV/share				4.19
Discount				65%
Intrinsic value				1.47
ESG discount				6%
Target price				1.38

Source: RHB

Recommendation Chart

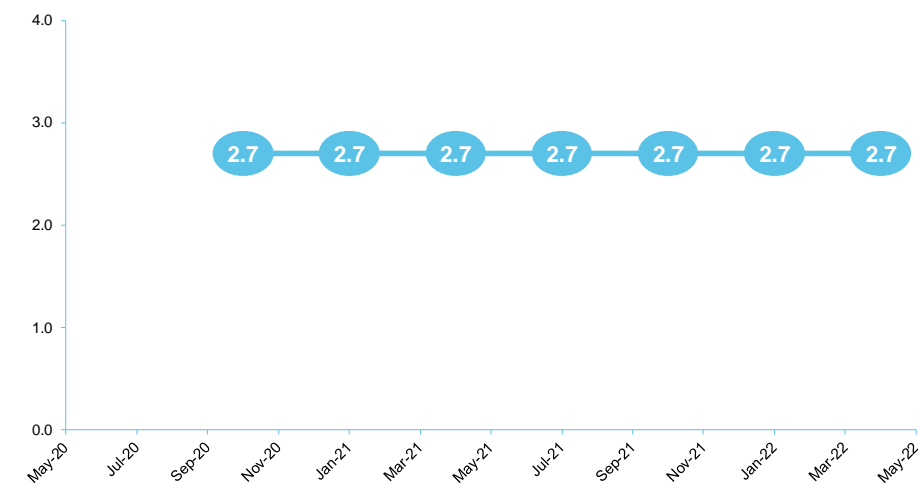


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-02-27	Buy	1.38	1.06
2021-09-29	Buy	1.53	1.21
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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