

30 September 2021

Property | Real Estate

IOI Properties (IOIPG MK)

Buy (Maintained)

Another Sizeable Project In Singapore; BUY

Target Price (Return): MYR1.53 (+26%)
 Price (Market Cap): MYR1.21 (USD1,592m)
 ESG score: 2.70 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.73m/0.17m

- **BUY, new TP of MYR1.53 from MYR1.60, 26% upside with c.3% FY23F (Jun) yield.** We are mildly positive on IOI Properties' successful land tender in Marina View, Singapore. While the residential portion of the project will likely be well-received, given the lack of new launches in the vicinity in recent years, its near-term gearing may rise to 0.65-0.7x from 0.47x currently, as the land will be funded internally and bank borrowings.
- **Another new residential project in Singapore.** IOIPG announced that it has successfully tendered for a parcel of leasehold (99 years) land spanning 7,817 sqm, for a consideration for SGD1.508bn (MYR4.68bn). The land comes with a gross plot ratio of 13x, and is estimated to yield >100,000 sqm of space for 905 private residential units, 540 hotel rooms, and 2,000 sqm GFA in commercial space. The land is located along Marina View and is next to Shenton Way. It is connected to the existing Marina Bay and Downtown MRT stations.
- **Reasonable land cost.** We understand that IOIPG is the only bidder in the tender. The tender consideration translates into a land cost of SGD14,838 psm of GFA (SGD1,379 psf). According to the announcement, three residential land tenders in the vicinity were going at SGD15,697-16,523 psm of GFA in 2019 (the difference was largely due to the GFA allocation for various components, permissible GFA, and land size).
- **Maintaining exposure to the Singapore property market.** The new land will sustain IOIPG's presence in the Singapore property market, following the completion of The Triling in 2017. At our recent meeting, management also shared that its South Beach Residences is already fully sold, so this new land will replenish the company's landbank in Singapore. The site is located close to IOIPG's existing Central Boulevard Towers office development, as well as other amenities such as Marina One, Asia Square, Singapore Conference Hall, Marina Bay Sands etc. Given that the last residential property launch in the vicinity was Marina One Residences in 2014, we think IOIPG's new project should be well-received upon the launch of the residential component, due to pent-up demand in the area.
- **Potentially another GDV of SGD2.5bn.** Based on our estimate, we think the residential portion may yield a GDV of SGD2.2-2.5bn, based on ASPs of SGD2,700-2,800 psf. We maintain our earnings forecasts for now, as the earnings contributions from the initial stage should be minimal. The project is required to be completed in 84 months (or seven years).
- **ESG.** Based on our in-house proprietary methodology, we derived an ESG score of 2.70 for IOIPG. As we incorporate the incremental value of the new land to our RNAV estimate, and based on an unchanged 60% discount to RNAV and 6% ESG discount, our new TP is now MYR1.53.

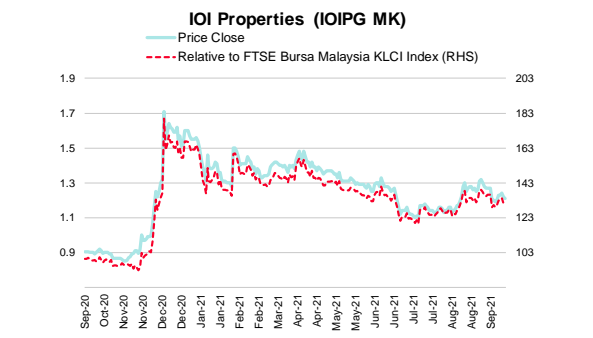
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(21.9)	(4.7)	4.3	(13.6)	33.7
Relative	(16.9)	(2.0)	4.4	(9.6)	30.8
52-wk Price low/high (MYR)	0.85 – 1.71				



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	2,779
Recurring net profit (MYRm)	564	686	700	714	800
Recurring net profit growth (%)	(7.5)	21.7	2.1	1.9	12.0
Recurring EPS (MYR)	0.10	0.12	0.13	0.13	0.15
DPS (MYR)	0.01	0.01	0.03	0.04	0.05
Recurring P/E (x)	11.82	9.71	9.51	9.33	8.33
P/B (x)	0.35	0.34	0.33	0.32	0.32
Dividend Yield (%)	1.0	1.2	2.5	2.9	4.1
Return on average equity (%)	2.4	3.4	3.5	3.5	3.8
Net debt to equity (%)	49.2	46.5	70.1	72.0	70.7

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 an energy intensity reduction target of 8% for FY21-25, with FY20 as the base year.

S: GOOD

IOIPG is a member of the Malaysian Employers Federation, and upholds 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

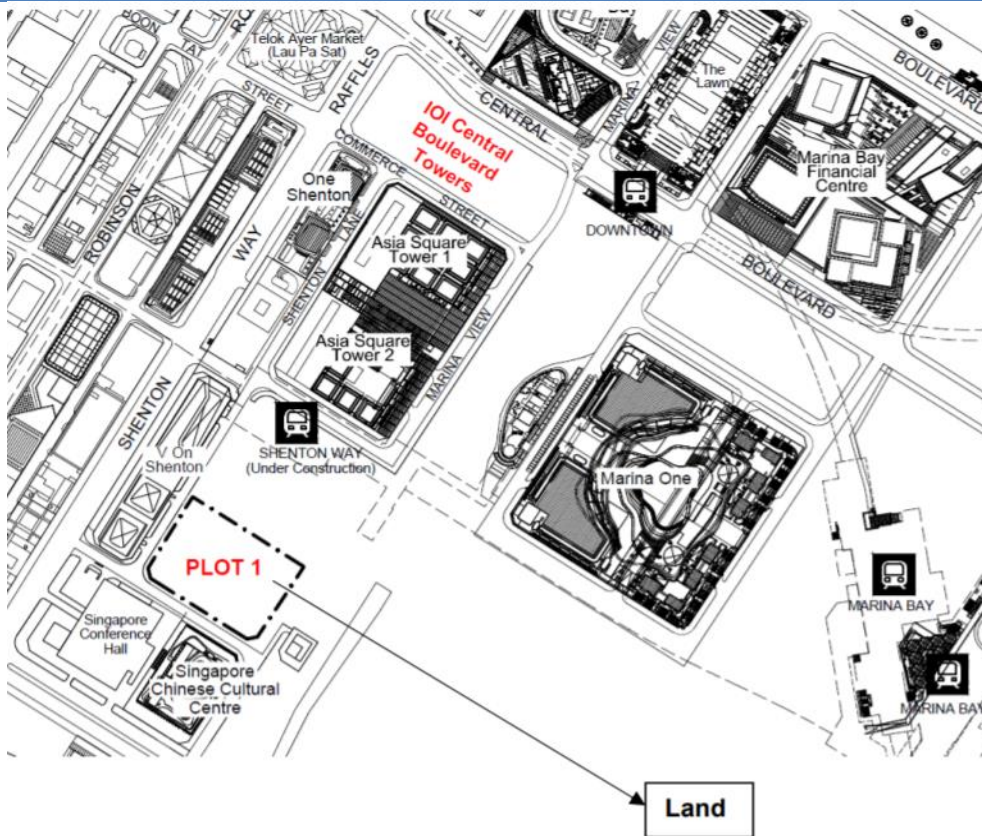
57% of IOIPG's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on a named basis. IOIPG has an in-house investor relations team, but disclosure practices are lagging behind its peers in general.

Financial Exhibits

Asia	Financial summary (MYR)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Malaysia	Recurring EPS	0.10	0.12	0.13	0.13	0.15
Property	EPS	0.08	0.12	0.13	0.13	0.15
IOI Properties	DPS	0.01	0.01	0.03	0.04	0.05
IOIPG MK	BVPS	3.45	3.55	3.65	3.74	3.84
Buy	Return on average equity (%)	2.4	3.4	3.5	3.5	3.8
	Return on average assets (%)	1.4	2.0	1.9	1.8	2.0
Valuation basis						
60% discount to RNAV	Valuation metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Recurring P/E (x)	11.82	9.71	9.51	9.33	8.33
	P/B (x)	0.4	0.3	0.3	0.3	0.3
	Dividend Yield (%)	1.0	1.2	2.5	2.9	4.1
	EV/EBITDA (x)	16.51	15.42	21.46	21.32	19.06
Key drivers						
i. New property sales;						
ii. Acquisition of new land.						
Key risks						
Weaker-than-expected market conditions						
Company Profile						
IOI Properties is a specialised township developer in Malaysia, with anchor projects in Puchong, the Klang Valley and Kulai, Johor. Its overseas exposure includes Xiamen in China, and Singapore.						
	Income statement (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Total turnover	2,116	2,489	2,417	2,573	2,779
	Gross profit	1,316	1,228	1,175	1,249	1,390
	EBITDA	885	937	911	955	1,077
	Depreciation and amortisation	(121)	(42)	(54)	(58)	(61)
	Operating profit	765	894	856	897	1,016
	Net interest	50	34	36	38	40
	Pre-tax profit	897	1,078	1,061	1,082	1,212
	Taxation	(438)	(415)	(350)	(357)	(400)
	Reported net profit	456	660	700	714	800
	Recurring net profit	564	686	700	714	800
	Cash flow (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Change in working capital	305	1,095	152	(163)	(304)
	Cash flow from operations	1,611	2,462	1,559	1,285	1,226
	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	1,800	2,027
	Net change in cash	(1,043)	789	(4,986)	(744)	(129)
	Ending balance cash	534	2,261	(3,138)	1,056	1,898
	Balance sheet (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Total cash and equivalents	1,472	1,848	1,800	2,027	1,921
	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	38,969	40,653	41,303
	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	19,970
	Shareholders' equity	18,995	19,558	20,094	20,615	21,139
	Minority interests	157	160	171	182	194
	Total equity	19,152	19,719	20,265	20,797	21,333
	Total liabilities & equity	32,900	33,433	38,969	40,653	41,303
	Key metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Revenue growth (%)	(3.7)	17.6	(2.9)	6.5	8.0
	Recurring net profit growth (%)	(7.5)	21.7	2.1	1.9	12.0
	Recurrent EPS growth (%)	(7.5)	21.7	2.1	1.9	12.0
	Gross margin (%)	62.2	49.3	48.6	48.5	50.0
	Recurring net profit margin (%)	26.6	27.6	29.0	27.7	28.8
	Dividend payout ratio (%)	14.7	12.0	23.6	27.0	34.4

Source: Company data, RHB

Figure 1: Location of the new land in Marina View



Source: Location & Control Plans (Marina View), Urban Redevelopment Authority

Figure 2: RNAV estimate

Projects	Land area (acres)	GDV (MYRm)	Effective stake	NPV @ 10% (MYRm)
<u>Malaysia</u>				
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, Kulaijaya	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
<u>Singapore</u>				
South Beach	8.6	8,497	50%	233.0
Marina View	1.9	7,750	100%	322.3
Cape Royale @ Sentosa Cove		4,000	65%	67.8
<u>China, Xiamen</u>				
IOI Palm City	13.0	2,000	100%	121.0
IOI Palm International Parkhouse, Xia	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	13,471.8	84,715.6		3,416.6
<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 = 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				
Two IOI Square	Office: NLA = 441k sqf	209	209	0
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				3,416.6
Shareholders' fund				18,995.1
Total RNAV				22,411.7
Share cap				5,506.1
RNAV/share				4.07
Discount				60%
Intrinsic value				1.63
ESG discount				6%
Target price				1.53

Source: Company data, RHB

Recommendation Chart

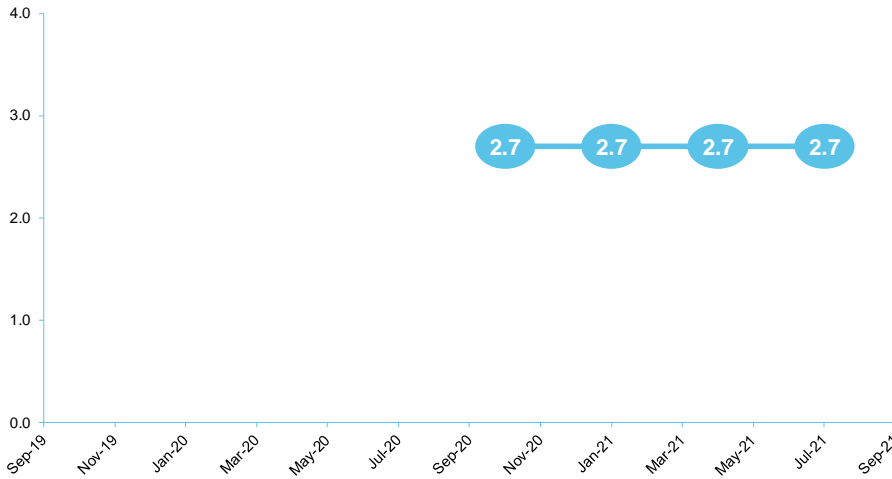


Source: RHB, Bloomberg

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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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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