

Eco World Development (ECW MK)

Keeps its leading position

Getting back on its feet

We visited ECW's projects in Puncak Alam and Semenyih. We are impressed by how ECW transforms the areas as well as the management team's creativity (new products such as *Co-Home* and *Ergo Home*) and continuous efforts in enhancing the marketability and value of its townships. ECW is looking to improve its profitability via its mature townships. ECW was able to weather the pandemic and now boasts a stronger balance sheet (0.44x net gearing in end 4Q21 vs. peak of 0.79x in 1Q19). We maintain our earnings forecasts and MYR0.93 TP (on 0.6x FY22 PBV). HOLD.

First of its kind

We recently visited *Ergo Home* at Eco Forest, Semenyih and *Co-Home* at Eco Grandeur, Puncak Alam. We are impressed by these two first-of-its-kind products in Malaysia that are providing first-time home buyers a decent living environment at more affordable pricing and flexibility, as well as providing an alternative to the existing traditional property products. Both *Ergo Home* and *Co-Home* are receiving robust responses with average take-up rate of 80-90%.

Reaping the fruits from mature townships

ECW has been spending huge capex on infrastructure, landscaping, marketing and land costs over the last few years, especially in the early days of establishment, and this had led to a stretched balance sheet (peak: 0.79x in 1Q19). However, as most of its townships are maturing (where major infrastructure works are completed), ECW is looking to improve its profitability with greater focus on products with higher margins.

Maintain earnings forecasts

While most developers were being conservative and focusing on clearing inventories/launching traditional housing products during the pandemic, ECW stepped up ahead of the curve and introduced innovative new products to the market, demonstrating its creativity and retaining its position as a market leader. Nevertheless, we maintain our HOLD rating on ECW as share price has already priced in most of the positives at this juncture, we believe. ECW currently trades at 0.5x/0.4x PBV/ PRNAV.

FYE Oct (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,997	2,043	3,112	3,509	3,873
EBITDA	182	266	402	446	464
Core net profit	265	231	257	289	312
Core EPS (sen)	9.0	7.8	8.7	9.8	10.6
Core EPS growth (%)	30.3	(12.8)	11.1	12.6	7.8
Net DPS (sen)	2.0	4.0	3.5	3.9	4.2
Core P/E (x)	4.2	13.0	10.4	9.2	8.5
P/BV (x)	0.2	0.6	0.5	0.5	0.5
Net dividend yield (%)	5.3	3.9	3.9	4.3	4.7
ROAE (%)	3.5	3.9	5.3	5.8	6.1
ROAA (%)	2.5	2.3	2.5	2.6	2.6
EV/EBITDA (x)	21.9	19.2	11.2	9.8	9.2
Net gearing (%) (incl perps)	61.6	44.0	37.6	33.9	30.5
Consensus net profit	-	-	231	215	217
MKE vs. Consensus (%)	-	-	11.2	34.5	43.7

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HOLD

Share Price MYR 0.91
12m Price Target MYR 0.93 (+3%)
Previous Price Target MYR 0.93

Company Description

Eco World Development is principally involved in the property development business.

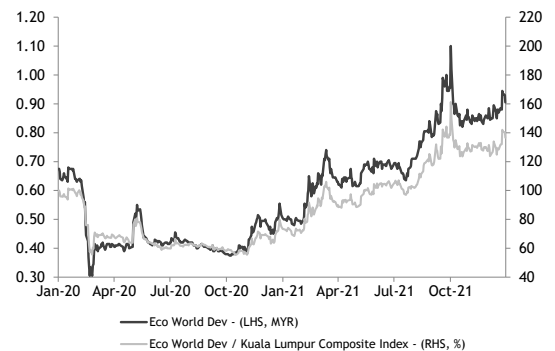
Statistics

52w high/low (MYR)	1.10/0.48
3m avg turnover (USDm)	1.3
Free float (%)	28.2
Issued shares (m)	2,944
Market capitalisation	MYR2.7B USD636M

Major shareholders:

Syabas Tropikal Sdn. Bhd.	32.9%
LIEW KEE SIN	9.4%
Eco World Development Holdings Sdn. Bhd.	7.7%

Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(4)	76
Relative to index (%)	5	(0)	82

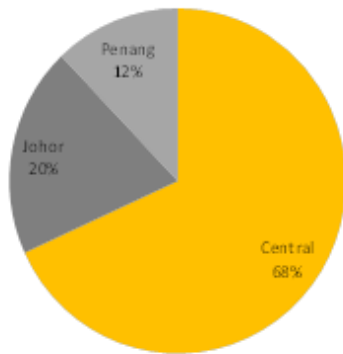
Source: FactSet

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Tear Sheet Insert

Value Proposition

- Management is led by former SP Setia executives with experience in township and commercial to high-rise integrated mixed developments in Malaysia and overseas.
- 68% of the GDV is derived from its Klang Valley projects, followed by Iskandar Malaysia (20%) and Penang (12%).
- Margins are low since most of ECW's land was purchased during the peak of property cycle.

GDV (MYR62.5b as at Oct 2021) breakdown by location



Source: Company

Price Drivers

Historical share price trend



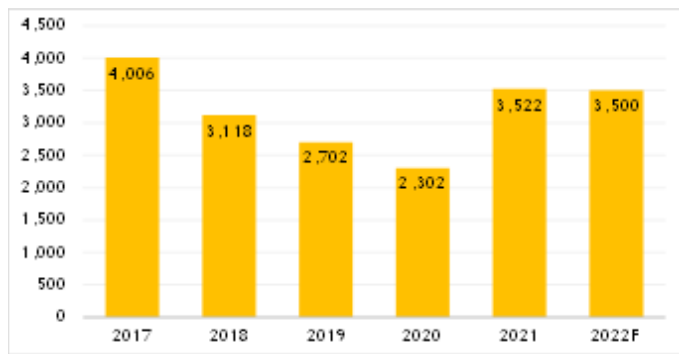
Source: Company, Maybank IBG Research

- 2018: Sell-down on property stocks pre-GE14.
- Oct 2018: Failed to meet FY18 sales target.
- 2020: Khazanah, via UEM Group (UEMG, Not Listed), has proposed to merge ECW with UEMS (UEMS, CP MYR0.435, HOLD, TP MYR0.49) via a share swap at an issue price of MYR0.443/sh for UEMS in exchange for all ECW shares at an exchange price of MYR0.469/sh (source: Bursa Malaysia).
- Jan 21: ECW has decided not to pursue the proposed merger with UEMS (source: Bursa Malaysia).
- 2021: Pre-Budget 2022 rally.

Financial Metrics

- ECW does not have a dividend payout policy.
- Net gearing improved to 0.44x as at end 4QFY21 (from 0.51x in end 3QFY21).
- Expect gearing to improve gradually as its development projects mature.

ECW's historical sales trend (MYRm)



Source: Company

Swing Factors

Upside

- Potential RNAV-accretive land acquisitions.
- Stronger-than-expected take-ups for its ongoing and new projects.
- Better-than-expected operating margins on cost cutting measures.

Downside

- A prolonged slowdown in the property sector.
- Weaker-than-expected operating margins on higher marketing expenses.
- Its international projects (via its associate company) are subject to currency and country risks.
- High gearing level may result in equity fund raising which may lead to the dilution in earnings.

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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- ECW is one of the leading developers in Malaysia. Its property projects are spread across the country i.e. Klang Valley, Penang and Johor, and it had 1,373 employees in 2020. As at Oct 2021, it has remaining landbank of 4,296.1 acres worth MYR62.5b in GDV. With more than 15 ongoing development projects, ECW is exposed to some ESG risks, including bribery and corruption.
- ECW had started adopting six of the seventeen United Nations Sustainable Development Goals (UNSDGs) back in 2017. In 2020, it added another two UNSDGs. ECW was included in the FTSE4Good Bursa Malaysia (F4GBM) Index in Dec 2020.
- To ensure better corporate governance, ECW has established its Anti-Bribery and Anti-Corruption Policy in line with Section 17A of the Malaysian Anti-Corruption Commission Act 2009 which was enforced in June 2020. The ABC Policy reinforces ECW's zero tolerance on bribery and corruption. It has also established a comprehensive Whistleblowing Policy and procedure. ECW will conduct regular internal and external reviews to check the effectiveness of mitigative measures to eradicate bribery and corruption across the group.

Material E issues

- ECW aims to install at least one electric vehicle charging station at every ECW sales gallery or clubhouse. In 2020, 80% of its sales galleries and clubhouses had installed at least one electric vehicle charging station.
- ECW monitors Scope 2 greenhouse gas (GHG) emissions. In FY20, it generated 1,365 tonnes of Co2 compares to 1,998 tonnes in FY19. It managed to reduce the GHG emissions by 0.04 tonne CO2 psm (36% from FY19) thanks to electricity minimisation initiatives conducted at its offices and sales galleries as well as a period of inactivity during the MCO.
- ECW has also targeted to allocate at least 15% of total area to be developed to green areas. In FY20, it has achieved its target where 27% of all its developments have been allocated to green areas.
- To reduce environmental impacts, ECW is using green building materials. Also, it has embedded its products with energy and water saving features.

Material S issues

- ECW's workforce consists of 44% women, while there is 45% women representation in Senior Management.
- Zero reported injuries incidents for 15,623,301 man-hours worked in 2020. Also, ECW has recorded an average training hours per staff of 22.4 (-8% YoY).
- ECW has Students Aid Programme that provided monetary assistance to about 3,000 students from primary, secondary and tertiary educational institutions in FY20. Eco World Foundation continues to support the *Orang Asli* community by providing educational assistance. It worked with *Persatuan Kebajikan Suara Kanak-kanak Malaysia (SUKA)*, a NGO, to ensure Orang Asli children have access to education despite socioeconomic challenges faced.

Key G metrics and issues

- There are 12 members on ECW's board comprising of 1 Executive Chairman, 3 Executive Directors (including CEO), 2 Non-independent Non-Executive Director (NINED) and 6 Independent Non-Executive Director (INED).
- In terms of board gender and diversity, 3 of the 12 board members are female (25% of board members) and 4 are bumiputera.
- ECW has been audited by Messrs Baker Tilly Monteiro Heng PLT since 2015.
- The cumulative remuneration of the board members (MYR10m) represented 7% of ECW's net profit in FY20 (FY19: 10%). The -53% YoY decline was in line with ECW's cost rationalisation exercise implemented group-wide.
- Audit committee is made up of 4 INEDs. Its nomination and remuneration committees comprise 4 INEDs and 3 INEDs, respectively while Whistleblowing Committee comprises 1ED and 2 INEDs.

ECW has 27% stake in the listed Eco World International (ECWI MK; TP: MYR0.43; HOLD), which has property projects in UK and Australia. ECW and ECWI are managed by two separate management teams. There have been no questionable related-party transactions since the listing of ECWI in April 2017. However, ECW has reported a MYR57.3m impairment of investment in ECWI in its 4QFY10/21 financial results.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

The first of its kind in Malaysia

We recently visited two innovative products by ECW at Semenyih and Puncak Alam. These products, namely *Ergo Home* at Eco Forest and *Co-Home* at Eco Grandeur projects, are considered as the first and new type of property products in Malaysia. These products, which are priced from MYR460-600k/unit, are targeting on the first-time home buyers.

***Ergo Home* at Eco Forest, Semenyih**

Ergo Home @ Eco Forest was first launched by ECW back in 2020 and the product is well received with average take up rate of 90% for the two phases (phase 1: from MYR500k/unit onwards, fully sold; phase 2: from MYR600k/unit onwards, 85%-sold; built-up: 1,833 sq.ft. to 2,290 sq.ft.).

Ergo Home is a 2-storey cluster terraced house development under Eco Forest's second precinct called Hazelton. The product is a first of its kind development in Malaysia with a concept that puts a fresh spin to terraced living. Unlike the traditional terrace houses, the unique "L" shape design makes every unit a corner unit and each cluster will have four units. The concept means that every home will have its own private garden and sharing one common backyard area. Apart from that, *Ergo Home* provides flexibility with open plan layout where buyers can convert/change the unit's layout (for instance, buyers can convert the "passion" areas on ground and first floor into working/kid room) to fit their lifestyle and needs.

***Co-Home* at Eco Grandeur, Puncak Alam**

Co-Home was launched in Eco Grandeur and Eco Horizon in early 2021. The product, which is currently 80% sold (price from MYR460k/unit onwards), is located within the 81-acre Regent Garden residential collection of Eco Grandeur township. *Co-Home* stands for co-creation home, and is inspired by the co-living trend. It has similar concept as townhouse but only up to two storeys with four side-by-side covered car park lots right in front of each house. In essence, it is a single-level of a double-storey terraced house or a double-storey terraced house that split into two units, making it a product that provides a landed living lifestyle but at a more affordable pricing. Apart from being more affordable, *Co-Home* is also ideal for multi-family/ multigenerational needs as families can acquire side-by-side units or ground-first floor units.

We are impressed by ECW's innovation and creativity. While most of the developers were acting conservatively and focusing on clearing inventories/launching traditional bread and butter housing products during the pandemic, ECW stepped up ahead of the curve and introduced innovative new products to the market. This has again demonstrated the management team's capability and creativity. In our view, this should further strengthen its position as a market leader.

First LaLaport mall in Southeast Asia opens in KL

Elsewhere, the retail mall namely Lalaport at Bukit Bintang City Centre (BBCC) project has commenced its operation on 20 January. Mitsui Fudosan Co Ltd, the JV partner owns 50% stake in the mall while the remaining stake is held by BBCC Development S/B (40:40:20 ECW: UDA: EPF). The approximately 850,000 sq.ft. mall is c.70%-tenanted with 20% of the retail lots to be opened in Jan 2022 while the remaining to be opened progressively over the next few months. We were told that 30% of the NLA are occupied by Japanese stores including NOTORI, Nojima, JONETZ by DON DON DONKI and Star Child. Given the challenging operating conditions due to Covid 19 and the over-supplied retail market, we do not expect the mall to contribute significantly to ECW over the medium term. It is more to enhance the marketability and saleability of the BBCC project, in our view.

Valuation and recommendation

ECW has proposed to undertake a bonus issue of warrants on the basis of one (1) new warrant for every five (5) existing ECW shares after its existing warrants (525m at MYR2.08 exercise price; out-of-the money) expire on 25 Mar 2022. This would involve an issuance of 589m-694m new warrants. Exercise price of the new warrants and entitlement date will be announced later after the expiry of the existing warrants. Assuming an exercise price of MYR1 for the new warrant and no exercise of the existing warrants (which will be expired on 25 Mar 2022), we expect the full conversion of the new warrants to dilute our RNAV estimate by 9-10%.

No change to our earnings forecasts for now. Losses from its 27%-owned Eco World International [ECWI MK; TP: MYR0.43; HOLD; estimated net losses of MYR22m/21m/58m in FY22/23/24] due to the lack of new projects and en-bloc sales of build-to-rent (BtR) units as well as lower operating margin on higher discounts offered to clear inventories in London should be offset by the Malaysia property businesses, we expect. Most of the positives should have already reflected in share price and hence, we are keeping our HOLD rating unchanged.

Site visit at Eco Forest, Semenyih on 13 Jan 2022

Figure 1: Ergo Home at Eco Forest



Source: Maybank IBG Research

Figure 2: The “L” shape design makes every unit a corner unit



Source: Maybank IBG Research

Figure 3: Every unit share a common yard area



Source: Maybank IBG Research

Figure 4: Flexible open layout plan



Source: Maybank IBG Research

Site visit at Eco Grandeur, Puncak Alam on 14 Jan 2022

Figure 5: Eco Grandeur’s master plan



Source: Maybank IBG Research

Figure 6: Co-Home priced from MYR464k/unit onwards



Source: Maybank IBG Research

Figure 7: Co-Home show unit



Source: Maybank IBG Research

Figure 8: Garden Home, another popular product by ECW. The design makes each terrace house like a semi-D



Source: Maybank IBG Research

Fig 9: Eco World Development Group: RNAV estimate

	Projects	Stake (%)	NPV (MYRm) @ 20-30% discount rate
	<u>Klang Valley</u>		
1	Eco Sanctuary, Kota Kemuning	100%	425.2
2	Eco Sky, Jalan Ipoh	100%	2.2
3	Eco Majestic	100%	451.6
4	Eco Forest	100%	119.7
5	BBCC	40%	65.9
6	Eco Ardence	50%	179.0
7	Eco Grandeur	60%	186.1
8	Eco Business Park V	60%	77.6
	<u>Iskandar Malaysia</u>		
9	Eco Tropics, Kota Masai	100%	122.7
10	Eco Business Park III, Kota Masai	100%	70.6
11	Eco Botanic, Nusajaya	100%	125.4
12	Eco Spring, Tebrau	100%	313.1
13	Eco business Park 1, Tebrau	100%	160.6
14	Eco Business Park II, Senai	100%	115.3
15	Eco Botanic extension	100%	61.4
	<u>Penang</u>		
16	Eco Terraces, Paya Terubong	100%	4.3
17	Eco Meadows, Seberang Prai	100%	18.7
18	Eco Macalister, George Town	100%	9.5
19	Eco Horizon & Eco Sun	60%	120.2
	Total:		2,628.8
	27% stake in EWI		(479.5)
	Shareholders' funds as at end-Oct 2021 (MYRm)		4,765.3
	Warrant proceeds (MYRm) (1 warrant-for-1 share; expiring in 2022)		1,092.8
	Total RNAV (a):		8,007.5
	Number of shares (m)		2,944.4
	Number of outstanding warrants (m)		525.4
	FD number of shares (m) (b)		3,469.8
	FD RNAV/Sh		2.31

Source: Company, Maybank IBG Research

FYE 31 Oct	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	9.4	10.1	10.4	9.2	8.5
Core P/E (x)	4.2	13.0	10.4	9.2	8.5
P/BV (x)	0.2	0.6	0.5	0.5	0.5
P/NTA (x)	0.2	0.6	0.5	0.5	0.5
Net dividend yield (%)	5.3	3.9	3.9	4.3	4.7
FCF yield (%)	25.9	25.4	16.0	8.6	8.7
EV/EBITDA (x)	21.9	19.2	11.2	9.8	9.2
EV/EBIT (x)	21.9	19.2	11.5	10.0	9.4
INCOME STATEMENT (MYR m)					
Revenue	1,996.7	2,042.8	3,111.6	3,508.5	3,872.6
EBITDA	181.6	266.0	402.0	445.8	463.9
Depreciation	0.0	0.0	(9.7)	(10.3)	(10.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	181.6	266.0	392.3	435.5	453.2
Net interest income / (exp)	(138.7)	(112.0)	(99.5)	(94.3)	(91.8)
Associates & JV	153.5	142.7	45.0	39.3	49.0
Exceptionals	0.0	(57.3)	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	196.4	239.3	337.9	380.5	410.3
Income tax	(36.3)	(56.6)	(81.1)	(91.3)	(98.5)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	160.2	182.7	256.8	289.2	311.8
Core net profit	265.0	231.1	256.8	289.2	311.8
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	456.4	784.7	1,044.2	1,167.6	1,282.3
Accounts receivable	849.6	631.7	962.2	1,085.0	1,197.6
Inventory	710.2	609.0	927.6	1,045.9	1,154.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	185.0	166.5	342.3	359.3	374.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	2,234.5	2,374.2	2,374.2	2,374.2	2,374.2
Other assets	5,890.8	5,183.2	5,274.4	5,465.6	5,667.6
Total assets	10,326.5	9,749.3	10,924.8	11,497.6	12,050.9
ST interest bearing debt	2,050.4	1,566.8	1,566.8	1,566.8	1,566.8
Accounts payable	1,041.1	975.0	1,485.2	1,674.7	1,848.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,266.0	1,313.2	1,313.2	1,313.2	1,313.2
Other liabilities	1,324.0	1,129.0	1,677.0	1,887.0	2,079.0
Total Liabilities	5,681.4	4,984.0	6,042.1	6,441.3	6,807.5
Shareholders Equity	4,645.2	4,765.3	4,882.8	5,056.3	5,243.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	4,645.2	4,765.3	4,882.8	5,056.3	5,243.4
Total liabilities and equity	10,326.5	9,749.3	10,924.8	11,497.6	12,050.9
CASH FLOW (MYR m)					
Pretax profit	196.4	239.3	337.9	380.5	410.3
Depreciation & amortisation	0.0	0.0	9.7	10.3	10.8
Adj net interest (income)/exp	(154.1)	(136.9)	(99.5)	(94.3)	(91.8)
Change in working capital	476.0	942.2	384.2	142.7	130.9
Cash taxes paid	(35.7)	(56.1)	(81.1)	(91.3)	(98.5)
Other operating cash flow	35.9	(17.7)	0.0	0.0	0.0
Cash flow from operations	518.5	970.9	506.1	308.5	312.6
Capex	(113.8)	(101.4)	(80.0)	(80.0)	(80.0)
Free cash flow	289.9	761.9	426.1	228.5	232.6
Dividends paid	0.0	(117.8)	(117.8)	(102.7)	(115.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(463.0)	(436.4)	0.0	0.0	0.0
Other invest/financing cash flow	(58.3)	(59.9)	(48.9)	(2.4)	(2.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(116.7)	255.4	259.5	123.4	114.7

FYE 31 Oct	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(18.9)	2.3	52.3	12.8	10.4
EBITDA growth	(19.6)	46.5	51.2	10.9	4.1
EBIT growth	(19.6)	46.5	47.5	11.0	4.0
Pretax growth	(26.2)	21.8	41.2	12.6	7.8
Reported net profit growth	(21.3)	14.1	40.5	12.6	7.8
Core net profit growth	30.3	(12.8)	11.1	12.6	7.8
Profitability ratios (%)					
EBITDA margin	9.1	13.0	12.9	12.7	12.0
EBIT margin	9.1	13.0	12.6	12.4	11.7
Pretax profit margin	9.8	11.7	10.9	10.8	10.6
Payout ratio	36.8	64.4	40.0	40.0	40.0
DuPont analysis					
Net profit margin (%)	8.0	8.9	8.3	8.2	8.1
Revenue/Assets (x)	0.2	0.2	0.3	0.3	0.3
Assets/Equity (x)	2.2	2.0	2.2	2.3	2.3
ROAE (%)	3.5	3.9	5.3	5.8	6.1
ROAA (%)	2.5	2.3	2.5	2.6	2.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	2.0	1.8	1.8	1.8
Net gearing (%) (incl perps)	61.6	44.0	37.6	33.9	30.5
Net gearing (%) (excl. perps)	61.6	44.0	37.6	33.9	30.5
Net interest cover (x)	1.3	2.4	3.9	4.6	4.9
Debt/EBITDA (x)	18.3	10.8	7.2	6.5	6.2
Capex/revenue (%)	5.7	5.0	2.6	2.3	2.1
Net debt/ (net cash)	2,860.0	2,095.3	1,835.9	1,712.5	1,597.7

Source: Company; Maybank

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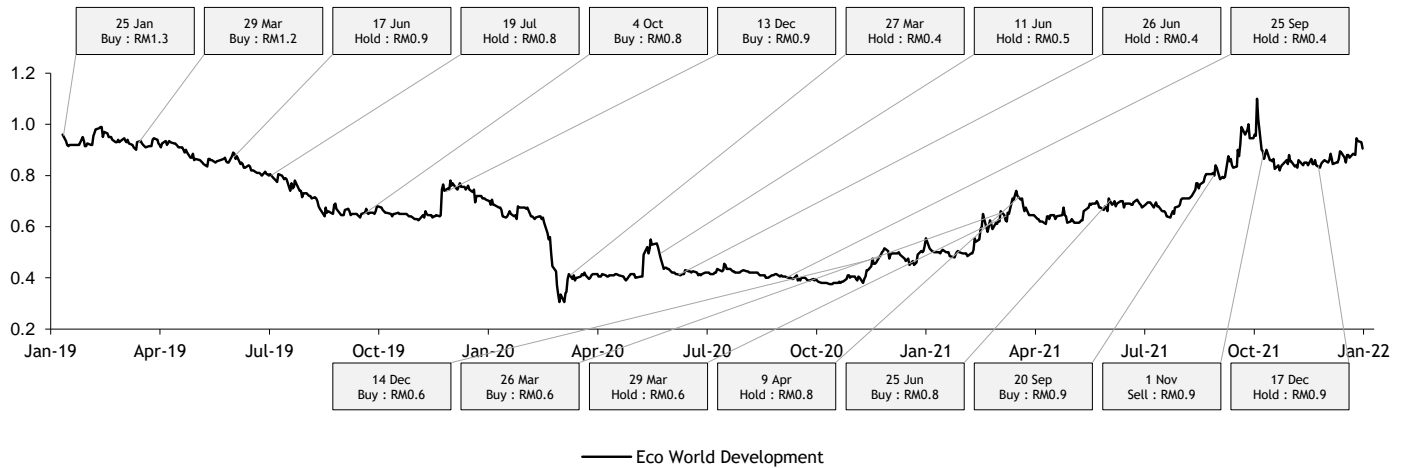
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