

PP14767/09/2012(030761)

## Eco World Development Berhad

## “Time to Perform”

We attended Eco World Development Bhd (ECW) analyst briefing recently and returned with a positive view on the company. The management shared their YTD May 2015 sales of RM1.2 billion has met 40% of its FY15 sales target of RM3 billion. Hence, the outlook of the group remains convincing despite the slowdown in property market due to the buyers “wait and see” stance due to the GST implementation as well as tighter lending environment by Malaysia’s financial institutions. ECW is now ready to fly high, replicating SP Setia success story, especially with the completion of its restructuring and fund raising exercise.

Followings are the gist of the briefing:

- **Higher revenue and PBT recognition.** ECW recorded strong revenue and PBT growth in 2Q15 of RM417.8 million and RM1.7 million respectively, mainly resultant from full quarter profit recognition from the newly acquired of the development rights to 8 projects pursuant to the corporate exercise announced on the 25 April 2014 where has become unconditional on 8 January 2015, as opposed to only 1 month recognition in the preceding quarter (1Q15). Effective 8 January 2015, onwards, ECW will recognize full revenue and profit generation from these projects which have commenced active development and sales launches that held under Eco World Sdn Bhd (EWSB).
- The on-going projects which have contributed to the profit and revenue during the quarter under review include 1) Eco Majestic, Eco Sky and Saujana Glenmarie in Klang Valley; and 2) Eco Botanic, Eco Spring, Eco Summer and Eco Business Park 1 and Eco Tropics in Iskandar Malaysia. The management highlighted that the group have raked-in RM634.4 million sales in 2Q15 of which RM331.9 million came from projects in Klang Valley and

Monday, June 22, 2015

## UNDER REVIEW (TP: TBD)

Current Price (RM)	RM1.56
New Target Price (RM)	TBD
Previous Target Price (RM)	NA
Previous Recommend.	NA
Upside To Target Price	NA
Dividend Yield (FY15F)	TBD

## Stock Code

Bloomberg	ECW MK
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## Stock &amp; Market Data

Listing	MAIN MARKET	
Sector	Property	
Shariah Compliance	Yes	
Issued Shares (mn)	2,364	
Market Cap (RM mn)	3,688	
YTD Chg In Share Price	-9.5%	
Beta (x)	2.75	
52-week Hi/Low (RM)	RM2.25	RM1.43
3M Average Volume ('000 shares)	2,450	
Estimated Free Float	16.7%	

## Major Shareholders

Eco World Development	32.07%
Sinarmas Harta Sdn Bhd	25.60%
Liew Tian Xiong	11.27%

the remaining RM302.6 million from Iskandar Malaysia projects.

- Cumulative YTD sales achieved.** ECW managed to rake-in RM1.187 billion in property sales in YTD 31 May 2015 which accounted 40% of ECW's internal target of RM3 billion for FY15, of which 52.5% or RM622.8 million came from projects in Klang Valley whilst the remaining 47.5% or RM563.8 million from Iskandar Malaysia. In term of the number of units sold, 1,311 units or 83% of property were sold on the back of 1,586 units offered in property launches during the first 7 months FY2015 period. The bulk of sales came from Klang Valley where Eco Majestic Township in Semenyih achieved cumulative sales of more than RM1 billion in less than 12-months from its maiden launch in May 2014. The management believed that the exceptional performance would continue following the opening of the "Red Carpet" Bridge linking Eco Majestic to Exit 2102 of the LEKAS Highway. The management is also optimistic on its Iskandar Malaysia projects where sales from local buyers, business owners, Singapore-based SMEs and MNCs, according to them, continued unabated. The Group has opened EcoWorld Gallery@Singapore in St. Martin's Drive on May 2015 to better serve its growing Singaporean customer-base coupled with increased opportunities to reach out to a much wider international audience. We are of the view that these aggressive move will bear fruits given their reputable management team and focus in landed residential township and business park segments which will benefit from resilient demand.
- Target sales remain robust.** The group is targeting pre-sales revenue of RM3 billion and RM4 billion respectively for financial year 2015 and 2016 arm with 4 new projects in Klang Valley, Penang and Johor that focus more on landed residential and business park except for Penang. We are of the view that sales will pick-up in 2H15, judging from the fact that bulk of FY15 launches took place in the 2HFY15, such as on June 2015; i.e. Eco Sanctuary project - the luxury township in Klang Valley features landed properties, Eco Business Park3 and Eco Tropics in Iskandar Malaysia, and Eco Terraces in Penang that were well taken-up. With the 10 on-going projects and strong pipeline of upcoming projects to be launched within next 2-years, the management is confident to achieve its RM3 billion sales target for FY15 and RM4 billion sales for FY16.
- SPAC deal scrapped.** ECW will scrap the Eco World International (EWI) SPAC listing as initially planned; instead go for an IPO listing via market capitalisation method where application is expected within the next 3 months and listing target by the end of the year, as its intend to list its overseas projects in London and Australia. The IPO aims to raise a higher sum of RM2.0 billion as oppose to RM1.5 billion initially from the SPAC. Under the proposed corporate exercise, ECW is still interested to take up a 30% stake in EWI.
- Replicating SP Setia success story.** Despite unfavourable property market environment, ECW's management is confident that they may be able to rake in RM3 billion in property sales in 2015. In-line with that, we are confident on ECW given the management capability in delivering their KPI, judging by the past records and successful management of SP Setia. We believe ECW is on-course to replicate the success story of SP Setia as ECW management team is currently led by former SP Setia directors and executives with rich of experience in local and international property market. Among the prominent name that shifted to ECW were Tan Sri Liew (former SP Setia CEO), Datuk Chang Kim Wah, Dato' Eddy Leong Kok Wah and Tan Sri Abdul Rashid. We

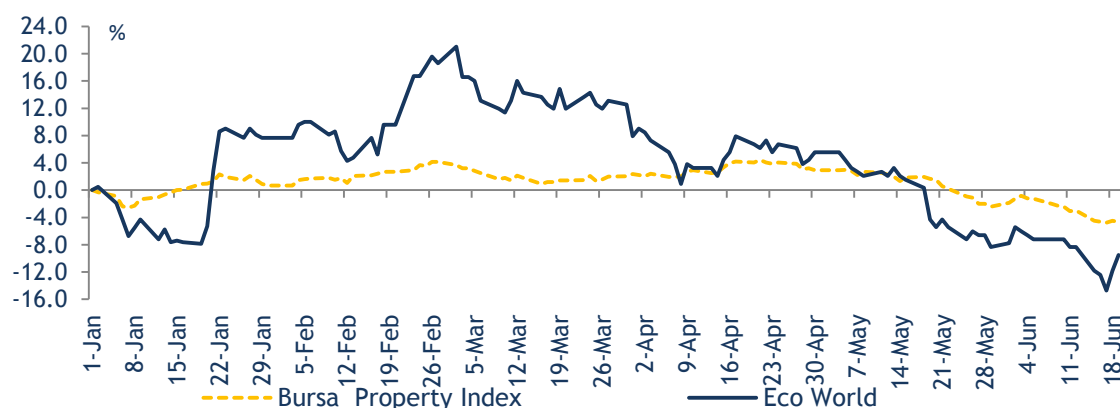
believe the entire name will transfer their skills in SP Setia to ECW as we gathered not only top management migrating to ECW, but also several hundred staffs have already joined ECW. Furthermore, most of ECW's projects are earmarked for township developments and set to continue to use "eco" features in its developments that was introduced by ECW's top management during their stint in SP Setia.

- **View and valuation.** Although ECW share price has been quite volatile off-late due to hiccups in SPAC listing as well as weaker-than-expected property sales, we are positive and interested in the company given its long-term prospect due to aggressive expansion plan and business model, apart from their reputable management team. Our earnings estimates and target price will be determined in due course pending our assessment on the Group's earning and business prospect moving forward in the up-coming report.

Table 1: Result Review

FYE 31 October (RM' Million)	1Q15	2Q15	q-o-q	1H15
Revenue	158.0	417.8	164%	575.8
Gross Profit	39.4	102.8	161%	142.2
Other Operating Income	1.5	7.9	414%	9.4
Selling & Marketing Expenses	-19.5	-35.3	81%	-54.8
Administrative Expenses	-12.3	-47.9	291%	-60.2
Finance Costs	-3.55	-9.73	174%	-13.28
Profit before Tax	5.64	17.70	214%	23.31
Taxation	-2.7	-5.9	119%	-8.5
Net Profit	3.0	11.8	298%	14.8
Basic Earnings per Share (Sen)	0.60	0.79	32%	1.50
Net Gearing/cash (x)	0.5	1.7		2.2
Gross Profit Margin (%)	24.9	24.6		24.7
PBT Margin (x)	3.6	4.2		4.0
Net Profit Margin (%)	1.9	2.8		2.6

Source: Company, Bursa Malaysia, M&A Securities

KLCI Property Index vs. ECW  
(YTD Performance 2015)

Source: Bloomberg, M&A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

<b>BUY</b>	Share price is expected to be $\geq +10\%$ over the next 12 months.
<b>TRADING BUY</b>	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
<b>HOLD</b>	Share price is expected to be between $-10\%$ and $+10\%$ over the next 12 months.
<b>SELL</b>	Share price is expected to be $\geq -10\%$ over the next 12 months.

## SECTOR RECOMMENDATIONS

<b>OVERWEIGHT</b>	The sector is expected to outperform the FBM KLCI over the next 12 months.
<b>NEUTRAL</b>	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
<b>UNDERWEIGHT</b>	The sector is expected to underperform the FBM KLCI over the next 12 months.

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