

Eco World Development (ECW MK)

Proposed bonus issue of warrants

Rewarding shareholders with free warrants

We are neutral on ECW's latest corporate exercise. The proposed 1-for-5 bonus issue of warrants (≈589m), which is slated to be completed by 1H22 after the expiring of its existing warrants (525m), will likely dilute our RNAV estimate by 9-10% assuming an exercise price of MYR1/warrant. We maintain our earnings forecasts and MYR0.93 TP (on an unchanged 0.6x FY22 PBV) for now pending more information. Reiterate HOLD.

Proposed bonus issue of warrants

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. The corporate exercise is slated to be completed by 1H22.

Rationale for the corporate exercise

The proposed bonus issue of warrants (≈589m) is meant to reward its existing shareholders since its existing warrants (2015/2022) are out-of-the money and are unlikely to be converted, we believe. Apart from that, the proposed bonus issue of warrants will strengthen ECW's financials as the proceeds raised from the exercise of the new warrants can be used as working capital.

Potential dilution to our RNAV estimate

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%. We maintain our earnings forecasts, MYR0.93 TP and MYR2.31 RNAV/sh pending further information from ECW. ECW will now focus on enhancing value with the aim of improving profitability by introducing products with higher margins on the increasing maturity of its landbank and projects. It has set a MYR3.5b sales target for FY22.

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	10.1	9.0	8.4
P/BV (x)	0.2	0.6	0.5	0.5	0.5
Net dividend yield (%)	5.3	3.9	3.9	4.4	4.8
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	11.0	9.7	9.1
Net gearing (%) (incl perps)	61.6	44.0	37.6	33.9	30.5
Consensus net profit	-	-	237	217	215
MKE vs. Consensus (%)	-	-	8.4	33.6	45.4

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HOLD

Share Price	MYR 0.89
12m Price Target	MYR 0.93 (+5%)
Previous Price Target	MYR 0.93

Company Description

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

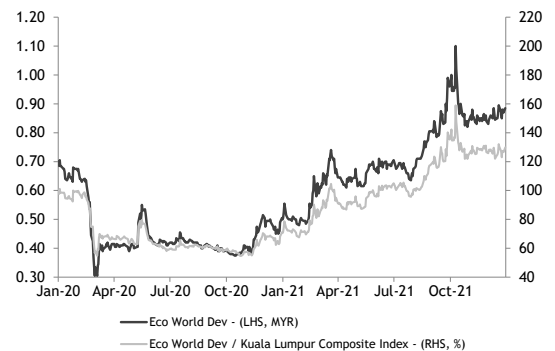
Statistics

52w high/low (MYR)	1.10/0.48
3m avg turnover (USDm)	1.4
Free float (%)	28.2
Issued shares (m)	2,944
Market capitalisation	MYR2.6B USD623M

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	(8)	75
Relative to index (%)	3	(4)	83

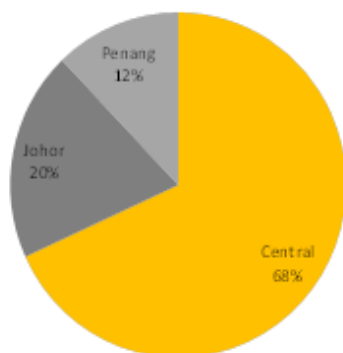
Source: FactSet

ESG@MAYBANK IBG
 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



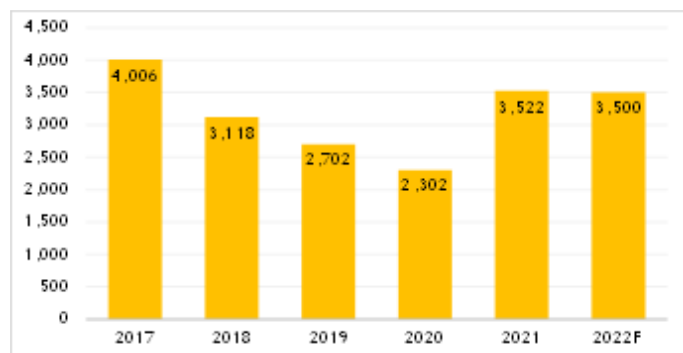
Source: Company, Maybank IBG Research

- 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 Sustainability 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 Sustainability 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).

Fig 1: 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	BBC	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	10.1	9.0	8.4
Core P/E (x)	4.2	13.0	10.1	9.0	8.4
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	4.4	4.8
FCF yield (%)	25.9	25.4	16.4	8.8	8.9
EV/EBITDA (x)	21.9	19.2	11.0	9.7	9.1
EV/EBIT (x)	21.9	19.2	11.3	9.9	9.3
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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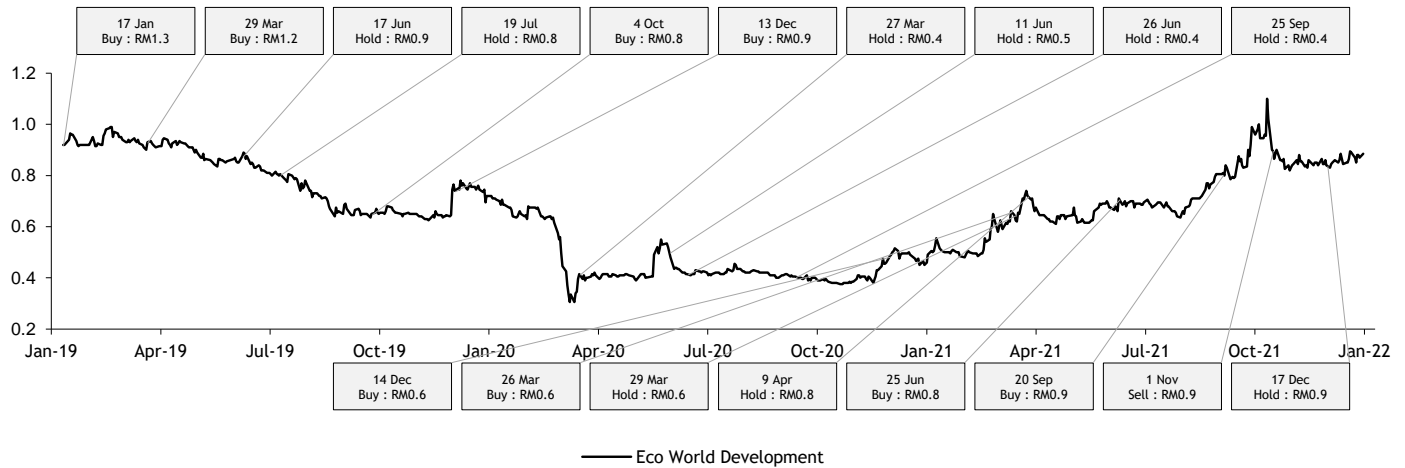
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