

PP14767/09/2012(030761)

Eco World Development Bhd (ECW)

“Another Major Sensation”

According to the Star Biz dated 1st Oct 2015, Eco World Development Group Berhad (ECW) is currently seeking shareholders' approval for its mix development project in Penang (awarded by Penang Development Corp (PDC) in April 2015) and in the midst of preparing the master plan and layout plan for the land parcels for submission to the relevant authorities. The Eco Marina project has been targeted for a maiden launch scheduled in the first-half of 2016 and expected to be developed over the period of 10 years.

In the separate announcement, ECW announced that its wholly owned subsidiary, Paragon Pinnacle Sdn Bhd (PPSB) on 22 September 2015 had entered into 5 separate sales and purchase agreements (SPAs) with Mujur Zaman Sdn Bhd, Ringgit Exotika Sdn Bhd, Liputan Canggih Sdn Bhd, MZSB and LBCN Development Sdn Bhd to acquire 26 pieces of leasehold land in Mukim Ijok, Kuala Selangor with a collective land size of 2,198.4 acres. The total proposed purchase consideration is RM1.181 billion cash or equivalent to approximately RM12.30psf; subject to the terms of conditions pre-agreed. The proposed acquisition is expected to be completed by the second quarter of calendar year 2016 and expected to have no material effect on earnings and EPS of the group financial year ending 31 Oct 2015.

Although the management is quite optimistic on the sales target of RM3 billion for this financial year, we are cautiously worried of the uncertainty in global economy as it may somehow or rather dent the sentiment of property market in Malaysia, that is already in weak sentiment. Hence, will or may affect the new launches or new property development undertaken by the company. We are of the view that property market would continue to be soft with slower growth except for residential sub-sector where demand especially for township development below RM1 million in prices is

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UNDER REVIEW (TP: TBD)

Current Price (RM)	RM1.36
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 & Market Data

Listing	MAIN MARKET	
Sector	Property	
Shariah Compliance	Yes	
Issued Shares (mn)	2,364	
Market Cap (RM mn)	3,215	
YTD Chg In Share Price	-21.1%	
Beta (x)	1.59	
52-week Hi/Lo (RM)	RM2.10	RM1.17
3M Average Volume ('000 shares)	1,841	
Estimated Free Float	20.2%	

Major Shareholders

Sinarmas Harta Sdn Bhd	32.02%
Eco World Development	23.30%
Liew Tian Xiong	11.27%

expected to be resilient. The weak sentiment on property sector is not only because of the absent of significant buying activities resultant from “look and see” attitude towards the implementation of GST but also related to macro issues weighed by uncertainty of the world economy.

- **Eco Marina in Bandar Cassia, Batu Kawan, Seberang Prai Selatan, Penang.** According to the Star Biz dated 1st Oct 2015, Eco World Development Group Berhad (ECW) is currently seeking shareholders’ approval for its mixed development project in Penang and in the midst of preparing the master plan and layout plan for the land parcels for submission to the relevant authorities. It’s understood that the company has received a 6-months extension until 26 March 2016 to obtain the planning permission from Penang Development Corp (PDC) for its proposed RM10 billion Eco Marina development projects. The extension was pursuant to the expiry of the 6-months period from the letter of award (LOA) to obtain the planning permission and its shareholders’ approval in an extraordinary general meeting in relation to the proposed Eco Marina development on 19 September 2015.

To recap, ECW has announced in April 2015 that it has received a LOA from the Penang Development Corporation (PDC) for the proposed acquisition of 299.64 acres of 99-year leasehold land for RM730.93 million or approximately RM56psf for mixed development, and the proposed leasing of 150-acre land for 30 years (with 30-year renewal option) for the development of an international standard golf course for RM65.34 million or equivalent to approximately RM10psf. The proposed project’s GDV is estimated at RM10 billion and to be developed over a development period of 10 years comprising 60% residential and 40% commercial properties with water-fronting. With the acquisition, ECW total land bank now stands at 5,245.5 acres with accumulated GDV amounting to RM60.346 billion. This figure would grow further as ECW has recently acquired leasehold land in Ijok, Kuala Selangor.

- **Acquisition of sizeable tracts of leasehold land in the North-Western growth corridor of Klang Valley.** ECW has announced recently of their proposed acquisition of 26 pieces of leasehold land parcels in Ijok, Kuala Selangor with collective land size of 2,198.4 acres for RM1.18 billion cash or equivalent to approximately RM12.30psf. According to the announcement to Bursa Malaysia, the purchase price represents 0.7% discount to the indicative market value of the land parcels, as appraised by Henry Butcher Malaysia Sdn Bhd which is at RM1.1896 billion.

The land bank has potential GDV of RM15 billion with expected development period of 15-years. Based on the management’s preliminary master planning, the land will be developed into 1) mixed eco township development of approximately 1,400 acres to be known as “Eco Garden” consisting of landed and high rise residential homes; 2) Integrated gated industrial hub of approximately 518 acres to be known as “Eco Business Park V”; and 3) affordable homes of approximately 280 acres to be known as “Laman Indah” consisting of the housing units to settles and Rumah Selangorku. With the acquisition, ECW total land bank and remaining GDV has increased by 42% and 25% respectively to 7,443.9 acres and RM75.364 billion.

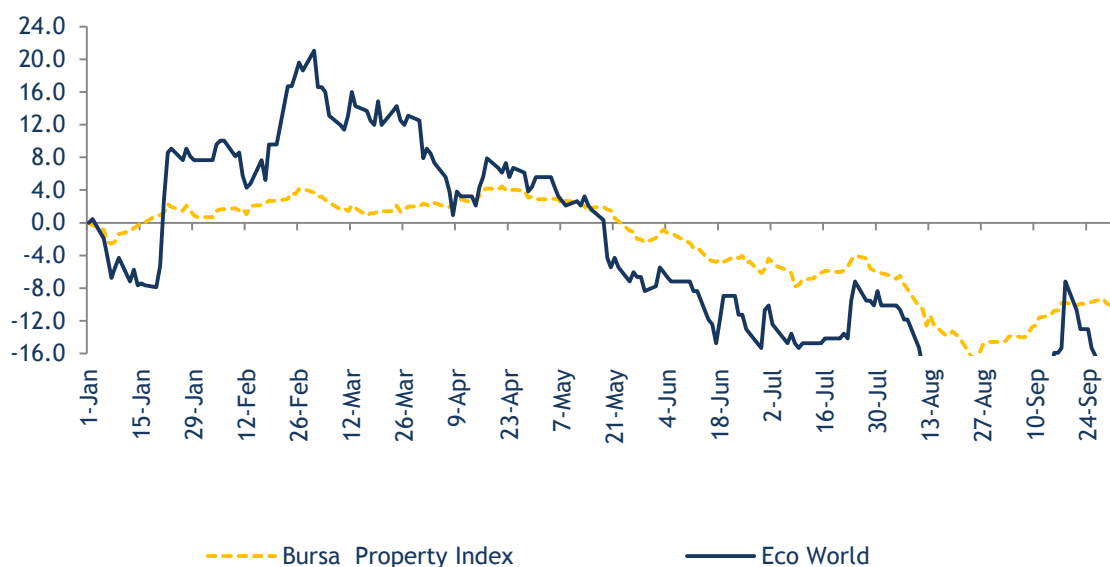
- **Source of funding.** According to the announcement, the proposed land acquisition will be using SPV method where ECW will invite like-minded institutional/ private equity/ corporate partners to co-invest and fund PPSB. Under the Business Model, ECW intends to retain a minimum of 30% equity stake in PPSB and will enjoy a share of profits as well as fee-based income with its role as the development manager. The management has reiterated that they prefer not more than 3 external investors and in the process of refining its partnership to raise equity funding at the project level. This will enable it to acquire sizeable strategic land without ever-extending the balance sheet. If ECW undertake the development on its own, the net gearing based on the statement as at July 2015 will increase from 0.48x to 0.68x (assuming 30% cash and 70% borrowing). Judging by the current state of weak local property market and economic climate, there are possibility that cash call is required if the SPV business model does not go through and hence will dilute shareholders earnings.
- **Our view.** With the current state of the economy that is weighed by uncertainties, we are positive on the deal as we are of the view that the acquisition will further strengthen its business expansion and the remaining undeveloped land bank of 6,417.8 acres or equivalent to estimated remaining GDV of RM75.364 billion can sustain and keep ECW busy until the next decade which will be the right potent for earnings sustainability. According to the announcement, the indicative total purchase consideration of RM1.181 billion or approximately RM12.30psf is attractive and represents a land cost-to-GDV ratios of approximately 7.9% and thus, lower the group's average land cost-to-GDV ratio to 9.9%. Furthermore the proposed partnership model should improve and reduce the Group burden on balance sheet (off-balance sheet) and thus, will enjoy profits sharing as well as fee based income.

Of note, as at 30th April 2015, net gearing of ECW stood at 0.48x with YTD PATAMI of RM24.3 million at the back of RM1.03 billion revenue for 3QFY15. ECW managed to rake-in RM2.371 billion in property sales in YTD 31 Aug 2015 which accounted 79% of ECW's internal target of RM3 billion for FY15. Even though the price of ECW has been hammered by 12% since beginning of July, we are positive and still interested in the ECW given its good long-term prospects due to aggressive expansion plan and good business model, apart from reputable management team. **Given its rapid development and fast shifting prospects**, our earnings estimates and target price will be determined in due course pending our assessment on the Group's earnings and business prospect in the up-coming report.

Table 1: 2015 Financial Performances

FYE 31 October (RM' Million)	2Q15	3Q15	q-o-q	9M15
Revenue	417.8	454.3	9%	1,030.1
Gross Profit	102.8	101.0	-2%	243.2
Other Operating Income	7.9	5.9	-26%	15.3
Selling & Marketing Expenses	-35.3	-34.4	-3%	-89.2
Administrative Expenses	-47.9	-51.9	8%	-112.1
Finance Costs	-9.73	-4.90	-50%	-18.18
Profit before Tax	17.70	15.73	-11%	39.04
Taxation	-5.9	-6.3	8%	-14.9
Net Profit	11.8	9.4	-20%	24.3
Basic Earnings per Share (Sen)	0.79	0.41	-48%	1.70
Net Gearing/cash (x)	1.7	1.6		1.6
Gross Profit Margin (%)	24.6	22.2		23.6
PBT Margin (x)	4.2	3.5		3.8
Net Profit Margin (%)	2.8	2.1		2.4

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

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

SECTOR RECOMMENDATIONS

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

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