Exceeded expectations

IOIPG posted a 30% yoy increase in core net profit to RM1.1bn in FY17 (FY16: RM815m), which exceeded consensus and our forecasts by 14-19% (RM887-928m). Revenue jumped by 38% yoy to RM4.2bn in FY17 as all its business segments saw higher revenue. EBIT grew slightly to RM1.4bn (+7% yoy) supported by earnings from Trilinq in Singapore. But other divisions saw weaker earnings. We downgrade our call to HOLD from Buy with an unchanged TP of RM2.26 (based on a 40% discount to RNAV). IOIPG declared lower DPS of 6 sen in FY17 compared to 8 sen in FY16.

Exceeded expectations

Net profit declined marginally by 8% yoy to RM365.4m in 4Q17 due to a one-off property, plant and equipment (PPE) write-off (RM43.3m). Excluding this, fair value gain (RM48.8m) and forex gain (RM5.5m), IOIPG achieved core net profit of RM359.3m (+25% yoy and +44% qoq) in 4Q17. For FY17, core net profit of RM1.1bn (+30% yoy) exceeded our and consensus estimates by 14% and 19% based on FY17E core net profit of RM928.3m and RM887m respectively.

Strong property sales contribution

Revenue jumped by 38% yoy to RM4.2bn in FY17, driven by higher property development (+44% yoy), leisure and hospitality (+23% yoy) and property investment (+11% yoy) revenue. Higher property development revenue was mainly from its Trilinq in Singapore, IOI Resort City, Warisan Puteri@Sepang and Bandar Puchong Jaya projects. The group's EBIT grew 7% yoy to RM1.4bn in FY17, supported by strong EBIT contribution of RM1.2bn from its property development division (+32% yoy). However, EBIT was held back by weaker contributions from property investment (-11% yoy), leisure and hospitality (-16% yoy). This was due to one-off PPE write off, stiff competition for its hotels segment, higher operating expenses and lower golfing activities.

Downgrade to HOLD with unchanged TP of RM2.26

We reduce FY18-19E EPS by 3-5% for slower property sales recognition and introduce our new FY20 forecast. IOIPG has achieved total property sales of RM2.8bn from Singapore (46%), Malaysia (39%) and China (15%). We downgrade our call to HOLD from Buy with an unchanged TP of RM2.26 (based on 40% discount to RNAV) due to; i) long gestation period for its new Central Boulevard@Marina Bay project; and ii) limited potential upside following the rebound in share price. On 12 June 2017, IOIPG formed a 67:33 joint venture with Hong Kong Land Limited to jointly develop and manage the Central Boulevard@Marina Bay project to reduce its capital commitment.

Earnings & Valuation Summary

FYE 30 Jun	2016	2017	2018E	2019E	2020E
Revenue (RMm)	3,024.9	4,185.4	3,323.8	3,478.8	3,717.1
EBITDA (RMm)	1,327.8	1,420.4	1,141.5	1,150.3	1,175.6
Pretax profit (RMm)	1,524.7	1,436.6	1,345.3	1,402.8	1,472.8
Net profit (RMm)	1,080.0	920.9	919.1	955.5	1,000.3
EPS (sen)	26.7	18.4	16.7	17.4	18.2
PER (x)	7.7	11.2	12.3	11.9	11.3
Core net profit (RMm)	796.9	829.2	919.1	955.5	1,000.3
Core EPS (sen)	15.5	15.1	16.7	17.4	18.2
Core EPS chg (%)	25.2	(2.8)	10.8	4.0	4.7
Core PER (x)	13.3	13.7	12.3	11.9	11.3
DPS (sen)	8.0	6.0	6.0	6.0	6.0
Dividend Yield (%)	3.9	2.9	2.9	2.9	2.9
EV/EBITDA (x)	9.6	10.3	11.4	11.1	10.7
Chg in EPS (%)			(5.0)	(2.6)	NA
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

IOI Properties

IOIPG MK
Sector: Property

RM2.06 @ 28 Aug 2017

HOLD (downgrade)

Upside 9.7%

Price Target: RM2.26

Previous Target: RM2.26

Price Performance

	1M	3M	12M
Absolute	-2.8%	-3.7%	-11.2%
Rel to KLCI	-3.0%	-3.6%	-15.6%

Stock Data

Issued shares (m)	5,506.1
Mkt cap (RMm)/(US$m)	11,342.7/2,657.7
Avg daily vol - 6mth (m)	3.1
52-wk range (RM)	1.85-2.46
Est free float	30.8%
BV per share (RM)	3.27
P/BV (x)	0.6
Net cash/ (debt) (RMm)	(11,431.3)
ROE (2018E)	5.4%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Tan Sri Dato' Lee Shin Cheng	51.3%
Summervest	8.5%
Amanah Saham	3.0%

Source: Affin Hwang, Bloomberg

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Key risks are higher financing costs for its new land in Singapore and a prolonged downturn in the domestic property market.

Fig 1: Result summary

FYE 31 Jun (RMm)	4Q17	% qoq	% yoy	FY17	% yoy	Comment
Revenue	1,195.3	33.4	34.0	4,185.4	38.4	Revenue jumped by 38% yoy in FY17, mainly driven by the surge in property development (+44% yoy), leisure & hospitality (+23% yoy) and property investment (+11% yoy) revenue.
Op costs	660.1	(7.4)	31.0	2,802.9	61.6	
EBITDA	535.2	192.0	37.9	1,382.5	7.2	
EBITDA margin (%)	*44.8*	*24.3ppt*	*1.3ppt*	*33.0*	*(9.6ppt)*	
Depn and amort	(12.4)	39.2	40.5	(37.9)	0.8	
EBIT	547.6	>100	38.0	1,420.4	7.0	Strong FY17 EBIT contribution of RM1.2bn from its property development division (+32% yoy). But weaker EBIT contribution from its property investment (-11% yoy) and leisure & hospitality (-16% yoy) segments.
EBIT margin (%)	*45.8*	*24.4ppt*	*1.3ppt*	*33.9*	*(10.0ppt)*	
Int income	13.7	(12.2)	6.1	51.9	(9.1)	
EI	(48.2)	(70.6)	>100	(184.4)	NA	
Pretax profit	**549.6**	**>100**	**7.6**	**1,436.6**	**(5.8)**	
Tax	(184.2)	>100	64.5	(468.8)	10.5	
Tax rate (%)	*33.5*	*(9.8ppt)*	*11.6ppt*	*32.6*	*4.8ppt*	
MI	(28.7)	NA	>100	(47.0)	132.0	
Net profit	**365.4**	**>100**	**(8.3)**	**967.8**	**(12.0)**	Net profit declined by 8% yoy in 4Q17 mainly due to one-off property, plant and equipment write-off (RM43.3m).
EPS (sen)	5.8	>100	(34.4)	18.4	(31.1)	
Core net profit	**359.3**	**43.7**	**24.6**	**1,059.5**	**29.9**	Excluding one-off cost, fair value gain (RM48.8m) and forex gain (RM5.5m), core net profit grew 25% yoy and 44% qoq in 4Q17. For FY17, core net profit of RM1.1bn (+30% yoy) was above expectations.

Source: Affin Hwang estimates, Company

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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