



February 26, 2020

Properties

**BUY**

Price: RM2.00

Target Price: RM2.70

## ORIENTAL INTEREST BHD

### Higher margin projects boosted 1H PBT

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#### 2QFY20 revenue increased 19.8% yoy and 74.1% qoq

OIB's group revenue increased by 19.8% yoy and 74.1% qoq in 2QFY20 mainly due to higher property development billings, which increased by 25.7% yoy and 75.0% qoq. General construction and oil palm cultivations contributed marginally to the topline and bottomline of the group.

#### 2QFY20 core net profit increase 189.5% yoy but declined 7.7% qoq

With the higher revenue, 2QFY20 PBT increased by 28.8% yoy boosted also by higher margin projects. Adjusted for the one-off large recognition of deferred tax assets (RM27.3m) and real property gains tax (RM5.5m) in 2QFY19, core net profit surged by 189.5%. Qoq, 2QFY20 PBT and core net profit declined by 22.9% and 7.7% respectively mainly due to availability of amortization of grant income which reduced cost of sales in 1QFY20. As before, no interim dividend has been declared

#### 6MFY20 revenue declined 11.3% yoy but core net profit surged by 143.9%

In 6MFY20, group revenue and net profit declined 11.3% and 35.6% yoy respectively mainly due to a decline of 9.1% in property development revenue and one-off adjustments in 6MFY19. Adjusted for these one-offs, 6MFY20 core net profit surged by 143.9% to RM21.4m.

#### EARNINGS SUMMARY

(RM m)	FYE 30 June			FYE 31 Aug	
	FY17A	FY18A	FY19A	FY20F	FY21F
Revenue	247.9	269.0	296.5	338.0	310.0
EBITDA	69.6	71.0	76.7	89.6	81.9
Core Net Profit	40.4	37.9	27.3	44.5	40.0
Core EPS (sen)	27.9	24.5	17.6	28.7	25.8
Core EPS growth	6.0	(12.3)	(28.0)	63.1	(10.1)
Net DPS (sen)	7.0	7.0	8.0	8.0	8.0
Core PE (x)	7.2	8.2	11.4	7.0	7.7
Dividend yield (%)	3.5	3.5	4.0	4.0	4.0
ROE (%)	11.8	9.7	6.2	9.5	8.0
EV/EBITDA (x)	3.8	0.0	5.3	5.0	0.0
P/Book Value (x)	0.9	0.8	0.7	0.7	0.6

Source: Company, Mercury Securities

#### Company Description

OIB is principally in the business of property development. It is also involved in construction, property investment and oil palm cultivation.

#### Stock Return Information

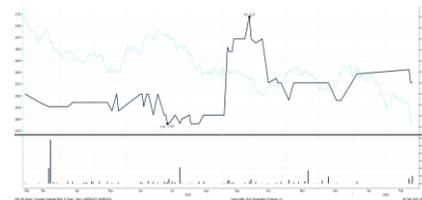
KLCI	1,500.9
Expected Share Return (%)	35.0
Dividend Yield (%)	4.0
Total Return (%)	39.0

#### Share Information

Bloomberg Code	OIB MK
Stock Code	OIB
Listing	MAIN
Issued Shares (m)	154.9
Market Cap (RM m)	309.7
Par Value	N.A
52W High/Low	2.20/1.96
Estimated Free Float (%)	26.5
Beta (X)	-
3-month Average Vol.	1,075

#### Top 3 Shareholders (%)

Jupiter Sunrise SB	54.9
Tan Chang Tok SB	7.6
LLSB 1980 Holdings SB	6.5



#### Price Performance

	1M	3M	12M
Absolute (%)	-1.0	0.0	1.1
Relative to Index (%)	3.6	5.0	10.9

### FY20 still expected to come within expectations

While the operating environment has become even more challenging with the coronavirus spread threatening national and global economic growth, we remain confident that OIB's core net profit in the 14-month FY20 (ending in August 2020 following the change in financial year end) will come within our unchanged forecast of RM44.5m. Unbilled sales stood at RM117.3m compared to RM105.6m as at end-1QFY20.

### Continued focus on HOC campaign and new projects launches

Focus, in part, on the Home Ownership Campaign (HOC) campaign has aided property sales and take-up rates. The group has delivered vacant possession for four projects and in 2QFY20 has introduced a new phase of Taman Serai Wangi in Kulim with a GDV of RM46.0m and the very first industrial project in Pulau Indah with a GDV of RM450.0m. Total GDV of new launches amounted to RM687.1m and OIB is on track to achieve a GDV of RM1.0bn for new launches in FY20.

### Land banks grew to 2,097 acres

Following the acquisition of 104 acres of freehold land in Kuala Langat from Sime Darby Plantation Berhad for RM40.1m and an additional 12 acres in Mukim Dengkil in Selangor for RM46.8m, total land bank of the group increased to 2,097 acres. The group is still on the look-out for more land acquisitions or asset-light joint venture opportunities.

### Maintain TP of RM2.70 and BUY rating

Pegging an unchanged target PE of 10.8x on the unchanged CY20F EPS of 25.0 sen, the target price for OIB is maintain at RM2.70, still below the stock's NAV of RM2.90. At current price, OIB is still rated as a **BUY** for its attractive valuation, good management and reasonable dividend yield.

Fig 1: Quarterly group results comparison

FYE 30 June / 31 Aug (RM m)	Individual Quarters						Cumulative Quarters		
	Y-o-Y			Q-o-Q			6MFY20	6MFY19	Chg
	2QFY20	2QFY19	Chg	2QFY20	1QFY20	Chg			
Revenue	76.2	63.6	19.8%	76.2	43.8	74.1%	119.9	135.2	(11.3%)
Cost of sales	(49.8)	(41.6)		(49.8)	(10.4)		(60.2)	(86.9)	
Gross profit	26.4	21.9	20.4%	26.4	33.3	(20.7%)	59.8	48.4	23.5%
Other income	2.2	1.4		2.2	0.8		3.0	2.8	
Selling & distribution expenses	(1.5)	(1.2)		(1.5)	(1.7)		(3.2)	(2.0)	
Administrative expenses	(6.9)	(5.0)		(6.9)	(6.1)		(13.0)	(9.8)	
Other expenses	(0.2)	(0.8)		(0.2)	(0.9)		(1.0)	(2.3)	
Results from operating activities	20.1	16.4	22.4%	20.1	25.4	(21.0%)	45.5	37.1	22.9%
Finance costs	(1.7)	(2.2)		(1.7)	(1.6)		(3.3)	(3.7)	
Share of profit of associate	0.0	0.0		0.0	0.0		0.0	0.0	
Profit before tax	18.4	14.3	28.8%	18.4	23.8	(22.9%)	42.2	33.4	26.4%
Taxation	(4.6)	17.7		(4.6)	(5.6)		(10.2)	12.6	
Profit after tax	13.8	31.9	(56.9%)	13.8	18.3	(24.7%)	32.0	46.0	(30.3%)
Minority interests	(2.1)	(8.1)		(2.1)	(7.2)		(9.2)	(10.5)	
Net profit	11.7	23.8	(50.8%)	11.7	11.1	5.2%	22.8	35.5	(35.6%)
Estd core net profit	10.3	(3.5)	189.5%	10.3	11.1	(7.7%)	21.4	8.8	143.9%
Fully diluted EPS (sen)	7.6	15.4	(50.7%)	7.6	7.2	5.1%	14.8	22.9	(35.6%)
Net DPS (sen)	0.0	0.0		0.0	0.0		0.0	0.0	

Source: Company, Mercury Securities

Fig 2: Quarterly segmental results comparison

FYE 30 June / 31 Aug (RM m)	Individual Quarters				Cumulative Quarters	
	Y-o-Y		Q-o-Q		6MFY20	6MFY19
	2QFY20	2QFY19	2QFY20	1QFY20		
<b>Revenue</b>						
Property development	73.4	58.4	73.4	41.9	115.3	126.9
General construction	1.1	3.4	1.1	0.5	1.6	4.9
Oil palm cultivation	0.3	0.7	0.3	0.4	0.8	1.4
Others	1.3	1.1	1.3	0.9	2.3	2.1
<b>Total</b>	<b>76.2</b>	<b>63.6</b>	<b>76.2</b>	<b>43.8</b>	<b>119.9</b>	<b>135.2</b>
<b>Profit before tax</b>						
Property development	19.1	13.8	19.1	24.1	43.2	32.5
General construction	0.0	0.2	0.0	0.0	0.1	0.2
Oil palm cultivation	0.1	0.4	0.1	0.0	0.1	0.7
Others	(0.0)	0.1	(0.0)	(0.2)	(0.1)	(0.1)
Investment holding	(0.8)	(0.3)	(0.8)	(0.1)	(1.0)	0.0
<b>Total</b>	<b>18.4</b>	<b>14.3</b>	<b>18.4</b>	<b>23.8</b>	<b>42.2</b>	<b>33.4</b>
<b>Pre-tax profit margin (%)</b>						
Property development	26.0	23.6	26.0	57.4	37.4	25.6
General construction	2.0	7.0	2.0	1.0	3.2	3.1
Oil palm cultivation	25.8	57.6	25.8	9.3	16.5	53.4
Others	(1.9)	9.6	(1.9)	(21.5)	(5.1)	(3.6)
<b>Total</b>	<b>24.1</b>	<b>22.4</b>	<b>24.1</b>	<b>54.5</b>	<b>35.2</b>	<b>24.7</b>

Source: Company, Mercury Securities

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