

10 July 2019

Property | Real Estate

Ideal United Bintang (IUBI MK)

Not Rated

An Ideal Position In Penang

Fair value (Return) MYR1.60 (+18%)
 Price: MYR1.36
 Market Cap: USD152m
 Avg Daily Turnover (MYR/USD) 0.09m/0.02m

- **NOT RATED; indicative fair value of MYR1.60.** Ideal United Bintang (Ideal) will likely be founder Tan Sri Datuk Alex Ooi's flagship company. This affordable housing player is a clear winner, as Penang now allows more affordable housing units to be sold in the open market. Also, with a higher income limit, it should be able to capture a larger pool of buyers. We also do not rule out the possibility of it entering the construction industry going forward.

- **Household name in Penang.** Ideal Property Group (the founder's private company) has a strong foothold in the Penang property market, particularly in the high-rise condominium segment. Over the years, before the injection of development projects into the listed company, Ideal Property has built various condominium and landed property projects such as I-Regency, Fiera Vista, SummerSkye Residences, Tree Residency, and most projects are located at Sg. Ara/Bayan Lepas area.

- **Pipeline assets to sustain long-term earnings.** Ideal currently has six ongoing projects worth MYR3.38bn in GDV (including one just completed and two nearing completion) on Penang Island. The three older projects saw take-up rates of around 90%. After the injection of another three projects (the exercise was completed in April), we understand that Tan Sri Alex Ooi may plan to inject more projects in the short-to-medium term, to ramp up the company's total portfolio GDV. Given the continuity in pipeline projects, double-digit earnings growth is expected to be sustainable over the next 2-3 years.

- **A potential Penang Transport Master Plan (PTMP) beneficiary.** Apart from being a property developer, Tan Sri Alex Ooi is also establishing his presence in the construction scene. SRS Consortium, in which Ideal Property Development SB holds a 20% stake, is the project delivery partner (PDP) for the PTMP initiative. Hence, we think Ideal could benefit from more housing projects being proposed for land parcels that will be reclaimed at the south of the island in the future.

- **Strong earnings growth ahead.** Given that the construction progress for some of the newer projects has reached 10-15%, we expect earnings to kick in very soon, when the projects are officially launched. Unbilled sales as at 1Q19 stood at MYR463m – which excludes the three latest projects that were injected. Our FY19-21F earnings growth of 10-23% pa puts it among the highest compared to the property stocks under our coverage.

- **Valuations.** Our indicative fair value for Ideal is MYR1.60, based on a 10% discount to RNAV. Our valuation is justifiable, given the company's favourable earnings uptick, with more promising growth prospects ahead.

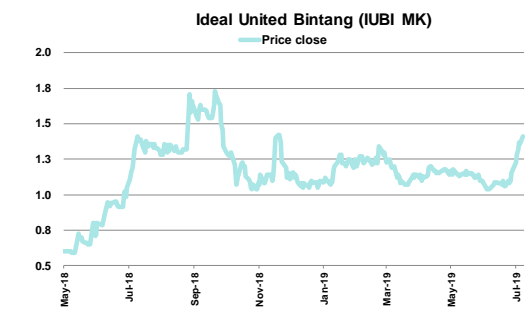
Analyst

Loong Kok Wen, CFA
 +603 9280 8861
loong.kok.wen@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	29.4	34.3	24.8	28.2	6.8
Relative	30.2	32.6	22.8	27.9	6.0
52-wk Price low/high (MYR)	0.99 - 1.86				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	246.5	677.7	687.5	739.3	772.2
Core net profit (MYRm)	15.7	52.5	64.6	73.3	81.5
Core net profit growth (%)	89.0	234.4	23.1	13.5	11.1
Recurring EPS (MYR)	14.2	47.6	14.4	15.8	17.6
DPS (MYR)	0.00	0.00	0.03	0.03	0.03
Recurring P/E (x)	9.6	2.9	9.5	8.6	7.7
P/B (x)	1.60	1.03	1.88	1.66	1.49
Dividend Yield (%)	0.0	0.0	1.8	2.2	2.2
Return on average equity (%)	18.4	35.9	18.9	12.7	12.6
Net debt to equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Interest coverage (x)	6,962	132	784	531	623

Source: Company data, RHB

More Goodies Ahead

Company background

Ideal was formerly known as United Bintang. It was a loss-making heavy machinery and spare parts trading company. Tan Sri Alex Ooi emerged as the major shareholder in late 2013, and subsequently diversified into property development. The company then changed its name to Ideal United Bintang International. The first property project, i-Santorini, was injected in 2015.

Tan Sri Alex Ooi founded Ideal Property Group in 2002. The company has an established presence in the Penang property market, particularly in the high-rise residential segment. Currently, Tan Sri Alex Ooi and family hold a 75% stake in Ideal. Prior to this, in Apr 2018, via his holding company ICT Innotech SB (ICT), he made a mandatory general offer to all minority shareholders after ICT acquired an additional 26.9% from Bumimaju Gaya SB and Lakaran Asia SB. The offer price was at MYR0.54 per Ideal share.

Ideal – benefiting from Penang’s economic growth transformation

In our opinion, infrastructure developments and housing matters are amongst the key priorities for the Penang State Government after the general election last year. Easing traffic conditions and providing affordable housing to Penangites are the main social issues to be addressed. As the Government has announced the stamp duty waiver for the purchase of affordable housing priced below MYR500,000 for first-time home buyers (exemption is for the first MYR300,000), this should provide a boost to developers – especially those with high exposure to young buyers. On this, Ideal would be one of the beneficiaries. Ideal Property Group has already participated in a number of affordable housing projects in collaboration with the Penang State Government. Some of these have already been injected into Ideal.

On the infrastructure front, late last year, the media reported that the state government announced its intention to engage in compulsory acquisitions of some properties to make way for the construction of Pan Island Link under the PTMP. Meanwhile, both Air Asia and Malaysia Airports (MAHB MK, BUY, TP: MYR9.20) have proposed to put up a low-cost carrier terminal in Penang Island. All these news flow provide a strong indication that various infrastructure projects will likely be carried out in Penang. We are positive on these developments, as there should be spillover demand for property as a result of the positive economic impact.

A pure affordable housing play in Penang Island

Ideal is a pure Penang affordable housing play. Three projects – One Foresta, Forestville and i-Santorini – were injected a few years ago. I-Santorini was the first project brought into Ideal. It is located at Tanjung Tokong, with a GDV of MYR925m, comprising 2,155 units of condominium priced below MYR400k each. The project is now 95% sold. Meanwhile, both Forestville and One Foresta are located at Bayan Lepas. While the former has 991 units, the latter has 1,343 units with a combined GDV of MYR1.04bn. The take-up rate for both Forestville and One Foresta is at about 87%, and 93%, respectively.

The encouraging demand for these affordable condominiums was largely due to the pricing as well as the location. For instance, Forestville and One Foresta are surrounded by a few schools, and near the Bayan Lepas Free Industrial Zone and Penang International Airport. We also understand that some of these units are also open to the public as the state government now allows 40% (vs 30% last year) of the affordable housing units in any particular project to be sold in the open market (10-20% higher, depending on location). Given the flexibility, affordable housing developers such as Ideal are able to capture a larger pool of buyers for their projects. At the same time, the flexibility will also help to absorb the supply of affordable units as many buyers – in Penang as well as across Malaysia – still face difficulties in securing mortgage financing due to insufficient income levels.

Requirements for the state’s affordable housing buyers. Purchasers of affordable homes developed either by the Government or private developers must apply through the state housing department. There are a few requirements that affordable home buyers must fulfil, under the state’s affordable housing scheme. These include:

- i. The applicant must be a Malaysian and age 21 years and above;
- ii. The applicant must be a registered voter in Penang;

- iii. The applicant must be either be Penang-born or works in the state, has resided in the state for at least five years from the date of application, or holds an undergraduate degree or diploma with a minimum two years of working experience (under the Talent & Skilled category);
- iv. Total household income must not exceed MYR12,000 per month.

Figure 1: i-Santorini is at tail-end of construction



Source: RHB

Figure 2: Location map of Forestville



Source: Company

Injection of new projects to sustain earnings growth

In April, the company completed its acquisition of three projects from Tan Sri Alex Ooi and Puan Sri Joanne Phor for a total consideration of MYR191.47m + MYR161.62m. These three projects are all located in the Sungai Ara/Bayan Lepas area, and carry a combined GDV of MYR1.41bn. The consideration was satisfied via the issuance of 191.47m new shares at MYR1.00 each (tranche 1) and 161.62m new shares at MYR1.00 each (tranche 2) to the vendor. Over the medium term, Ideal also intends to have a 30% private placement exercise to raise about MYR160-200m, depending on the issue price, with an estimated number of shares of 130-155m shares. Proceeds from the placement would come in handy as working capital or for future acquisitions of new projects.

Unlike i-Santorini and One Foresta, these three new projects are largely mid-range products, with average unit prices of MYR450,000-650,000 (or MYR500-600 psf), depending on location. The Amarene project, priced at the higher end of the range, is strategically located, as it is just minutes away from the Straits International School and Penang International Airport. Imperial Grande, on the other hand, is located closer to Jalan Paya Terubong. Therefore, the pricing is relatively cheaper compared to Amarene. Currently, Imperial Grande and Amarene are already about 70%- and 40%-sold.

We understand that both Imperial Grande and Amarene and Mori have reached 10-15% completion, while Imperial Ville is <10% completed. Given that the substructure and ground works are almost completed, this means that earnings recognition from the billings of the units sold will be immediate – and earnings growth would be sustainable over the next 2-3 years.

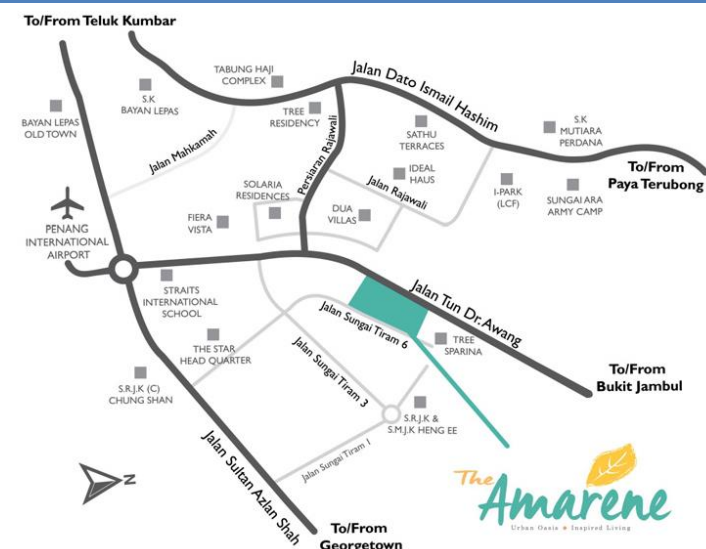
Just yesterday, the company also added another project in Balik Pulau into its portfolio. With a land area of 88.45 acres, GDV for the project is about MYR600m, as it comprises 320 units of condominiums, 360 units of low-cost apartments, 505 units of landed homes (bungalows, semi-detached houses and terrace units), as well as 24 units of retail shops.

Figure 3: Details of the three projects to be injected

New projects	Land size (sqm)	GDV (MYR m)	GDC (MYR m)	GDP (MYR m)	% of stake acquisition	Purchase consideration (MYR m)	Development components
Imperial Grande	18,635	499.8	337.8	162.0	100%	202.0	938 apartment units, shophots/office units
Amarene & Mori	51,470	665.4	443.4	222.0	100%	117.9	890 condo units, shophots/office units
Imperial Ville	19,148	246.5	153.8	92.7	100%	33.2	500 apartment units, landed houses
Total		1,411.7	935.0	476.7		353.1	

Source: Bursa, Company

Figure 4: Location of the Amarene project



Source: Company

Prime beneficiary of Penang state's housing initiatives

Ideal is a clear winner under the Penang state government's initiative to spur home ownership and unwind supply glut. In early 2019, the State Housing, Town, Country Planning and Local Government Committee chairman Jagdeep Singh Deo announced that the developers of affordable housing are now allowed to sell 40% of the units in the open market (vs 30% previously), at rates that are not bound by affordable housing pricing. 20% of these can be sold to non-Penangites who are not registered voters (in Penang).

At the same time, the income eligibility threshold for affordable housing has also been raised by MYR2,000 across the board. For a MYR150,000, MYR200,000 and MYR300,000 unit, the household income limit is now MYR8,000 (from MYR6,000), MYR10,000 (from MYR8,000) and MYR12,000 (from MYR10,000).

We applaud the state's initiatives as we believe these would be effective to ease the property overhang and boost the sale of mid to low-end housing in Penang. Half of Ideal's projects (including the newly injected projects) are in the low-mid end segment, and there are not many Penang developers selling property products that are within this price range. By allowing more units to be sold under the open market and raising the income limit, the pool of qualified buyers is now much larger, and more Penangites and non-Penangites are now eligible to purchase the affordable housing. Compared to other listed players such as IJM (IJM MK, NEUTRAL, TP: MYR1.91) and Eastern & Oriental (EAST MK, NEUTRAL, TP: MYR0.89), Ideal certainly has a better niche in this segment.

Expect strong earnings growth in FY19-20

Over the last 4-5 years, Ideal's earnings have seen significant turnaround. From a loss of MYR2.1m in FY15, the company returned to the black with a net profit of MYR8.3m in FY16, as the contribution from its heavy equipment and machinery segment was overtaken by the property development business. Subsequently, earnings growth accelerated further and FY18 was ended with a net profit of MYR52.5m.

We expect Ideal's FY19 earnings to hit around MYR63-65m. Although its unbilled sales have depleted to MYR463m, this amount excludes the billings from the three new projects. Hence, we are confident that the unbilled sales will be topped up again when the 2Q19 results are released.

As construction works progress, its gross margin stabilises at 26-28%, which is comparable to its peers – considering that Ideal is only selling affordable or mid-range property products. According to management, given the improvement in earnings, the company may also announce a maiden dividend as a token to reward its shareholders, possibly from FY19 or FY20 onwards. We therefore assume a 15-20% dividend payout ratio for FY19-21F. This translates into a 2-3 sen DPS, suggesting a yield of around 2%.

Pipeline projects to sustain long-term earnings

We expect a few more mid-range housing projects to be injected into Ideal over the next 6-12 months, as One Foresta's was completed in 1Q19. Currently, Tan Sri Alex Ooi has a number property projects that are held privately, and some of them are affordable housing developments in Sungai Ara, Bayan Lepas and other parts of Penang Island that could possibly be injected. We understand that the combined GDV of these projects could be worth MYR1-2bn – which potentially doubles the current total GDV in the portfolio. Ideal will remain as an affordable housing developer in Penang.

Potential beneficiary of the southern reclamation project

Tan Sri Alex Ooi has a strong network in Penang. He has been involved in the property development business since 2002, and his privately-held Ideal Property Group has completed various projects in Penang island, including Ideal Regency, 1-World, Terrace Plus, The Palazzia etc – mainly in the Sungai Ara/Bayan Lepas area. In recent years, Ideal Property Group has also supported the Penang State Government's initiative to provide affordable housing to Penangites – as such, its projects cover all segments of the property market.

Apart from property development in Penang, Tan Sri Alex Ooi is also establishing the company's foothold in construction, as Ideal Property Development SB holds a 20% stake in SRS Consortium, the PDP for the Penang Transport Masterplan (PTMP) project. We understand that the total project cost for LRT, Pan Island Link 1 and Penang South Reclamation (PSR) would amount to MYR32bn. As such, a 5-6% PDP fee would mean MYR1.6-1.92bn for a period of seven years to the consortium partners.

Just last week, the media reported that the State Government has secured approval for the environmental impact assessment (EIA) report of the Penang South Reclamation (PSR) scheme, which involves the reclamation of three man-made islands (about 1,800 ha in total). According to Chief Minister Chow Kon Yeow, the state will have to comply with the 72 conditions imposed by the Department of Environment. A detailed design will be worked on, before tenders are called in 1H20.

Although the PDP role belongs to the founder's private company, we think Ideal could potentially benefit in the future as it opens up opportunities to have JV projects on the land parcels that will be reclaimed in the southern tip of Penang Island.

Construction business may be the next angle

Apart from property development, we believe Ideal may further explore the construction business, given its strong foothold in Penang. According to some media reports, in early April, six companies (including two from China) were said to be interested to be part of the MYR1.2bn expansion project for Penang International Airport. Ideal is one of the local companies that expressed interest in participation.

As such, given Tan Sri Alex Ooi's personal exposure to the PTMP, we think Ideal could get involved in other infrastructure development works in the pipeline. We would not be surprised if construction becomes a new stream of business for the company in the near future – which could be another share price catalyst.

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Valuation

Our indicative fair value for Ideal is around MYR1.60, based on a 10% discount to RNAV. Although the 10% discount to RNAV seems to be low when compared with the other property stocks under our coverage, we note that Ideal's earnings growth and ROEs are amongst the highest, with more promising growth prospects as highlighted above. Its potential participation in the construction segment is also a wild card.

In our valuations, we have not taken into account the proposed placement exercise as it should be carried out in tandem with the injection of new projects in our view. The stock is currently trading at about 8.6x FY20 P/E (7.8x ex-cash).

Figure 5: RNAV estimate

Projects	Unbilled sales & remaining unsold GDV (MYRm)	Effective stake	Net surplus @ 9% (MYRm)
I-Santorini	354	50.0%	37.31
One Foresta	184	50.5%	19.56
Forestville	291	50.5%	29.77
Imperial Grande	500	100.0%	75.91
Amarene & Mori	665	100.0%	103.53
Imperial Ville	247	100.0%	35.94
Balik Pulau	600	100.0%	63.59
Subtotal			365.60
NTA			499.30
Proceeds from warrants conversion			55.23
Total RNAV			920.13
Share capital (incl. consideration shares)			463.56
No. of warrants			55.23
Enlarged share cap			518.79
RNAV per share			1.77
Discount to RNAV			10%
Fair value			1.60

Source: Company

Figure 6: Sector peer comparison

	FYE	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x) FY19F	P/E (x) FY20F	EPS Growth (%) FY19F	EPS Growth (%) FY20F	P/BV (x) FY19F	P/CF(x) FY19F	ROE (%) FY19F	DY (%) FY19F	Discount to RNAV	Rec
Sunway	Dec	1.68	1.86	8,186	13.3	11.9	5.4	11.6	1.0	19.5	7.1	4.5	-36%	Buy
IOI Prop	Jun	1.37	1.76	7,543	10.4	9.9	24.4	5.3	0.4	10.9	3.9	4.4	-69%	Buy
UEM Sunrise	Dec	0.83	1.14	3,743	12.3	16.5	8.8	(25.6)	0.5	18.2	4.2	0.0	-71%	Buy
Matrix^	Mar	1.93	2.42	1,519	6.6	6.2	6.3	5.5	1.0	4.9	16.7	6.7	-40%	Buy
Tambun Indah	Dec	0.78	0.90	338	7.7	6.9	(20.0)	10.5	0.5	24.0	7.2	5.8	-70%	Buy
Hua Yang^	Mar	0.41	0.40	144	12.3	10.3	(537.2)	18.6	0.2	4.1	2.0	0.0	-85%	Neutral
SP Setia	Dec	2.13	2.28	8,589	19.8	16.6	31.5	19.6	0.6	66.0	3.0	4.2	-63%	Neutral
Sime Darby Property	Dec	1.00	1.13	6,801	20.9	20.8	0.9	0.8	0.7	10.8	5.3	2.5	-60%	Neutral
UOA Dev	Dec	2.30	2.35	4,241	13.7	13.0	(18.1)	4.7	0.9	7.7	6.8	5.7	-36%	Neutral
Mah Sing	Dec	0.91	1.00	2,209	10.2	10.7	(20.4)	(4.2)	0.6	4.4	6.2	4.4	-59%	Neutral
E&O^	Mar	0.81	0.89	1,160	14.7	18.3	(45.7)	(19.7)	0.6	4.9	4.4	2.5	-73%	Neutral
Sector Avg					13.2	12.6	1.9	4.9						

Note: ^FY19-20 valuations refer to those of FY20-21

Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia

Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710
Indonesia
Tel : +6221 2783 0888
Fax : +6221 2783 0777

HONG KONG

RHB Securities Hong Kong Ltd.

12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Securities Singapore Pte Ltd.

10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211