

## INITIATION REPORT

29 December 2011

# Eastern & Oriental Bhd

Price : RM1.36

Market Capitalization : RM1,262.1 mln

Board : Main Market

Sector : Properties

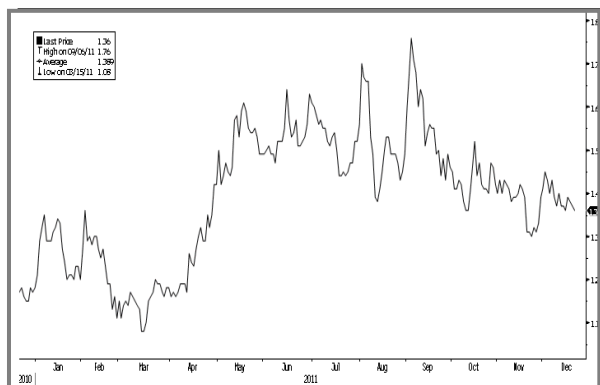
Recommendation : BUY

Bursa / Bloomberg Code: 3417 / EAST MK  
Stock is Shariah-compliant.**Key Stock Statistics**

FYE Mar	FY11	FY12f
EPS (sen)	3.0	9.6
P/E (x)	44.7	14.1
Net Div/Share (sen)	1.5	2.9
NTA/Share (RM)	1.12	1.13
Book Value/Share (RM)	1.21	1.22
Issued Capital (mln)	928.0	
52-week Hi-Low (RM)	1.78 - 1.06	
<b>Major Shareholders:</b>	<b>%</b>	
Sime Darby Bhd	30.0	
ECM Libra Financial	6.6	
Dato' Terry Tham Ka Hon	5.1	

**Per Share Data**

FYE Mar	FY10	FY11	FY12f
Book Value (RM)	1.25	1.21	1.22
Cash Flow (sen)	7.6	4.1	10.8
Earnings (sen)	6.7	3.0	9.6
Net Dividend (sen)	2.9	1.5	2.9
Payout Ratio (%)	31.4%	43.0%	30.0%
PER (x)	20.5	44.7	14.1
P/Cash Flow (x)	17.9	33.5	12.6
P/Book Value (x)	1.1	1.1	1.1
Net Dividend Yield (%)	2.1%	1.1%	2.1%
ROE (%)	6.8%	3.0%	7.7%
Net gearing (x)	0.4	0.5	0.4

**Last 12-Month Share Price Chart****Investment Highlights / Summary**

- **A luxury lifestyle property developer** focusing on high-end projects in Klang Valley and Penang, with new foray into Iskandar Malaysia in Johor via a joint venture with Khazanah Nasional and Temasek Holdings.
- **Sime Darby is the new major shareholder** with 30%-interest following acquisition of the stake from three key shareholders, namely Dato' Terry Tham, GK Goh Holdings Ltd and Tan Sri Wan Azmi Wan Hamzah.
- **Earnings growth catalysts** in the near term include its ongoing projects, namely the Quayside condominium project in Seri Tanjung Pinang (STP) Phase 1 in Penang and St Mary Residences in Klang Valley, while new launches in the pipeline are serviced apartments in Jalan Yap Kwan Seng and luxury condominiums in Jalan Conlay. In the longer term, the 740-acre STP Phase 2 would keep EOB very busy over the next 10 years.
- **We expect earnings to rise three-fold y-o-y in FY12** to RM102.1 mln on higher contributions from its existing property projects and fair value gain on investment property. Operations are supported by a healthy balance sheet with net gearing of 0.35x and BV/share of RM1.25. Current orderbook of RM850 mln provides earnings visibility for the next 12-18 months.
- **Risks** include delays in the STP Phase 2 project that would dampen earnings growth, potential oversupply of properties in Penang over the next few years given the slew of planned launches by various developers, as well as possible share overhang in view of the mandatory conversion of ICSLS that raised share base by some 20%.
- **Initiate coverage with Buy recommendation and a fair value of RM1.60**, based on a 50% discount to its RNAV of RM3.20. We like EOB for its i) prospective long term earnings growths and sustainability; ii) clear growth strategy; and iii) experienced management team.

## Background

### Corporate profile

Kuala Lumpur-based Eastern & Oriental Bhd (EOB) is an investment holding company while its subsidiaries are chiefly involved in three core businesses:- property development, property investment as well as hospitality and lifestyle activities .

#### **A luxury lifestyle property developer**

The Main Market-listed Group prides itself in being a niche luxury lifestyle property developer with strong emphasis on branding. It has successfully built a prominent presence through its high-end property development projects in Kuala Lumpur and Penang. Its notable ongoing projects include Seri Tanjung Pinang Phase 1 in Penang and St. Mary Residences in Kuala Lumpur.

#### **Went through streamlining of operations in 2007 and 2008**

Few years ago, E&O undertook several corporate exercises to streamline operations in an effort to create a stronger and more focused entity. It divested its (then) 50.6%-stake in the construction firm, Putrajaya Perdana Bhd, in 2007 while in 2008, EOB privatized its (then) 63%-owned property development arm, E&O Property Development Bhd. Following that, EOB has also undertaken a funding raising initiative in 2009 to strengthen its balance sheet in order to weather through the global credit crisis. As part of the initiative, it raised a total of RM481 mln cash from a combination of issuance of Irredeemable Convertible Secured Loan Stocks (ICSLs) (RM236 mln) and disposal of stocks and non-strategic land banks (RM245 mln).

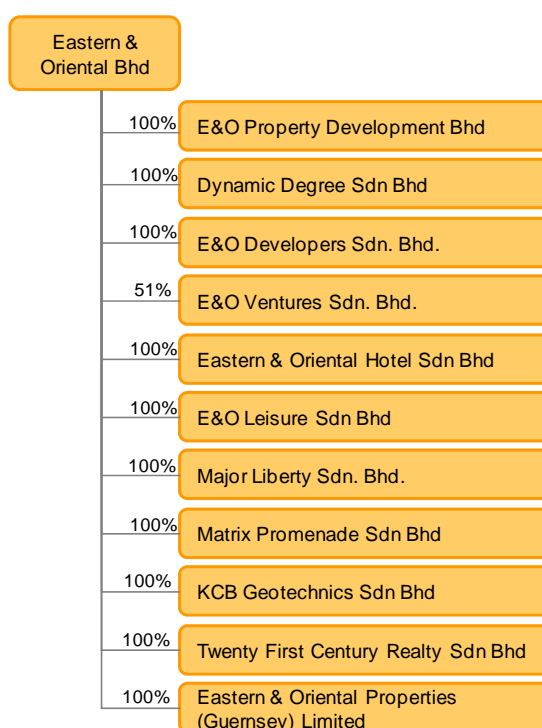
#### **Sime Darby is now a major shareholder with 30%-stake**

The Group made headline news in September 2011 when Sime Darby emerged as the single largest shareholder with a 30%-interest after the conglomerate bought over the stake from the three major shareholders, namely Dato' Terry Tham Ka Hon (Managing Director), GK Goh Holdings Ltd and Tan Sri Wan Azmi Wan Hamzah (through his direct shareholding as well as his investment vehicles, Halfmoon Bay Capital Ltd and Malayasset Ventures Sdn Bhd). Subsequent to the sale, on a fully diluted basis, Dato' Terry Tham's shareholding in EOB is reduced to 5.1%, GK Goh Holdings Ltd, 3.5%, and Tan Sri Wan Azmi, 2.9%. Other major shareholder in EOB is ECM Libra Financial Group Bhd with a 6.6%-stake.

Following the Sime Darby's acquisition, there were initially questions raised as to whether Sime Darby and the vendors, who collectively own approximately 41% in EOB, were acting in concert and therefore ought to be making a mandatory general offer for the remaining EOB shares. The uncertainties were later put to rest after a review by the Securities Commission on the transaction which concluded that a mandatory general offer obligation does not arise as Sime Darby and Dato' Terry Tham Ka Hon are not parties acting in concert.

#### **Dato' Terry Tham remains as the MD, assisted by Eric Chan as Deputy MD**

In terms of board composition, the current EOB board comprises 10 members led by Datuk Azizan bin Abd Rahman as the Chairman. Dato' Terry Tham serves as the Managing Director, assisted by Eric Chan Kok Leong as the Deputy Managing Director. It is noteworthy to mention that the latest two appointments to the board are representatives from Sime Darby -- Dato' Mohd Bakke bin Salleh and Dato' Abd Wahab bin Maskan, both assuming the post of Non-Independent and Non-Executive Directors of EOB. Dato' Mohd Bakke is the President & Group Chief Executive of Sime Darby Berhad while Dato' Abd Wahab is the Group Chief Operating Officer of Sime Darby Berhad and Managing Director of Sime Darby Property Berhad.

**Corporate structure.**

*Note: only direct subsidiaries are shown above.*

**Business**

EOB has three core business segments – property development, property investment as well as hospitality and lifestyle.

Property Development**Focuses on high-end developments in Klang Valley and Penang**

Property development is the largest business division at EOB in terms of revenue and earnings contribution. The Group brands itself as the Luxury Lifestyle Developer, focusing on strategically located high-end residential projects. EOB's key property markets are Klang Valley and Penang Island, with a new foray into Johor Bahru. Its portfolio of completed projects in the Klang Valley include:-

- Dua Residency – A luxury condominium project in the KLCC vicinity with a GDV of approximately RM520 mln;
- Seventy Damansara – 12 exclusive gated and guarded bungalows in Damansara Heights with a GDV of RM76 mln; and
- Idamansara – 82 semi-detached and 9 detaches homes in Damansara Heights with a GDV of RM290 mln.

**St. Mary Residences: GDV of RM810 mln**

Its current ongoing project in Kuala Lumpur is the St. Mary Residences, which the Group describes as “the Manhattan-style metro condominiums”. This is a joint-venture project with the Lion Group. Nestled in the heart of the city's Golden Triangle at the site of the former St. Mary's Girls School, the 4.13-acre freehold development comprises three blocks of serviced apartments and a retail podium, with a GDV of RM810 mln. The three 28-storey towers would have 657 units in total with sizes ranging from 1,135 st to 2,260 sf (1-bedroom to 3-bedroom) and 6,000 sf for penthouses.

**85% take-up rate for St. Mary Residences; current pricing is RM1,300 psf**

EOB launched the first block (Tower C) in June 2009 to an enthusiastic response and sold 80% of the 169 units in the first two weeks, with purchasers comprising mainly locals. The second block (Tower A) was launched October 2009, with management targeting the overseas buyers. To date, the overall take-up is approximately 85% for the two towers. Note that the third tower would be given to the Synod of the Diocese of West Malaysia, the previous owner of the parcel of land in exchange for the tract. Pricing-wise, selling price psf has risen from an average of RM1,000 psf in August 2009 to about RM1,300 psf presently. There is also a 2-storey retail podium of 35,000 sf that EOB intends to keep for rental income. Overall construction is 70%-completed, with handover slated for mid-2012.

**New launches planned in Klang Valley**

Pipeline launches in Klang Valley include bungalow parcels in Damansara Heights, serviced apartments in Jalan Yap Kwan Seng, and luxury condominiums in Jalan Conlay. The Group also owns 300 acres of land in Kemensah Heights that is under planning phase currently.

In Penang Island, EOB is now at the tail-end of Phase 1 of Seri Tanjung Pinang (STP) that spans across 240 acres of reclaimed land where the Group has 94% ownership with the remaining stake held by the Penang Development Corporation (PDC). Located at the Tanjung Tokong on the northeast coast of Penang, approximately 5km from Georgetown, STP is the largest seafront development on the island.

**240-acre in STP Phase 1: Total GDV of RM4 bln**

Boasting a total GDV of some RM4 bln, STP Phase 1 offered mainly residential properties such as courtyard terraces, semi-D's, seafront villas, luxury serviced apartments, resort condominium and bungalow parcels. Meanwhile, the commercial projects included the Straits Quay festive seafront mall and a Tesco hypermarket.

**Ongoing projects in STP Phase 1: Quayside Condominiums**

All the earlier residential developments in STP Phase 1 have largely been sold out. We understand that more than 600 landed properties and 200 serviced suites have been completed and handed over to purchasers to date. Presently, the ongoing projects include the seven-tower seafront resort condominiums named Quayside while the remaining new launch would be smaller in scale, comprising some seafront terraces with GDV of RM50 mln. We understand the Group recently soft-launched 9 units of seaside villas and semi-Ds (with GDV of RM40 mln) to warm responses with all units sold out within a short period of time.

**Quayside Phase 1: 80% take-up rate Current psf from RM1,200 compared to RM700 psf during initial launch in Feb 2010**

The 21-acre Quayside project has a GDV of RM2 bln, featuring a 4.5-acre private waterpark and a 7-acre landscaped garden. Split into two phases, Phase 1 has four towers with the balance three towers in Phase 2, which is also known as the Andaman Series. We understand Quayside Phase 1 has achieved an average take-up rate of 80%. The first tower was launched in February 2010 with an average pricing of RM700 psf. The fifth tower (under the Andaman Series) was recently soft-launched in November 2011 with pricing from RM1,200 psf onwards, setting yet another new benchmark for condominiums in Penang.

**Received approval-in-principle for 740-acre STP Phase 2**

EOB received approval-in-principle for the masterplan of STP Phase 2 in April 2011 that involves reclaiming 740 acres of land in Tanjung Tokong. It has an effective stake of 78% in SPT Phase 2 with the remaining interest held by PDC. The indicative GDV for STP Phase 2 is RM12 bln, offering a mixed integrated development comprising two islands. Management hopes to commence reclamation work in 2012 and it would take approximately two years to reclaim the land before launching the first project.

**Summary of GDV for ongoing and prospective projects**

	Est. GDV (RM mIn)
<b>Ongoing projects</b>	
STP1: Quayside Phase 1	1,000
St. Mary Residences	810
<b>New projects</b>	
STP1: Andaman Series	1,100
STP1: Seafront Terraces	50
STP1: Seaside Villa & Semi-D	40
Jln Yap Kw an Seng	to be determined
Jln Conlay	to be determined
STP Phase 2	12,000

**Venturing into Iskandar Malaysia via joint venture with Khazanah Nasional and Temasek Holdings**

Spreading its wings beyond Klang Valley and Penang, EOB is making its maiden foray into Johor following its announcement in June 2011 to team up with Khazanah Nasional and Temasek Holdings Pte Ltd. in a 50:50 joint venture to develop a 210-acre freehold land in Nusajaya into a wellness township. Located in Medini, one of five flagship zones in Iskandar Malaysia, the land is only 15 minutes away from the Tuas Second Link to Singapore.

The wellness township would comprise a mixed development offering terrace and semi-detached houses, bungalows, serviced apartments and condominiums, wellness centres, as well as retail and commercial properties. Further specifics about the development would be made available upon finalization and approval of the masterplan.

**Teams up with Japan's renowned real estate agency to market EOB's properties in Japan**

On the corporate front, EOB has in June 2011 signed a marketing collaboration agreement with Mitsui Real Estate Sales Co Ltd, the real estate brokerage arm of Mitsui Fudosan, Japan's largest property developer. Under the agreement, Mitsui would market EOB's projects to its clients in Japan, with immediate focus being the Quayside Phase 2 and St. Mary Residences. Both corporations are also looking forward to potential joint development of properties in Malaysia going forward.

Property Investment

**Current portfolio includes Straits Quay Mall and Dua Annexe**

This division was set up few years ago with the objective of providing steady recurring income of the Group. The investment portfolio currently comprises the Straits Quay mall in STP with a nettable area of 270,000 sf and Dua Annexe, the retail space at Dua Residency. Future additions would include the retail podium of the St Mary Residences and possibly some of the commercial properties under STP Phase 2.

Hospitality and Lifestyle

EOB's hospitality and lifestyle business encompasses a wide array of service offerings with the objective of strengthening its brand equity and complementing the property development arm. The following table lists services offered by the Group:-

**Various hospitality and lifestyle offerings to complement its property arm**

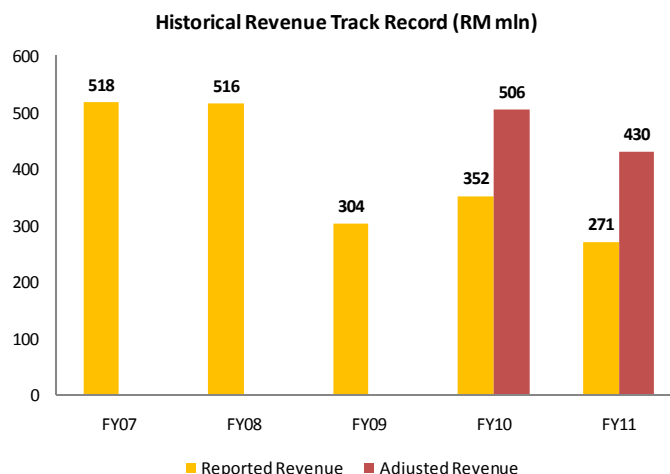
E&O's services	Descriptions
• Hotels	<ul style="list-style-type: none"> <li>Owns and manages the E&amp;O Hotel and the Lone Pine Hotel in Penang</li> <li>E&amp;O Hotel: 100 suites @ average of RM540/night; 65% occupancy</li> <li>Lone Pine Hotel: 90 suites @ average of RM460/night; 60% occupancy</li> </ul>
• F&B	<ul style="list-style-type: none"> <li>Owns the Delicious chain of restaurants</li> <li>Manages 5 Delicious Cafes in Klang Valley , 1 in Straits Quay, Penang and 1 in Singapore.</li> </ul>
• Merchandising	<ul style="list-style-type: none"> <li>The retail shops at the E&amp;O Hotel and Lone Pine Hotel</li> </ul>
• Retail Mall	<ul style="list-style-type: none"> <li>Owns and manages the Straits Quay mall in STP, Penang which opened in Nov. 2010</li> <li>Boasts 270,000 sf of net lettable area with approx. 70% occupancy rate</li> </ul>
• Marina Operations	<ul style="list-style-type: none"> <li>Operates 40 pontoon berths Straits Quay Marina</li> </ul>
• Performing arts centre of Penang	<ul style="list-style-type: none"> <li>A non-for-profit arts centre in the Straits Quay</li> <li>E&amp;O provided the space and construction team while management of the centre is by The Actors Studio</li> </ul>
• Serviced Residences	<ul style="list-style-type: none"> <li>Manages some of the serviced apartments located above the Straits Quay mall, offering comprehensive pay-on-demand F&amp;B and housekeeping services</li> <li>(upcoming) To manage 200 serviced apartments in the third tower of St Mary Residences. The tower belongs to the Synod of the Diocese of West Malaysia, the previous owner of the land</li> </ul>
• Convention Centre	<ul style="list-style-type: none"> <li>Manages the Straits Quay Festival Hall which has 30,000 sf of conference space.</li> </ul>

### Financial Highlights

EOB's revenue in FY07 (excluding contribution from the construction arm which was disposed in October 2007) and FY08 averaged at over RM500 mln with the property development division contributing the bulk of turnover at approximately 90%.

**STP Phase 1 has been the anchor revenue driver for the past three years**

Revenue dipped 41% y-o-y to RM304.4 mln in FY09 in the absence of major launches following the completion of EOB's Seventy Damansara, Dua Residency and Idamansara projects in FY08. Turnover improved 16% y-o-y to RM352.4 mln in FY10 on higher contributions from its projects in STP Phase 1 as well as from sale of completed units in Dua Residency. Subsequently, turnover in FY11 declined 23% y-o-y to RM271 mln mainly due to lower recognition of revenue from STP Phase 1 projects. Note that the Group's sales from the St. Mary Residences and Villa-by-the-Seas in STP Phase 1 are not included in the consolidated revenue as these are joint-venture projects. For illustrative purposes, we have incorporated the revenue from these two JV projects into the group revenue to provide an inclusive perspective of the Group performance, as displayed in the following chart.



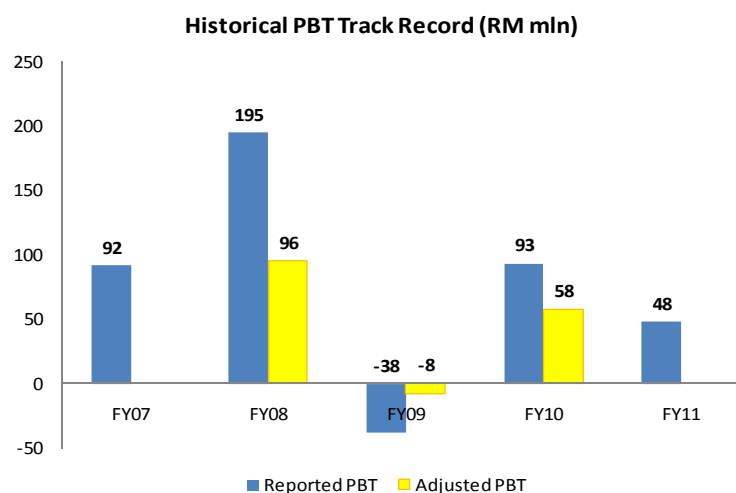
Note: i) FY07 revenue excluded contribution from EOB's construction arm which was disposed in October 2007; ii) For illustrative purposes, adjusted revenue includes contributions from St. Mary Residences and Villas-by-the-Sea, both of which are JV projects with 3<sup>rd</sup> parties.

### Performance in FY09 affected by 2008/09 credit crisis

In terms of profitability, there are considerable fluctuations in EOB's reported pretax profit (PBT) over the past five years due to one-off exceptional items. It reported a PBT of RM91.6 mln in FY07 before surging to RM194.6 mln in FY08, boosted by a RM99 mln gain on disposal of its construction business, Putrajaya Perdana Bhd. In FY09, the Group performance was affected by the 2008/09 credit crisis which saw contribution from the property development segment slowed down. This was further exacerbated by the recognition of a loss of RM20 mln on disposal of an associated company, as well as a provision of RM10.2 mln on impairment of investments, which resulted in EOB registering a pretax loss of RM38.1 mln.

### Earnings rebounded in FY10

The Group bounced back strongly in FY10 with a PBT of RM93.3 mln, thanks to higher earnings from property divisions, profits from jointly-controlled entities (for the St. Mary Residences and Villas-by-the-Seas projects), cost savings from certain projects, lower finance costs, plus a RM35.1 mln gain on disposal of its Lot 595 land. PBT in FY11 was however, lower at RM48 mln reflecting the pre-opening losses associated with the opening of Lone Pine Hotel (following refurbishment exercise) and Straits Quay mall, in addition to reduced contribution from property division and higher finance cost. The chart below illustrates the Group's historical reported and adjusted PBT over the past five years.



Note: The adjusted PBT excluded a RM99 mln gain disposal of Putrajaya Perdana Bhd in FY08; a RM20 mln loss on disposal of an associate and a RM10.2 mln provision for asset impairment in FY09; as well as a RM35.1 mln gain on disposal of land in FY10.

**1HFY12 results: revenue rose 41% y-o-y with PBT up four-fold y-o-y**

In the latest 1HFY12 results, EOB registered a 41% y-o-y rise in turnover to RM158.5 mln on higher contributions from the property (+50% y-o-y) as well as the hospitality and lifestyle (+11% y-o-y) divisions. Meanwhile, 1HFY12 PBT surged almost four-fold y-o-y to RM88.9 mln owing to increased contribution from the property division in tandem with the higher revenue, improved contribution from its jointly-controlled entities (for the St. Mary Residences and Villas-by-the-Sea) and a fair value gain on investment property amounting to RM63.7 mln. Stripping off the fair value gain, adjusted PBT of RM25.2 mln was a 11% y-o-y improvement over 1HFY11. On balance sheet strength, net gearing remains relatively healthy at 0.35x as at end-September 2011, supported by a BV/share of RM1.25.

### Earnings Outlook

**Government implemented measures to cool off property sector**

The property sector has been hot for the past two years with property prices rising between 5% and 50% depending on location. This prompted the Government to impose cooling measures such as re-introducing the Real Property Gains Tax at 5% for disposal within the first five years, and restricting a maximum 70% loan-to-value ratio for the purchase of third residential property. Commercial banks too, are generally tightening their lending rules for mortgages.

**Expects a mixed outlook for the sector...**

Given the measures taken, we expect a mixed outlook for the property sector in 2012. We anticipate landed properties and affordable apartments in good locations to still experience good demand with healthy price appreciation. On the flip side, office units in Kuala Lumpur and Petaling Jaya may experience some price pressures due to high supply coming on-stream, while luxury condominiums, particularly in the KLCC area, are likely to see prices remain stagnant.

**... but remain positive on EOB's prospects**

Despite the above, we remain positive on EOB's earning outlook in the next two years. In Kuala Lumpur, its luxury condominium project, St. Mary Residences, in the Golden Triangle area has already secured a comfortable take-up rate of 85%. Even if prices remain at current level (approximately RM1,300 psf), it still yield decent profit margins to the Group.

Over in Penang, we expect property prices to remain stable in 2012, with potential for price appreciation in selected locations. We certainly view STP favourably given its sea-fronting locale and proximity to the popular Gurney Drive, in addition to its freehold status. Apart from local customers, foreigners and expatriates who have higher purchasing power made up a decent portion of STP purchasers and hence, providing demand support to new launches. In any case, we believe EOB will time the market and launch the Andaman Series gradually.

**Projects FY12 net profit at RM102 mln; backed by RM850 mln in orderbook**

We project EOB to post a net profit of RM102.1 mln in FY12 (+216.8% y-o-y) on the back of RM510.9 mln in revenue (+88.4% y-o-y), with earnings drivers continue to be the St. Mary Residences and the Quayside Phase 1 condominium. Note that the FY12 net profit estimate also includes a RM63.7 mln fair value gain (at pre-tax level) on investment property. The Group's current orderbook of approximately RM850 mln would provide visibility for the next 12-18 months.

In terms of landbank, EOB presently has approximately 691 acres of undeveloped land in Penang (53%) and Kuala Lumpur (47%), excluding the 740 acres of STP Phase 2 land to be reclaimed. On a combined basis, it would have a total prospective landbank of over 1,431 acres.

## Investment Risks

**Delays in the STP 2 launch.** While EOB has obtained the approval-in-principle from the Penang State and aims to commence reclamation in 2012, there are still a number of conditions and other approvals to be sought and complied with before any reclamation work could begin. Some of these conditions include a satisfactory environmental impact assessment (EIA) study and compliance by the masterplan with the planning approval-related technical requirements. Any delays in these required steps would derail the Group's timeline and in turn, weigh down its earnings growth.

**Oversupply of properties in Penang.** Apart from EOB's planned 740-acre STP Phase 2 project, there are also a number of property developers planning to launch various projects in Penang. Some of these include SP Setia Bhd, Sunway City Bhd, Mah Sing Group Bhd, IJM Land Bhd, Ivory Properties Bhd. Between now and 2012, the planned launches in Penang is to the tune of RM4 bln. In the longer term, it is estimated that there would be some RM29 bln worth of properties to be built over the next 10 to 15 years, with the bulk of it being residential projects. Given the large amount of new planned developments, there is a possibility of oversupply which may dampen take-up rates and selling prices of properties.

**Potential overhang of EOB shares.** EOB has mandatorily converted the 200-odd mln remaining ICCLS which carries a hefty coupon rate of 8%. The ICCLS was converted into ordinary shares on 27 December 2011, bringing the estimated enlarged share capital to 1.12 bln shares. The sudden increase in the share base may temporarily create overhang in the trading of EOB shares, resulting in the potential downward share price pressure in the near term.

## Valuation

The following table compares EOB to some of its peers that are either based in Penang or have development projects in Penang:-

### Peer comparison

Company	Share Price (RM)	Trailing 12mth PER (x)	Forward PER (x)	P/BV (x)	Mkt Cap (RM mln)
E&O	1.36	18.1	14.1	1.0	1,262.1
IJM Land	2.19	12.1	14.0	1.3	3,040.1
Mah Sing Group	1.86	9.7	9.9	1.5	1,547.3
Boustead Holdings	5.79	8.7	12.6	1.2	5,443.5
Hunza Properties	1.46	7.5	8.1	0.6	283.9
Ivory Properties	0.95	6.0	3.7	0.8	176.7
<b>Avg excl E&amp;O</b>		<b>8.8</b>	<b>9.7</b>	<b>1.1</b>	

Source: Bloomberg, Company data, ZJ Research

From the table above, it appears that compared to its peers, EOB is trading at a premium on forward PER basis, but at par on P/BV basis. We reckon the premium (on PER) is justified considering its earnings growth potential from the 740-acre STP Phase 2 project.

We have decided to adopt the RNAV method to arrive at our fair value, which we believe better reflect the underlying value of the Group. Based on our RNAV approach, we have arrived at a fair value of RM1.60 for EOB, as illustrated in the following table:-

**RNAV of RM3.20 per share; fair value RM1.60**

<b>DEVELOPMENT PROFITS</b>						
<b>Projects</b>	<b>Owner-ship</b>	<b>Est. GDV (RM mln)</b>	<b>Est. profit margin</b>	<b>Est. Profit (RM mln)</b>		
STP1: Quayside Phase 1	94%	1,000	20%	188		
STP1: Andaman Series	94%	1,100	20%	207		
STP1: Seafront Terraces	94%	50	20%	9		
STP1: Seaside Villa & Semi-D	94%	40	20%	8		
STP Phase 2	78%	12,000	15%	1,404		
St. Mary Residences	50%	810	20%	81		
				<b>1,896.7</b>		
<b>LANDBANK</b>						
<b>Location</b>	<b>Owner-ship</b>	<b>Acreage</b>	<b>Cost (RM psf)</b>	<b>Est. Mkt Value (RM psf)</b>	<b>Surplus (RM mln)</b>	
Jalan Teruntung, D'sara Heights	100%	3.9	308	750	75.6	
Jln Liew Weng Chee (off Jln YKS), KL	100%	0.9	477	700	8.5	
Jalan Yap Kw an Seng, KL	100%	1.3	1,041	1,500	25.8	
Jalan Conlay, KL	100%	1.4	695	1,500	49.1	
Kemensah Heights, Ulu Kelang	88%	309.5	8	23	179.2	
Ukay Heights, Ulu Kelang	100%	9.4	38	60	8.9	
Gertak Sanggul, Penang	100%	365.0	8	17	137.1	
		<b>691.4</b>			<b>484.2</b>	
<b>Total est. development profits + surplus (RM mln)</b>					<b>2,380.9</b>	
Add: Net assets @31 Mar 2011 (RM mln)					1,205.9	
RNAV (RM mln)					3,586.8	
Enlarged share base following conversion of ICSSL (mln shares)					1,120.0	
RNAV/share (RM)					3.20	
<b>RNAV/share after 50% discount (RM)</b>					<b>1.60</b>	

The discount was applied to reflect the long gestation period (between 8 and 10 years) needed to develop its STP Phase 2 project as well as its other larger tract of land before realizing its full potential value.

## Recommendation

**Recommends Buy with fair value of RM1.60** We initiate coverage on EOB with a **Buy** recommendation and a fair value of **RM1.60**.

We like EOB for its i) prospective long term earnings growths and sustainability; ii) clear growth strategy; and iii) experienced management team. In the longer term, we opine that EOB's value lies in its 740-acre STP Phase 2 project which is three times the size of STP Phase 1. Given the highly successful STP Phase 1, the Group offers enormous earnings growth prospects should it be able to repeat the feat achieved in STP Phase 2. We believe the possibility of success is high assuming no major changes to the current management team who has proven their capability.

Additionally, its growing recurring income from the property investment division will over time provide some earnings support to smoothen out the lumpy nature of property development profits. Nevertheless, we caution investors that in the near term, share price performance may be affected by the potential share overhang arising from the mandatory conversion of ICSSL.

## P&L Summary

<b>FYE Mar (RM mln)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12f</b>
Revenue	304.4	352.4	271.3	510.9
Operating profit	(6.9)	108.8	61.7	140.0
Net Int Exp	(28.3)	(23.0)	(28.1)	(30.3)
Share of JV profit	0.6	9.7	15.3	33.8
Pre-tax Profit	(38.1)	93.3	48.2	146.3
Eff. Tax Rate	nm	20.0%	26.2%	28.0%
Net Profit	(37.3)	70.8	32.2	102.1
Op. Profit Margin (%)	nm	30.9%	22.8%	27.4%
Pre-tax Margin (%)	nm	26.5%	17.8%	28.6%
Net Margin (%)	nm	20.1%	11.9%	20.0%

Source: Company, ZJ Research

## Balance Sheet Summary

<b>FYE Mar (RM mln)</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>
Total Assets	1,971.9	2,180.7	2,116.9
Fixed Assets	341.6	393.4	260.6
Current Assets	880.5	1,029.3	801.7
Other LT Assets	4,193.8	4,552.4	4,602.3
Current Liabilities	568.0	499.1	540.0
LT Liabilities	2,699.0	3,195.0	2,958.3
Share Capital	592.0	761.6	842.6
Shareholders' Funds	814.4	1,043.3	1,057.6

Source: Company

**RATING GUIDE**

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

**DISCLAIMER**

This report is for information purposes only and has been prepared by ZJ Advisory based on sources believed to be reliable at the time of issue of this report. We however do not give any guarantee as to the accuracy or completeness of the information provided. Any opinions or estimates in this report are that of ZJ Advisory as of this date and are subject to change without notice. ZJ Advisory has no obligation to update its opinion or the information in this report beyond the scope of participation under the CMDF-Bursa Research Scheme. ZJ Advisory and/or its directors and staff may have an interest in the securities mentioned.

This report is under no circumstances to be construed as an offer to sell or a solicitation of an offer to buy any securities. Investors should seek financial regarding the appropriateness of investing in any securities discussed or opined in this report. Investors should understand that statements regarding future prospects may not materialize. This report may contain forward looking statement and forecasts, which are based on assumptions that are subject to uncertainties. Any deviation from the expectations may have adverse effect on the projections and prospects contained herein. ZJ Advisory accepts no liability for any direct, indirect or consequential loss arising from the use of this report.

This report has been prepared by ZJ Advisory for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. ZJ Advisory has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/).

---

**ZJ Advisory Sdn Bhd (Co No: 645449-V)**  
**(An investment adviser licensed by the Securities Commission)**  
Suite 22B, 22nd Floor, Sunway Tower,  
No 86, Jalan Ampang, 50450 Kuala Lumpur  
Tel (603) 2032 2328 Facsimile (603) 2032 1328

---