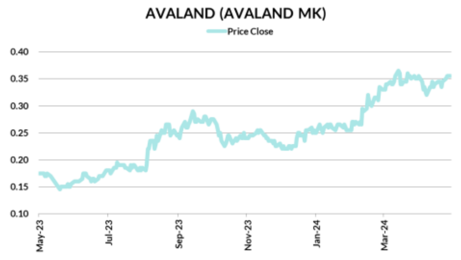
# Avaland

Fair Value: MYR0.53-0.58
Price: MYR0.35

## Timely Turnaround To Ride On The Property Upcycle




*Source: Bloomberg*

**Stock Profile**

| | |
|---|---|
| Bloomberg Ticker | AVALAND MK |
| Avg Turnover (MYR/USD) | 2.44m/0.52m |
| Net Gearing (%) | 39.1 |
| Market Cap (MYRm) | 509.9 |
| Beta (x) | 0.8 |
| BVPS (MYR) | 0.70 |
| 52-wk Price low/high (MYR) | 0.145 - 0.365 |
| Free float (%) | 22 |

**Major Shareholders (%)**

| | |
|---|---|
| Regent Wise Investment | 66.3 |
| Tong Seech Wi | 2.5 |
| Goh Ming Choon | 2.4 |

**Share Performance (%)**

| | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | 0.0 | 37.3 | 45.8 | 89.2 |
| Relative | (3.2) | 32.7 | 35.1 | 76.7 |

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## Investment Merits

- A successful turnaround after a major internal revamp
- Preview and launches YTD saw encouraging bookings and take-up rates
- Sales guidance of MYR700-800m represents almost 30% YoY growth
- New land additions should provide upside to RNAV estimate

## Company Profile

Avaland (previously known as MCT Consortium (MCT)) was listed in 2015 via a reverse takeover of GW Plastics Holdings. The issue price for new placement shares back then was at MYR1.28 per unit. Philippines-based property giant Ayala Land first emerged in MCT in Apr 2015 with a 9.16% stake shortly after the listing – its shareholdings later rose to 32.95% six months later. In 2018, Ayala Land launched a mandatory takeover offer after signing a share purchase agreement with Tan Sri Goh Ming Choon, a major shareholder then, to buy 230.12m shares or a 17.24% stake for MYR202.5m (ie MYR0.88 per share). Today, Ayala Land's stake is at 66.3%, while co-founders Tan Sri Goh and Dato' Sri Tong Seech Wi have holdings of about 5% and 2.5% in the company. MCT changed its name to Avaland in Jul 2023.

## Highlights

**A successful turnaround after a major internal revamp.** Avaland has been under the radar for many investors – largely due to its poor earnings record over the last few years, coupled with the slowdown in the property market. However, given the change in the management team, the company has started seeing a convincing earnings turnaround since last year. Previous CEO Teh Heng Chong (Apollo Bello Tanco replaced Teh effective 1 Jan) was instrumental in driving the restructuring. Since then, management has decided to focus on building brand equity by offering quality products, to sustain Avaland's long-term property sales. One of the major changes included a complete outsourcing of design, architectural, and construction works for all projects. In the past, the number of defects, as well as costs incurred for rectification works and overheads, were high – due to the in-house construction arm undertaking all building works.

**Premium segment regaining traction.** Aetas Damansara (GDV: MYR581m) was Avaland's maiden premium project. Launched two years ago, the project is now 98%-sold and slated for completion in end-2024, slightly ahead of schedule. Recently, Avaland hosted a private preview of its second luxury project, Aetas Seputeh (GDV: MYR365m). Starting with a unit size of 3,500sqf (with an ASP of almost MYR1,000psf), the project is already 50% booked. Buyers should start signing sales & purchase agreements (SPAs) soon, pending the approval of the advertising permit and developer's license or APDL at end April.

**Targeting FY24 sales of MYR700-800m.** Management guided that it may be able to achieve MYR700-800m in property sales this year vs FY23's MYR586m. Apart from the premium products segment, Avaland also offers mid-range and affordable products. While waiting for Aetas Seputeh's official launch, Amika Residences in Subang Jaya (GDV: MYR452m; unit prices: MYR600-800k) was launched in March. Within two weeks of being launched, it was already 50% booked, and buyers have started signing their SPAs. Anja Bangi (GDV: MYR563m; unit prices: less than MYR600k) should be rolled out in 2Q24. We think it will be similarly well-received, as it overlooks a scenic golf course in Bangi.

**Landbanking to drive longer-term growth.** Avaland has a remaining landbank of about 183 acres (149 acres in Cybersouth). Management is on the lookout for new land to sustain its sales and launches in the coming years. Although there is interest to explore industrial development opportunities, the priority is still on developing residential projects within the Klang Valley. New land additions should provide a potential upside to our RNAV estimate.

## Company Report Card

**Results highlights.** FY23 revenue grew 170% YoY, while earnings surged to MYR66m from MYR0.5m in FY22. Apart from the successful restructuring, progress billings and healthy sales from ongoing projects eg Aetas Damansara, Alira Subang Jaya and projects in Cyberjaya, should underpin revenue.

**Strengthening balance sheet.** Avaland's net gearing stood at 0.39x, including loans from the ultimate holding company. 2025 will see the completion of at least three projects worth about MYR1.5bn in GDV – this should ease cash flow and provide a war chest for new land acquisitions.

**Dividends.** As the company has just successfully turned around and is now pursuing growth opportunities, there is no plan for dividend payouts – possibly until FY25.

**Management.** With the change in major shareholders, Avaland also saw changes in its management team over the last 7-8 years. Teh, who had been appointed as CEO in 2019 (under his leadership, the company saw positive changes in its operations, projects, sales & marketing, and landbanking strategy) resigned from his post last year. While Tanco is now the CEO, Teh remains on the board of directors as a non-executive member.

## Investment Case

**Undemanding valuation.** In line with the sector re-rating, we now value Avaland based on a 45-50% discount to RNAV. We think this is reasonable, given the company's successful turnaround, prudent landbanking strategy, encouraging sales and earnings, and strengthening financial position. Based on the current share price, the stock is trading at less than 7x FY24F P/E.

**Key risks** include: i) Unexpected slowdown in economic growth, ii) worsening geopolitical risks in the Middle East, and iii) political turbulence.

| Profit & Loss | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total turnover (MYRm) | 327 | 225 | 608 |
| Reported net profit (MYRm) | (16) | 0 | 66 |
| Recurring net profit (MYRm) | (16) | 0 | 66 |
| Recurring net profit growth (%) | (263.2) | (103.0) | n.m. |
| Recurring EPS (MYR) | (0.01) | 0.00 | 0.05 |
| DPS (MYR) | 0.00 | 0.00 | 0.00 |
| Dividend Yield (%) | 0.0 | 0.0 | 0.0 |
| Recurring P/E (x) | n.m. | n.m. | 7.7 |
| Return on average equity (%) | (1.9) | 0.1 | 7.3 |
| P/B (x) | 0.6 | 0.6 | 0.5 |
| P/CF (x) | (7.8) | (4.0) | 10.4 |

*Source: Company data, RHB*

| Balance Sheet (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Total current assets | 904 | 622 | 1026 |
| Total assets | 1707 | 1391 | 1794 |
| Total current liabilities | 842 | 258 | 714 |
| Total non-current liabilities | 1 | 262 | 144 |
| Total liabilities | 843 | 520 | 859 |
| Shareholder's equity | 864 | 871 | 935 |
| Minority interest | 0 | 0 | 0 |
| Other equity | 0 | 0 | 0 |
| Total liabilities & equity | 1707 | 1391 | 1794 |
| Total debt | 523 | 321 | 533 |
| Net debt | 63 | 203 | 366 |

*Source: Company data, RHB*

| Cash Flow (MYRm) | Dec-21 | Dec-22 | Dec-23 |
|---|---|---|---|
| Cash flow from operations | (65) | (126) | 49 |
| Cash flow from investing activities | (8) | 0 | (181) |
| Cash flow from financing activities | (70) | (258) | 151 |
| Cash at beginning of period | 599 | 459 | 118 |
| Net change in cash | (140) | (342) | 49 |
| Ending balance cash | 459 | 118 | 167 |

*Source: Company data, RHB*