

# SkyWorld (SKYWLD MK)

Upgrade BUY as major catalyst emerges

MALAYSIA | PROPERTY | UPDATE

- SkyWorld to jointly develop RM13bn GDV affordable housing with PDC
- The development is expected increase its current land bank by 3-fold to RM18bn, supporting sales and earnings from FY27E onwards
- We tweaked our FY26–27E EPS by 1-5% to factor in the earnings contribution from this development. Upgrade to BUY with higher target price at RM1.10

## Malaysia's largest RM13bn affordable housing development

SkyWorld has entered into 2 strategic agreements with Penang Development Corporation (PDC) and PDC Properties Sdn Bhd (PDCP) to jointly develop more than 35k affordable housing units across a combined area of 196 acres in Batu Kawan and Seberang Jaya. The initial land cost for this development is expected to be RM543m, with RM503m for the land and RM40.2m for project management fee, which are subjected to an annual increase of 6% and payable within 10 years from the date of JDA. This affordable housing development is projected to have a GDV of RM13bn, with the first phase expected to be launched in 2026.

## Strategically located in FDI hotspot, attractive land-to-GDV cost

The development is part of PDCP's new affordable housing scheme (New Talent Housing), with price ceiling at RM420k. The development is strategically located in Penang's industrial hub, well positioned to grow along the prospering E&E sector. We are overall positive on this acquisition as the potential GDV of RM13bn over 15 years is expected to increase its current land bank by 3-fold to RM18bn, further strengthening its property development pipeline. After taking into account the indicative payment schedule and annual price adjustment, we estimate the total purchase consideration to be RM568m, translating to a land-to-GDV cost of 4.3% below its historical average of 14-16%. Post acquisition, we expect SkyWorld's net gearing to increase to 0.1x (from 0.03x as at 2QFY25).

## Upgrade to BUY with a higher TP of RM1.10

We raise our FY27E earnings forecasts by 5% to factor in the earnings contribution from this project but trim FY26E earnings by 1% on lower interest income post-acquisition. We raise our RNAV-derived target price to RM1.10 (from RM0.56) after imputing the RNAV of this project and reducing our RNAV discount to 30% (from 40%) on stronger development pipeline. With the latest replenishment, SkyWorld now enjoys improved earnings clarity, which should serve as a major catalyst for the stock. Upgrade to BUY call. Key risks include lower-than-expected property sales and higher building material prices.

### Key Financials

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
Revenue (RMm)	841.4	688.0	509.8	738.1	992.9
EBITDA (RMm)	218.8	177.8	86.7	145.9	199.6
Pretax profit (RMm)	204.8	159.9	72.3	132.9	184.1
Net profit (RMm)	144.0	106.8	51.6	97.3	136.5
EPS (sen)	14.4	10.7	5.2	9.7	13.7
PER (x)	4.3	5.9	12.1	6.4	4.6
Core net profit (RMm)	144.7	111.8	51.6	97.3	136.5
Core EPS (sen)	14.5	11.2	5.2	9.7	13.7
Core EPS growth (%)	30.7	(22.8)	(53.8)	88.4	40.3
Core PER (x)	4.3	5.6	12.1	6.4	4.6
Net DPS (sen)	3.0	2.3	3.0	3.5	3.5
Dividend Yield (%)	4.8	3.6	4.8	5.6	5.6
EV/EBITDA (x)	4.0	3.5	7.2	4.4	3.8
Chg in EPS (%)			-	-1.3	+4.8
Phillip/Consensus (%)			0.7	0.9	1.0

Sources: Company, Bloomberg, Phillip Research forecasts

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## BUY (upgrade)

LAST CLOSE PRICE	RM0.63
TARGET PRICE	RM1.10
TOTAL RETURN	76.0%
(PREVIOUS TP:	RM0.56)

### COMPANY DATA

BLOOMBERG TICKER	SKYWLD MK EQUITY
O/S SHARES (MN) :	1,000
MARKET CAP (USD mn / RM mn) :	141 / 625
52 - WK HI/LO (RM) :	0.73 / 0.48
3M Average Daily T/O (mn) :	1.68
NET CASH/(DEBT) (RMm)	(26.90)

### MAJOR SHAREHOLDERS (%)

Phing Ng Thien	42.6%
Lam Soo Keong	10.3%
Lee Chee Seng	5.0%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	25.0	22.5	(26.2)
FBMVKCI RETURN	(0.5)	(0.8)	15.3

### PRICE VS. FBMVKCI



Source: Bloomberg

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**Table 1: Revalued net asset value (RNAV) valuation**

Segments	RNAV Value (RMm)
Property developments @DCF (WACC 5.8%)	1,581
Investment properties and other assets	292
Net cash/(debt)	-11
<b>RNAV</b>	<b>1,862</b>
Fully-diluted no. of shares (m)	1,188
<b>Fully-diluted RNAV/share (RM)</b>	<b>1.57</b>
<b>Target price at 30% discount to RNAV</b>	<b>1.10</b>

Source: Phillip Research forecasts

# FINANCIALS

## Income Statement

Y/E Mar (RMm)	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenue</b>	<b>841.4</b>	<b>688.0</b>	<b>509.8</b>	<b>738.1</b>	<b>992.9</b>
Operating expenses	(622.6)	(510.3)	(423.1)	(592.3)	(793.3)
<b>EBITDA</b>	<b>218.8</b>	<b>177.8</b>	<b>86.7</b>	<b>145.9</b>	<b>199.6</b>
Depreciation	(2.1)	(4.4)	(5.1)	(5.7)	(6.4)
<b>EBIT</b>	<b>216.7</b>	<b>173.4</b>	<b>81.7</b>	<b>140.1</b>	<b>193.2</b>
Net int income/(expense)	(11.2)	(8.4)	(9.3)	(7.3)	(9.1)
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Forex gain/(loss)	0.0	0.0	0.0	0.0	0.0
Exceptional gain/(loss)	(0.7)	(5.0)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>204.8</b>	<b>159.9</b>	<b>72.3</b>	<b>132.9</b>	<b>184.1</b>
Tax	(54.1)	(53.4)	(21.0)	(35.9)	(47.9)
Minority interest	(6.7)	0.3	0.3	0.3	0.3
<b>Net profit</b>	<b>144.0</b>	<b>106.8</b>	<b>51.6</b>	<b>97.3</b>	<b>136.5</b>
<b>Core net profit</b>	<b>144.7</b>	<b>111.8</b>	<b>51.6</b>	<b>97.3</b>	<b>136.5</b>

## Balance Sheet

Y/E Mar (RMm)	FY23	FY24	FY25E	FY26E	FY27E
<b>Fixed assets</b>	<b>23.8</b>	<b>31.6</b>	<b>59.5</b>	<b>63.8</b>	<b>67.4</b>
Other long term assets	626.6	609.7	712.1	726.4	898.3
<b>Total non-current assets</b>	<b>650.4</b>	<b>641.2</b>	<b>771.5</b>	<b>790.2</b>	<b>965.7</b>
<b>Cash and equivalents</b>	<b>237.7</b>	<b>499.9</b>	<b>558.2</b>	<b>560.6</b>	<b>545.8</b>
Stocks	184.4	190.6	151.2	216.0	288.5
Debtors	220.2	197.7	89.3	129.2	176.5
Other current assets	24.9	29.2	29.2	29.2	29.2
<b>Total current assets</b>	<b>667.3</b>	<b>917.4</b>	<b>827.9</b>	<b>935.0</b>	<b>1,040.0</b>
<b>Creditors</b>	<b>161.2</b>	<b>164.2</b>	<b>115.3</b>	<b>164.7</b>	<b>220.0</b>
Short term borrowings	159.2	213.4	213.4	213.4	213.4
Other current liabilities	56.8	50.9	50.9	50.9	50.9
<b>Total current liabilities</b>	<b>377.1</b>	<b>428.5</b>	<b>379.7</b>	<b>429.0</b>	<b>484.3</b>
<b>Long term borrowings</b>	<b>201.9</b>	<b>289.8</b>	<b>323.9</b>	<b>276.1</b>	<b>344.1</b>
Other long term liabilities	123.0	(2.5)	31.4	93.3	139.3
<b>Total long term liabilities</b>	<b>324.9</b>	<b>287.3</b>	<b>355.3</b>	<b>369.4</b>	<b>483.4</b>
<b>Minority interests</b>	<b>5.9</b>	<b>(3.3)</b>	<b>(3.3)</b>	<b>(3.3)</b>	<b>(3.3)</b>
<b>Shareholders' Funds</b>	<b>609.8</b>	<b>846.1</b>	<b>867.7</b>	<b>930.0</b>	<b>1,031.5</b>

## Cash Flow Statement

Y/E Mar (RMm)	FY23	FY24	FY25E	FY26E	FY27E
<b>PAT</b>	<b>144.0</b>	<b>106.8</b>	<b>51.6</b>	<b>97.3</b>	<b>136.5</b>
Depreciation & Amortisation	2.1	4.4	5.1	5.7	6.4
Working capital changes	(84.6)	7.2	99.0	(55.3)	(64.5)
Others	(149.3)	34.6	(0.3)	(0.3)	0.7
<b>Cashflow from operation</b>	<b>(87.8)</b>	<b>153.0</b>	<b>155.4</b>	<b>47.4</b>	<b>79.1</b>
Capex	(26.1)	(26.1)	(10.0)	(10.0)	(10.0)
Disposal/(purchases)	0.0	0.0	0.0	0.0	0.0
Others	3.9	(53.8)	(125.1)	(14.1)	(162.9)
<b>Cash flow from investing</b>	<b>(22.2)</b>	<b>(79.9)</b>	<b>(135.1)</b>	<b>(24.1)</b>	<b>(172.9)</b>
Debt raised/(repaid)	35.1	6.4	68.0	14.1	114.0
Net interest income/(exp)	(11.2)	(8.4)	(9.3)	(7.3)	(9.1)
Dividends paid	0.0	(22.5)	(30.0)	(35.0)	(35.0)
Others	120.3	129.4	9.3	7.3	9.1
<b>Cash flow from financing</b>	<b>144.2</b>	<b>104.9</b>	<b>38.0</b>	<b>(20.9)</b>	<b>79.0</b>
<b>Free Cash Flow</b>	<b>(113.9)</b>	<b>127.0</b>	<b>145.4</b>	<b>37.4</b>	<b>69.1</b>

Source: Company, Phillip Research forecasts

## Key Financial Ratios and Margins

Y/E Mar (RMm)	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth</b>					
Revenue (%)	6.4	(18.2)	(25.9)	44.8	34.5
EBITDA (%)	27.0	(18.8)	(51.2)	68.2	36.8
Core net profit (%)	30.7	(22.8)	(53.8)	88.4	40.3
<b>Profitability</b>					
EBITDA margin (%)	26.0	25.8	17.0	19.8	20.1
PBT margin (%)	24.3	23.2	14.2	18.0	18.5
Core net profit margin (%)	17.2	16.2	10.1	13.2	13.7
Effective tax rate (%)	26.4	33.4	29.0	27.0	26.0
ROA (%)	10.7	7.4	3.3	5.9	7.3
Core ROE (%)	26.9	15.4	6.0	10.8	13.9
ROCE (%)	22.1	14.4	6.0	9.7	12.2
Dividend payout ratio (%)	20.8	21.1	58.1	36.0	25.6
<b>Liquidity</b>					
Current ratio (x)	1.8	2.1	2.2	2.2	2.1
Op. cash flow (RMm)	(87.8)	153.0	155.4	47.4	79.1
Free cashflow (RMm)	(113.9)	127.0	145.4	37.4	69.1
FCF/share (sen)	(11.4)	12.7	14.5	3.7	6.9
<b>Asset management</b>					
Debtors turnover (days)	63.9	63.9	63.9	63.9	64.9
Stock turnover (days)	154.9	154.9	154.9	154.9	154.9
Creditors turnover (days)	118.2	118.2	118.2	118.2	118.2
<b>Capital structure</b>					
Net gearing (%)	40%	-1%	0%	1%	14%
Interest cover (x)	14.8	11.0	5.0	8.6	10.6

## Quarterly Profit & Loss

Y/E Mar (RMm)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
<b>Revenue</b>	<b>148.3</b>	<b>171.2</b>	<b>158.3</b>	<b>98.8</b>	<b>124.3</b>
Operating expenses	(118.3)	(131.8)	(110.2)	(81.0)	(104.5)
<b>EBITDA</b>	<b>30.1</b>	<b>39.3</b>	<b>48.1</b>	<b>17.8</b>	<b>19.9</b>
Depreciation	(0.7)	(2.8)	(0.7)	(1.5)	(1.6)
<b>EBIT</b>	<b>29.3</b>	<b>36.5</b>	<b>47.4</b>	<b>16.3</b>	<b>18.3</b>
Net int income/(expense)	(1.8)	(2.6)	(2.0)	(2.2)	(2.0)
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Forex gain/(loss)	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.0	(0.0)	(6.0)	0.0	4.0
<b>Pretax profit</b>	<b>27.5</b>	<b>34.0</b>	<b>39.4</b>	<b>14.1</b>	<b>20.3</b>
Tax	(8.5)	(8.9)	(18.8)	(4.1)	(5.8)
Minority interest	0.1	0.1	0.1	0.0	0.0
<b>Net profit</b>	<b>19.1</b>	<b>25.1</b>	<b>20.7</b>	<b>10.0</b>	<b>14.5</b>
<b>Core net profit</b>	<b>19.1</b>	<b>25.1</b>	<b>26.7</b>	<b>10.0</b>	<b>10.5</b>
<b>Margins (%)</b>					
EBITDA	20.3	23.0	30.4	18.0	16.0
PBT	18.6	19.8	24.9	14.2	16.3
Core net profit	12.9	14.7	16.9	10.1	8.5

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