

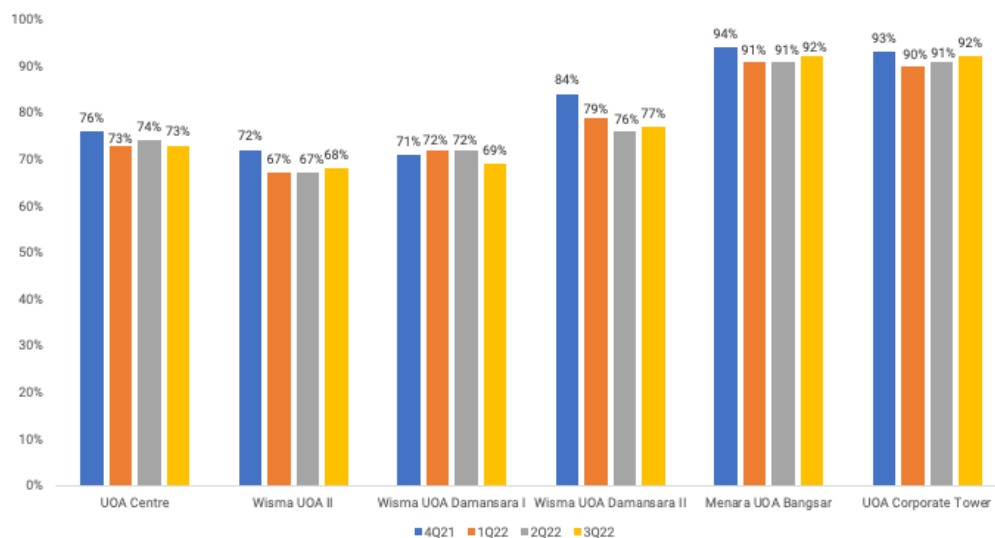
UOA Real Estate Investment Trust

Stable occupancies driven by economic recovery

Summary

- UOA Real Estate Investment Trust (UOAR) 3Q22 core net profit declined 1.2% YoY to RM16.2m, mainly due to lower property income generated, due to a mild decline in the occupancy rate of the older buildings. The results came in largely in line with expectations, amounting to 72.5% of our full year forecast at RM64.8m and 73.5% of the consensus at RM63.9m.
- QoQ, however, core net profit improved 6.0% primarily attributed to a decrease in total expenditure which led to a greater margin, as compared to the higher expenditure reported in the preceding quarter as a result of the acquisition of UOA Corporate Tower. Meanwhile, UOA Centre, Wisma UOA Damansara II, and Menara UOA Bangsar contributed a higher rental income QoQ.
- Overall, occupancy rate has been gradually showing a mild uptrend move QoQ for majority of the buildings. As at 3Q22, the occupancy rate for older buildings aged more than 20 years which include UOA Centre, Wisma UOA II, and Wisma UOA Damansara I stood around 68.0-73.0%. For newer buildings such as Menara UOA Bangsar and UOA Corporate Tower, occupancy rate remained above 90.0%. Meanwhile, rental revision rate for 3Q22 remained flattish.

UOAR buildings occupancy rate



Source: UOAR, M+ Online

- As at 3Q22, the portfolio's weighted average lease expiry (WALE) stood at 1.06, declining from 1.47 and 1.33 for FY20 and FY21 respectively. We expect the portfolio's WALE to increase in FY23 in view of the overall tenancy expiry profile of 47.4% in FY23. Historically, renewal rate of tenancies stood above 80.0%. On a side note, gearing ratio increased marginally to 40.0% as at 3Q22 from 39.4% in FY21.

Results Note – 3QFY22

Ng Hui Yee
hnyng@msec.com.my
(603) 2201 2100

BUY

Share price	RM1.13
Target price	RM1.40
Previous TP	RM1.40
Capital upside	23.9%
Dividend return	8.0%
Total return	31.9%

Company profile

Principally involved in the investment in real estate used for commercial purposes.

Stock information

Bursa Code	5110
Bloomberg ticker	UOAR MK
Listing market	MAIN
Share issued (m)	675.6
Market Cap (m)	763.4
52W High/Low	1.20 / 1.10
Est. Free float	28.0
Beta	0.4
3-mth avg vol ('000)	145.5
Shariah compliant	No

Major shareholders

Desa Bukit Pantai Sdn Bhd	15.1
Wisma UOA Sdn Bhd	11.5
Rich Accomplishment Sdn Bhd	11.1

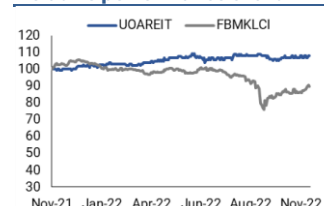
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	0.9	0.0	0.0
Relative	-2.5	4.6	5.1

Earnings snapshot

FYE (Dec)	FY21	FY22f	FY23f
PATMI (m)	61.8	64.8	67.8
EPS (sen)	9.1	9.6	10.0
P/E (x)	12.4	11.8	11.3

Relative performance chart



Stock Digest

Monday, 21 Nov, 2022

2

- Moving forward, we are cautiously optimistic on the property market's outlook in the near term as we foresee the improvement in rental activities to be gradual in view of the rising inflationary pressures which remain as a major concern amid economic recovery. Rental rates are likely to remain flat upon renewal of tenancies.
- Nevertheless, we continue to like UOAR's Right of First Refusal over UOA Development Bhd's investment assets which granted the group a series of potential pipelines which include retail and convention centre as well as hotel, in addition to its current office tower portfolio.

Quarterly performance								
FYE Dec (RM m)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)
Revenue	29.9	28.5	28.6	0.5	(4.1)	88.3	86.2	(2.4)
EBITDA	21.1	20.0	21.2	6.1	0.8	61.4	61.5	0.2
PBT	16.4	15.3	16.2	6.0	(1.2)	47.3	47.0	(0.5)
PAT	16.4	15.2	16.2	6.0	(1.2)	47.2	47.0	(0.5)
Core PATMI	16.4	15.2	16.2	6.0	(1.2)	47.2	47.0	(0.5)
Reported PATMI	16.2	15.1	16.0	6.0	(1.5)	47.3	47.1	(0.5)
Core EPS (sen)	2.4	2.3	2.4	6.0	(1.2)	7.0	7.0	(0.5)
EBITDA margin (%)	70.6	70.3	74.2			69.5	71.3	
PBT margin (%)	54.8	53.6	56.5			53.5	54.6	
Core PATMI margin (%)	54.8	53.5	56.4			53.4	54.5	

Valuation & Recommendation

- As the core net profit came in largely in line with our expectations, we make no changes to our forecasted earnings FY22f, FY23f, and FY24f at RM64.8m, RM67.8m, and 71.0m, respectively. The earnings forecast takes into account the gradual recovery in occupancy rate amid improving rental activities, as well as the improved margin in the absence of expenditure related to the acquisition of UOA Corporate Tower in the previous corresponding quarter.
- We retained our **BUY** recommendation on UOAR, with an unchanged target price at RM1.40. The target price is derived by ascribing a P/E of 14.0x to FY23f EPS of 10.0 sen. Meanwhile, we assumed a payout of 90.0% of the trust's distributable income over the next three years, which is the minimum distribution requirement pursuant to SC's guidelines.
- Risks to our recommendation include a potential shift in market sentiments towards remote work in a post-Covid-19 environment which may hamper demand for office. Besides, UOAR may incur a higher finance cost amid an interest rate upcycle environment as approximately 40.0% of UOAR's loan are floating rate loan.

Stock Digest

Monday, 21 Nov, 2022

3

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Revenue	72.4	116.4	120.6	123.6	126.9	Cash	5.4	7.2	5.3	5.3	5.6
EBITDA	45.6	80.6	84.9	87.7	90.6	Receivables	19.9	9.0	9.0	9.2	9.5
EBIT	45.5	80.6	84.9	87.6	90.6	Inventories	-	-	-	-	-
Net finance income/ (cost)	(8.8)	(18.8)	(20.1)	(19.8)	(19.6)	PPE	1,738.5	1,716.6	1,716.5	1,716.5	1,716.4
Associates & JV	-	-	-	-	-	Others	-	-	-	-	-
Profit before tax	36.7	61.8	64.8	67.8	71.0	Assets	1,763.8	1,732.7	1,730.9	1,731.1	1,731.5
Tax	-	(0.0)	-	-	-	Debts	704.0	683.2	674.5	667.6	660.7
Net profit	36.7	61.8	64.8	67.8	71.0	Payables	37.3	35.3	35.7	36.0	36.2
Minority interest	-	-	-	-	-	Others	42.3	21.2	21.2	21.2	21.2
Core earnings	36.7	61.8	64.8	67.8	71.0	Liabilities	783.5	739.7	731.4	724.8	718.1
Exceptional items	2.0	19.7	-	-	-	Shareholder's equity	980.3	993.0	999.5	1,006.3	1,013.4
Reported earnings	34.8	42.1	64.8	67.8	71.0	Minority interest	-	-	-	-	-
						Equity	980.3	993.0	999.5	1,006.3	1,013.4
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f	FYE Dec (RM m)	FY20	FY21	FY22f	FY23f	FY24f
Profit before taxation	36.7	61.8	64.8	67.8	71.0	Core EPS (sen)	5.4	9.1	9.6	10.0	10.5
Depreciation & amortisation	0.1	0.1	0.1	0.1	0.1	P/E (x)	20.8	12.4	11.8	11.3	10.8
Changes in working capital	0.0	9.0	0.4	0.0	(0.0)	DPS (sen)	8.4	8.6	8.6	9.0	9.5
Share of JV profits	-	-	-	-	-	Dividend yield	7.5%	7.6%	7.6%	8.0%	8.4%
Taxation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	BVPS (RM)	1.45	1.47	1.48	1.49	1.50
Others	(0.2)	(0.0)	0.1	0.1	0.1	P/B (x)	0.8	0.8	0.8	0.8	0.8
Operating cash flow	45.4	89.6	85.4	87.8	90.7	EBITDA margin	63.0%	69.3%	70.4%	70.9%	71.4%
Net capex	(700.3)	(0.0)	(0.0)	(0.0)	(0.0)	EBIT margin	62.9%	69.3%	70.3%	70.9%	71.4%
Others	0.1	0.1	-	-	-	PBT margin	50.7%	53.1%	53.7%	54.8%	55.9%
Investing cash flow	(700.3)	0.1	(0.0)	(0.0)	(0.0)	PAT margin	50.7%	53.1%	53.7%	54.8%	55.9%
Changes in borrowings	429.2	(20.8)	(8.7)	(6.9)	(6.9)	Core PAT margin	50.7%	53.1%	53.7%	54.8%	55.9%
Issuance of shares	274.7	(0.2)	-	-	-	ROE	4.4%	6.3%	6.5%	6.8%	7.0%
Interest paid	(8.9)	(18.9)	(20.2)	(19.9)	(19.7)	ROA	2.6%	3.5%	3.7%	3.9%	4.1%
Dividends paid	(35.7)	(58.4)	(58.3)	(61.0)	(63.9)	Net gearing	71.3%	68.1%	66.9%	65.8%	64.7%
Others	(1.7)	10.3	-	-	-						
Financing cash flow	657.7	(87.9)	(87.2)	(87.8)	(90.5)						
Net cash flow	2.8	1.7	(1.8)	(0.0)	0.2						
Forex	-	-	-	-	-						
Others	0.0	(0.0)	-	-	-						
Beginning cash	2.6	5.4	7.2	5.3	5.3						
Ending cash	5.4	7.2	5.3	5.3	5.6						