

Stock Digest

Friday, 22 Jul, 2022

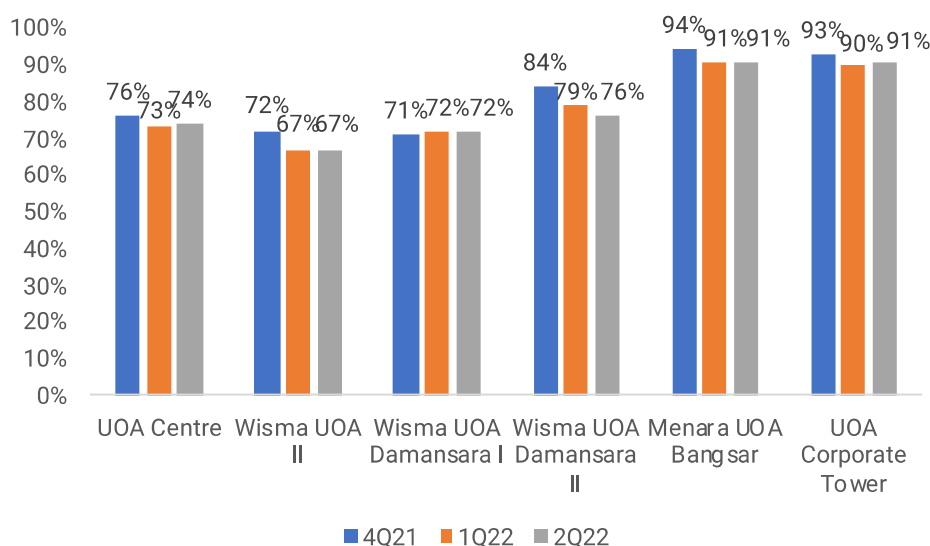
UOA Real Estate Investment Trust

Eyeing for longer term recovery

Summary

- UOA Real Estate Investment Trust (UOAR) 2Q22 core net profit improved 1.2% YoY to RM15.2m, as lower expenditure resulted from a reversal of impairment losses recorded in the current quarter comfortably offset a 1.7% YoY decrease in revenue pressured by lower occupancy rate of older buildings. The results came in largely in line with our expectations, amounting to 47.5% of our full year forecast at RM64.8m. Meanwhile, an income distribution of 4.30 sen per unit, payable on 30th August 2022 was declared.
- QoQ, however, core net profit declined 2.0% primarily due to overall lower gross rental income contributed from majority of the buildings except for Wisma UOA Damansara I, coupled with the increased direct operating expenses from Wisma UOA II, Wisma UOA Damansara II, and Menara UOA Bangsar.
- Overall, occupancy rate saw a mild declining trend since 4Q21 for most of UOAR's buildings but it remained relatively stable thereafter. As at 2Q22, 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 67.0-74.0%. For newer buildings such as Menara UOA Bangsar and UOA Corporate Tower, occupancy rate reached above 90.0%.

UOAR buildings occupancy rate



Source: UOAR, M+ Online

- Moving forward, we do not foresee a rapid growth in occupancy rates due to lingering effect from the Covid-19 pandemic as well as the inflationary pressures on the global economy which may risk on economic recovery. Rental rates are also expected to remain flat upon renewal of tenancies.

Results Note – 2QFY22

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BUY

Share price	RM1.15
Target price	RM1.40
Previous TP	RM1.40
Capital upside	21.7%
Dividend return	7.8%
Total return	29.6%

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)	776.9
52W High/Low	1.20 / 1.10
Est. Free float	28.0
Beta	0.4
3-mth avg vol ('000)	161.2
Shariah compliant	No

Major shareholders

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

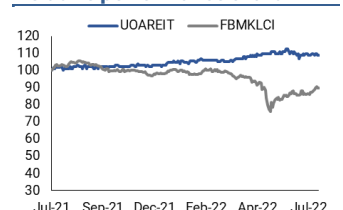
Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	1M	3M	12M
Absolute	0.0	0.0	0.9
Relative	-1.3	10.5	6.3

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)	12.6	12.0	11.5

Relative performance chart



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- Nevertheless, we are positive on UOAR's outlook over longer term as rental activities are appeared to be on the road of recovery amid reopening of economic activities and national borders. Meanwhile, 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 pipeline which include retail and convention centre, hotel, and office tower.

Quarterly performance								
FYE Dec (RM m)	2QFY21	1QFY22	2QFY22	QoQ (%)	YoY (%)	6MFY21	6MFY22	YoY (%)
Revenue	29.0	29.1	28.5	(2.1)	(1.7)	58.5	57.6	(1.5)
EBITDA	19.8	20.2	20.0	(0.9)	1.2	40.3	40.2	(0.2)
PBT	15.1	15.6	15.3	(2.0)	1.2	30.9	30.9	(0.2)
PAT	15.1	15.6	15.2	(2.0)	1.2	30.8	30.8	(0.1)
Core PATMI	15.1	15.6	15.2	(2.0)	1.2	30.8	30.8	(0.1)
Reported PATMI	14.9	16.0	15.1	(5.9)	1.0	31.1	31.1	(0.0)
Core EPS (sen)	2.2	2.4	2.2	(5.9)	1.0	4.6	4.6	(0.0)
EBITDA margin (%)	68.3	69.4	70.3			69.0	69.9	
PBT margin (%)	52.1	53.5	53.6			52.9	53.6	
Core PATMI margin (%)	52.0	53.4	53.5			52.7	53.5	

Valuation & Recommendation

- As the core net profit came in largely in line with our expectations, we remained the forecasted earnings for FY22f, FY23f, and FY24f unchanged 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, leveraging on the strategic location and good connectivity to public transportation of UOAR's buildings.
- 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 its distributable income over the next three years, which is the minimum distribution requirement pursuant to SC's guidelines.
- Risks to our recommendation include a resurgence in Covid-19 cases which may potentially hamper office demand while companies embraced a hybrid working model. Besides, as 40.0% of UOAR's debts are sourced under floating rate, the group may incur higher finance cost amid an interest rate upcycle environment.

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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)	21.2	12.6	12.0	11.5	11.0
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	7.3%	7.5%	7.5%	7.9%	8.2%
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						