

Stock Digest

Tuesday, 25 Jul, 2023

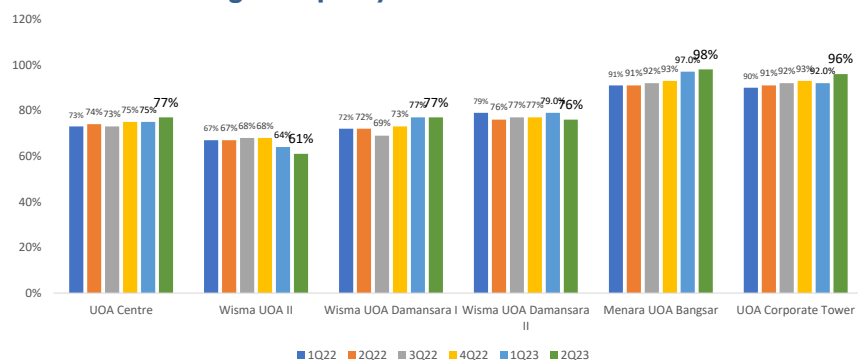
UOA Real Estate Investment Trust

Margins compressed due to higher property expenses

Summary

- **Below expectation.** UOAREIT's Q23 core earnings came in at RM13.9m (-2.1% QoQ, -8.9% YoY), brought the 6M23 sum to RM28.1m (-8.0% YoY), which accounted for 45.6% and 42.7% of ours and consensus estimates. The results were deemed below expectations and key deviations include (i) the lower occupancy rate in Wisma UOA II and Wisma UOA Damansara II, (ii) higher expenditure arising from high electricity costs, repair and maintenance expenses and borrowing costs.
- **YoY.** Most of UOAREIT's properties managed to demonstrate a YoY improvement in occupancy rates, with the exception of Wisma UOA II. During this period, UOAREIT's core earnings were down 8.9% YoY, mainly impacted by higher than expected total expenditure amid the abovementioned factors.

UOAREIT's buildings occupancy rate



Source: UOAREIT, M+ Online

- **Income distribution.** UOAREIT has declared an interim income distribution of 3.96 sen for FY23, ex-date on 7th of Aug.
- **Weighted average lease expiry (WALE) stood at 1.30.** As at 2Q23, UOAREIT's weighted average lease expiry (WALE) stood at 1.30, as compared to 1.33 and 1.08 in FY21 and FY22, respectively. Overall tenancy expiry profile is 11.3% to 38.3% over 2023-2026.

Quarterly performance 2Q23

Quarterly performance								
FYE Dec (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY (%)
Revenue	28.5	28.7	28.5	(0.6)	(0.1)	57.6	57.1	(0.8)
EBITDA	20.0	19.4	19.2	(1.1)	(4.0)	40.2	38.7	(3.9)
PBT	15.3	14.2	13.9	(2.3)	(9.0)	30.9	28.1	(8.9)
PAT	15.2	14.2	13.9	(2.3)	(8.9)	30.8	28.1	(8.7)
Core PATMI	15.2	14.2	13.9	(2.1)	(8.9)	30.8	28.1	(8.8)
Reported PATMI	15.1	14.6	14.0	(4.3)	(7.2)	31.1	28.6	(8.0)
Core EPS (sen)	2.3	2.1	2.1	(2.1)	(8.9)	4.56	4.16	(8.8)
EBITDA margin (%)	70.3	67.9	67.6			69.9	67.7	
PBT margin (%)	53.6	49.6	48.8			53.6	49.2	
Core PATMI margin (%)	53.5	49.5	48.8			53.5	49.2	

Source: UOAREIT, M+ Online

Company Update

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HOLD

Share price	RM1.13
Target price	RM1.20
Previous TP	RM1.27
Capital upside	6.2%
Dividend return	6.8%
Total return	13.0%

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	1.19 / 1.10
Est. Free float	26.4
Beta	0.4
3-mth avg vol ('000)	246.1
Shariah compliant	No

Major shareholders

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

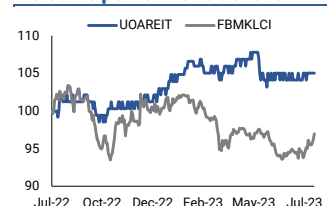
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	0.9	-1.7	-2.6
Relative	-1.5	-1.7	0.5

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	61.1	58.1	58.6
EPS (sen)	8.6	8.7	8.8
P/E (x)	13.1	13.0	12.9

Relative performance chart



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- **Gearing ratio marginally higher.** Gearing ratio added 0.1% to 39.2% in 6M23 as compared to 39.1% in FY22. We expect the borrowing cost will increase after Bank Negara Malaysia raised the overnight policy rate (OPR) to 3.00% in May-2023.
- **Outlook.** We remained cautiously optimistic on the office space outlook as market sentiment remained soft amid uncertainties arising from elevated inflation, future interest rate hikes as well as oversupply conditions in the office space; thus rental rates are expected to be flattish. Overall portfolio occupancy rate stood at 80.8% as at 2Q23 may gradually tick higher, but still below pre-pandemic level of 91.5% in FY19.

Valuation & Recommendation

- As the core net profit came in below expectations, we cut the earnings by 5.6-6.4% to RM58.1m, RM58.6m and RM59.2m, respectively for FY23f-FY25f taking into higher property expenses and borrowing costs.
- We downgrade from **to HOLD (from BUY)** recommendation on UOAREIT, with lower target price of RM1.20. The target price is derived by ascribing a P/E of 14.0x to FY23f EPS of 8.6 sen. The group is committed to reward at least 90.0% of the distributable income of the Trust.
- Risks to our recommendation include the slower-than-expected recovery in the rental activities due to the shift of working method post pandemic environment. Besides, the higher borrowing cost and electricity tariff may continue to weigh on UOAREIT's margins and overall financial performance moving forward.

Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Revenue	116.4	114.4	115.4	117.7	119.2	Cash	7.2	3.9	1.7	2.2	2.0
EBITDA	80.6	80.8	78.6	79.9	81.0	Receivables	9.0	8.0	8.5	8.7	8.8
EBIT	80.6	80.7	78.5	79.8	80.8	Inventories	-	-	-	-	-
Net finance income/(cost)	(18.8)	(19.7)	(20.4)	(21.2)	(21.6)	PPE	1,716.6	1,717.2	1,717.1	1,717.0	1,717.3
Associates & JV	-	-	-	-	-	Others	-	-	-	-	-
Profit before tax	61.8	61.1	58.1	58.6	59.2	Assets	1,732.7	1,729.1	1,727.3	1,727.8	1,728.1
Tax	(0.0)	-	-	-	-	Debts	683.2	675.4	667.6	660.8	653.9
Net profit	61.8	61.1	58.1	58.6	59.2	Payables	35.3	36.8	40.6	41.8	42.7
Minority interest	-	-	-	-	-	Others	21.2	21.2	21.2	21.2	21.2
Core earnings	61.8	61.1	58.1	58.6	59.2	Liabilities	739.7	733.4	729.5	723.8	717.8
Exceptional items	19.7	0.2	-	-	-	Shareholder's equity	993.0	995.7	1,001.5	1,007.3	1,013.2
Reported earnings	42.1	60.9	58.1	58.6	59.2	Minority interest	-	-	-	-	-
						Equity	993.0	995.7	1,001.5	1,007.3	1,013.2
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	61.8	61.1	58.1	58.6	59.2	Core EPS (sen)	9.1	9.0	8.6	8.7	8.8
Depreciation & amortisation	0.1	0.1	0.1	0.1	0.2	P/E (x)	12.4	12.5	13.1	13.0	12.9
Changes in working capital	9.0	2.5	3.3	1.0	0.7	DPS (sen)	8.6	8.6	7.7	7.8	7.9
Share of JV profits	-	-	-	-	-	Dividend yield	7.6%	7.6%	6.8%	6.9%	7.0%
Taxation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	BVPS (RM)	1.47	1.47	1.48	1.49	1.50
Others	(0.0)	(0.2)	0.1	0.1	0.1	P/B (x)	0.8	0.8	0.8	0.8	0.8
Operating cash flow	89.6	83.1	82.0	81.0	81.8	EBITDA margin	69.3%	70.7%	68.1%	67.9%	67.9%
Net capex	(0.0)	(0.7)	(0.0)	(0.0)	(0.5)	EBIT margin	69.3%	70.6%	68.0%	67.8%	67.8%
Others	0.1	0.1	-	-	-	PBT margin	53.1%	53.4%	50.3%	49.8%	49.6%
Investing cash flow	0.1	(0.6)	(0.0)	(0.0)	(0.5)	PAT margin	53.1%	53.4%	50.3%	49.8%	49.6%
Changes in borrowings	(20.8)	(7.8)	(7.8)	(6.9)	(6.9)	Core PAT margin	53.1%	53.4%	50.3%	49.8%	49.6%
Issuance of shares	(0.2)	-	-	-	-	ROE	6.3%	6.1%	5.8%	5.8%	5.9%
Interest paid	(18.9)	(19.7)	(20.5)	(21.3)	(21.7)	ROA	3.5%	3.5%	3.4%	3.4%	3.4%
Dividends paid	(58.4)	(58.2)	(52.3)	(52.7)	(53.3)	Gearing	39.4%	39.1%	38.7%	38.2%	37.8%
Others	10.3	0.1	-	-	-						
Financing cash flow	(87.9)	(85.7)	(80.6)	(80.9)	(81.9)						
Net cash flow	1.7	(3.2)	(2.2)	0.5	(0.2)						
Forex	-	-	-	-	-						
Others	(0.0)	0.0	-	-	-						
Beginning cash	5.4	7.2	3.9	1.7	2.2						
Ending cash	7.2	3.9	1.7	2.2	2.0						

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As of **Tuesday, 25 Jul, 2023**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned