

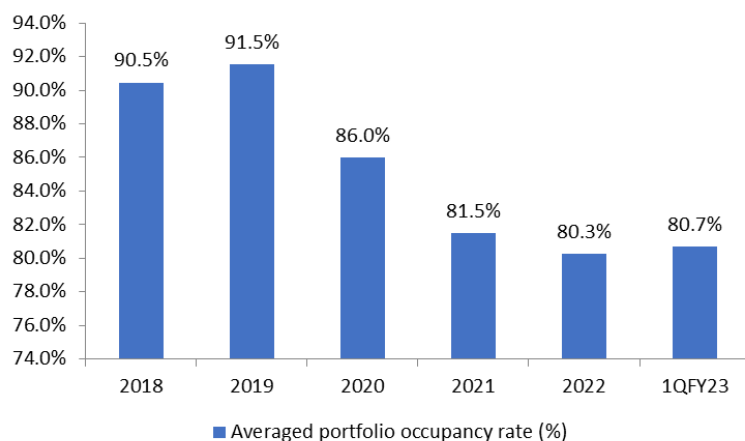
UOA Real Estate Investment Trust

Occupancy rate still below pre-pandemic level

Summary

- Following UOA Real Estate Investment Trust's (UOAR) softer earnings in 1Q23 (core net profit -8.8% YoY), we foresee its bottom line to remain flat over the next few quarters and expect the group's margin to be affected by (i) the lower occupancy rate of older buildings, coupled with (ii) the ongoing impact of higher operating expenses arising from high electricity costs and borrowing costs, as well as the increased minimum wages since May 2022.
- **Slow recovery in occupancy towards pre-pandemic level.** Portfolio occupancy rate stood at 80.7% as at 1Q23. We expect a slow and gradual recovery in the portfolio occupancy rate towards the pre-pandemic level (91.5% in FY19) amidst widening supply-demand gap of office space as more organisations continued to re-evaluate their workplace strategies even after WHO has declared that Covid-19 has ended.
- **Improving occupancy over the past quarters.** On a brighter note, portfolio occupancy saw an improvement over the past four quarters with the exception of Wisma UOA II. Whilst Wisma UOA II experienced lower occupancy in 1Q23 due to the departure of multiple tenants, the vacant space at the building is gradually being filled.
- **Rental rate to remain flat.** For existing tenancy, UOAR's tenancy renewal rate typically falls within the range of 80.0-90.0% under normal circumstances. Meanwhile, rental rate is expected to remain flat towards end-FY23.

UOAR portfolio occupancy rate



Source: UOAR, M+ Online

- **Menara UOA Bangsar obtained Stage 1 approval for MD status.** Moving forward, UOAR will focus its efforts on attracting tenants from the Information and communication technology (ICT) sector. In line with its strategy, UOAR has obtained the Stage 1 approval to designate Menara UOA Bangsar as Malaysia Digital (MD) Cybercentre building.

Company Update

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BUY

Share price	RM1.12
Target price	RM1.27
Previous TP	RM1.27
Capital upside	13.4%
Dividend return	7.3%
Total return	20.7%

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)	756.7
52W High/Low	1.20 / 1.10
Est. Free float	26.4
Beta	0.4
3-mth avg vol ('000)	174.7
Shariah compliant	No

Major shareholders

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

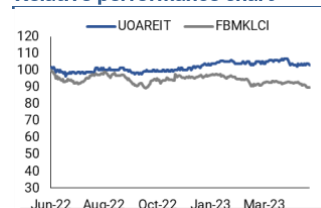
Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	1M	3M	12M
Absolute	-3.5	-0.9	-4.3
Relative	-0.1	4.2	16.4

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	61.1	61.5	62.1
EPS (sen)	9.0	9.1	9.2
P/E (x)	12.4	12.3	12.2

Relative performance chart



Stock Digest

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- **MD Cybercentre designated buildings boasted highest occupancy rate.** Notably, Menara UOA Bangsar achieved the highest occupancy rate of 97.0% among the portfolio properties as at 1Q23. Following closely behind were the two other MD Cybercentre designated buildings, namely the (i) UOA Corporate Tower and Wisma UOA Damansara II, which saw the occupancy rate at 92.0% and 79.0% respectively.

Valuation & Recommendation

- We kept our forecasted earnings at RM61.5m, RM62.1m, and RM63.2m respectively for FY23-25, taking into account the gradual improvement in occupancy rate towards end-FY23, based on the strategic locations of UOAR's portfolio properties. Meanwhile, we expect the upcoming MD Status of Menara UOA Bangsar will attract more ICT tenants, which will further enhance the occupancy rate of the portfolio.
- We retained our **BUY** recommendation on UOAR, with an unchanged target price at RM1.27. The target price is derived by ascribing a P/E of 14.0x to FY23f EPS of 9.1 sen. Meanwhile, the group is committed to reward at least 90.0% of the distributable income of the Trust.
- Risks to our recommendation include the slow recovery in rental activities due to the fundamental shift in the way people work under the post-pandemic environment. Besides, the higher borrowing cost and electricity tariff may continue to weigh on UOAR's margins and overall financial performance moving forward.

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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	116.0	118.4	120.5	Cash	7.2	3.9	1.7	2.2	2.0
EBITDA	80.6	80.8	82.1	83.4	85.0	Receivables	9.0	8.0	8.6	8.8	8.9
EBIT	80.6	80.7	81.9	83.3	84.9	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	61.5	62.1	63.2	Assets	1,732.7	1,729.1	1,727.3	1,727.9	1,728.2
Tax	(0.0)	-	-	-	-	Debts	683.2	675.4	667.6	660.8	653.9
Net profit	61.8	61.1	61.5	62.1	63.2	Payables	35.3	36.8	36.7	37.9	38.8
Minority interest	-	-	-	-	-	Others	21.2	21.2	21.2	21.2	21.2
Core earnings	61.8	61.1	61.5	62.1	63.2	Liabilities	739.7	733.4	725.5	719.9	713.8
Exceptional items	19.7	0.2	-	-	-	Shareholder's equity	993.0	995.7	1,001.8	1,008.0	1,014.3
Reported earnings	42.1	60.9	61.5	62.1	63.2	Minority interest	-	-	-	-	-
						Equity	993.0	995.7	1,001.8	1,008.0	1,014.3
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	61.5	62.1	63.2	Core EPS (sen)	9.1	9.0	9.1	9.2	9.4
Depreciation & amortisation	0.1	0.1	0.1	0.1	0.2	P/E (x)	12.2	12.4	12.3	12.2	12.0
Changes in working capital	9.0	2.5	(0.7)	1.0	0.7	DPS (sen)	8.6	8.6	8.2	8.3	8.4
Share of JV profits	-	-	-	-	-	Dividend yield	7.7%	7.7%	7.3%	7.4%	7.5%
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	0.7
Operating cash flow	89.6	83.1	81.5	84.5	85.8	EBITDA margin	69.3%	70.7%	70.7%	70.5%	70.6%
Net capex	(0.0)	(0.7)	(0.0)	(0.0)	(0.5)	EBIT margin	69.3%	70.6%	70.6%	70.3%	70.5%
Others	0.1	0.1	-	-	-	PBT margin	53.1%	53.4%	53.0%	52.4%	52.5%
Investing cash flow	0.1	(0.6)	(0.0)	(0.0)	(0.5)	PAT margin	53.1%	53.4%	53.0%	52.4%	52.5%
Changes in borrowings	(20.8)	(7.8)	(7.8)	(6.9)	(6.9)	Core PAT margin	53.1%	53.4%	53.0%	52.4%	52.5%
Issuance of shares	(0.2)	-	-	-	-	ROE	6.3%	6.1%	6.2%	6.2%	6.3%
Interest paid	(18.9)	(19.7)	(20.5)	(21.3)	(21.7)	ROA	3.5%	3.5%	3.6%	3.6%	3.7%
Dividends paid	(58.4)	(58.2)	(55.4)	(55.9)	(56.9)	Net gearing	68.1%	67.4%	66.5%	65.3%	64.3%
Others	10.3	0.1	-	-	-						
Financing cash flow	(87.9)	(85.7)	(83.7)	(84.1)	(85.5)						
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						