

17 June 2019

UEM Sunrise Berhad

Reducing Exposure in Desaru

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Positive on its move to reduce exposure in Desaru, due to the long gestation period coupled with weak property market sentiment in Johor. Furthermore, UEMS could better utilise its initial cash commitment for Desaru project for future land banking in matured areas. No changes in FY19-20E earnings. Maintain MP, with a lower TP of RM0.835 (from RM0.850) as we lower our GDV assumptions for the Desaru project.

News. Last Friday, UEMS announced that their 51% joint-venture Desaru North Course Residences Sdn Bhd (remaining 49% is held by Desaru North Course Bhd, an indirect subsidiary of TAR&H), will be revising their residential development in Desaru, downsizing it from c.680 acres to 228 acres. That aside, UEMS will also be acquiring Somerset and Marina Walk Puteri Harbour for a total consideration sum of RM145.0m.

An encouraging move in a weak property market. We opine that management's move in reducing development exposure in Desaru to be a positive move. UEMS is set to receive RM107.0m from the proposed settlement with TAR&H, which will be used to offset part of the purchase consideration of RM145.0m for Somerset and Marina Walk Puteri Harbour, while the remaining RM38.0m will be settled by UEMS over five years, which would have minimal strain on UEMS' existing net gearing of 0.49x (1Q19). Based on the original development plan, UEMS would need to fork out an additional RM148.5m to settle the remaining original purchase consideration, which now can be deployed to its existing projects and land banking activities in matured areas.

Outlook. Management is still targeting RM1.2b of sales, backed by RM1.25b worth of new launches (including the new Kepong Metropolitan project, on-going projects of RM1.50b and inventories of RM1.03b (market value); but note that the bulk of new launches are in 4Q19. The group will continue its active inventory clearing efforts with a target to halve it by year-end. Divestments of non-core assets are still in the cards with RM41m worth of land deals signed and another potential RM305m worth of assets for sale this year. Net gearing is expected to drop to 0.40x by end-FY19 thanks to the divestments and remaining settlements of Aurora and Conservatory. In terms of land banking, the group is looking towards niche parcels of land with quick turnaround time span in matured areas; note that the group has acquired a small parcel of land in Mont Kiara.

No changes to earnings. Unbilled sales of RM4.11b provides close to 2-year's visibility.

Reiterate MARKET PERFORM with a lower Target Price of RM0.835 (previously, RM0.850), as we reduced our GDV assumptions for its Desaru development due to the down scaling of the project. Our TP is based on an unchanged 81% discount (trough levels) to its FD SoP of RM4.45 (previously, RM4.52). Note that our stock universe is trading at discounts pegged to -1.0SD trough levels. While we laud the management's effort to rationalize its high fixed cost structures and non-core assets, as well as aggressively clearing inventories, we require stronger ROE recoveries (FY19-20E: 4.9%-4.2%) or impactful sector catalysts to consider a stock re-rating.

Risks to our call include: (i) stronger/weaker-than-expected property sales, (ii) margin fluctuations, (iii) changes in real estate policies, and (iv) changes in lending environment.

MARKET PERFORM ↔

Price : **RM0.860**
Target Price : **RM0.835** ↓

Share Price Performance



KLCI	1,638.63
YTD KLCI chg	-3.1%
YTD stock price chg	29.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UEMS MK Equity
Market Cap (RM m)	3,902.2
Shares Outstanding	4,537.4
52-week range (H)	1.02
52-week range (L)	0.62
3-mth avg daily vol:	2,913,331
Free Float	23%
Beta	1.5

Major Shareholders

Khazanah Nasional Bhd	66.1%
Urusharta Jamaah Sdn Bhd	7.7%
Employees Provident Fund Board	3.6%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	2,044	2,800	2,401
EBIT	520	588	486
PBT	416	549	443
Net Profit (NP)	272	356	314
Core Profit	326	356	314
Consensus (NP)	n.a.	275	196
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	7.2	7.8	6.9
EPS growth (%)	236	9	-12
NDPS (sen)	0.0	1.0	1.0
NTA/Share (RM)	1.43	1.50	1.56
Core PER (x)	12.0	11.0	12.4
Price/NTA (x)	0.6	0.6	0.6
Net Gearing (x)	0.51	0.40	0.35
Dividend Yield (%)	0.0	1.2	1.2

17 June 2019

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E	FY Dec (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	1841	1861	2044	2800	2401	Growth (%)					
EBITDA	242	274	547	616	515	Revenue	5.2	1.0	9.9	37.0	-14.3
Depreciation	-24	-25	-27	-28	-30	EBITDA	-24.9	13.1	99.9	12.7	-16.4
EBIT	218	248	520	588	486	EBIT	-25.7	14.0	109.3	13.1	-17.4
Interest Expense	-76	-91	-101	-79	-83	Pre-tax Income	-36.6	-10.8	114.5	31.9	-19.4
Investing	0	0	0	0	0	Net Income	-42.7	-28.3	158.0	30.5	-11.7
Associate/JCE	76	36	41	40	40	Core Net Income	-42.7	-34.2	236.4	9.0	-11.7
Exceptionals/FV	0	1	-44	0	0	Profitability (%)					
PBT	218	194	416	549	443	EBITDA Margin	13.1	14.7	26.8	22.0	21.5
Taxation	-69	-87	-136	-193	-129	EBIT Margin	11.8	13.4	25.4	21.0	20.2
Minority Interest	-1	-2	-8	0	0	PBT Margin	11.8	10.4	20.4	19.6	18.4
Net Profit	147	106	272	356	314	Net Margin	8.0	5.7	13.3	12.7	13.1
Core Profit	147	97	326	356	314	Effective Tax Rate	-48.9	-55.1	-36.2	-38.0	-32.0
						ROE	2.2	1.5	3.9	4.9	4.2
						ROA	1.2	0.8	2.0	2.7	2.5
						DuPont Analysis					
						Net margin (%)	8.0	5.7	13.3	12.7	13.1
						Assets Turnover (x)	0.1	0.1	0.1	0.2	0.2
						Leverage Factor (x)	1.9	2.0	2.0	1.8	1.7
						ROE (%)	2.2	1.5	3.9	4.9	4.2
						Leverage					
						Debt/Asset (x)	0.27	0.31	0.33	0.24	0.25
						Debt/Equity (x)	0.54	0.61	0.66	0.41	0.42
						Net Debt/(Cash)	2926	3412	3605	2936	2682
						Net Debt/Equity (x)	0.43	0.49	0.51	0.40	0.35
						Valuations					
						Core EPS (sen)	3.2	2.1	7.2	7.8	6.9
						NDPS (sen)	0.0	1.0	0.0	1.0	1.0
						NTA/sh (RM)	1.37	1.38	1.43	1.50	1.56
						Core PER (x)	26.5	40.2	12.0	11.0	12.4
						Net Div. Yield (%)	0.0	1.2	0.0	1.2	1.2
						PNTA (x)	0.6	0.6	0.6	0.6	0.6
						EV/EBITDA (x)	28.2	26.7	13.7	11.1	12.8

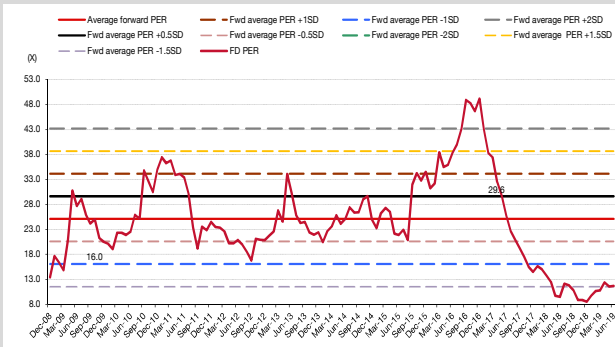
Source: Kenanga Research

* Note our core earnings does include land sales but excludes one-off or non-cash items.

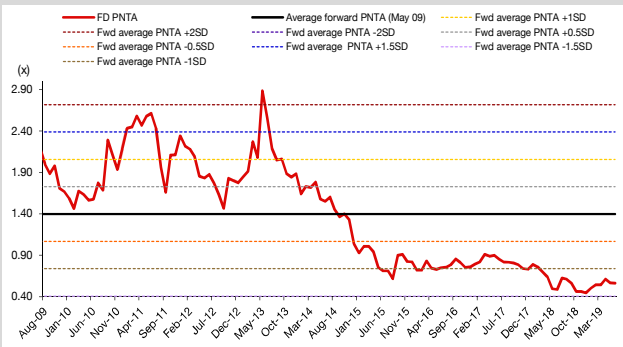
17 June 2019

FD SoP	Stake	Duration (yrs)	Remaining GDV (RM'm)	Remaining Net Profit *** (RM'm)	WACC (%)	DCF Value (RM m) ***
On-going Projects						
East Ledang	100%	6.0	1,692	542	10%	390
Nusa Idaman	100%	3.0	403	113	10%	93
Nusa Bayu	100%	4.0	516	124	10%	97
Imperia	100%	1.0	712	228	10%	207
Teega	100%	3.0	842	236	10%	194
Mall of Medini	55%	6.0	1,475	195	10%	140
Horizon Hills	50%	7.0	4,467	715	10%	492
Somersset @ Puteri Harbour	50%	0.0	0	0	10%	0
Symphony Hills	100%	6.0	675	189	10%	136
MK 28	100%	0.0	0	0	10%	0
Arcoris	100%	3.0	495	178	10%	147
Summer Suites & VOS	100%	2.0	238	86	10%	74
Quintet	100%	2.0	477	114	10%	99
Seremban Forest Heights	50%	8.0	841	101	10%	67
Total on-going projects			12,834	2,820	10%	2,136
Pipeline Projects						
<u>Iskandar Malaysia</u>						
Gerbang Nusajaya	100%	15.0	27,103	7,589	10%	2,819
D'Estuary	100%	6.0	5,987	1,676	10%	1,206
R10/R11	100%	3.0	217	43	10%	32
Parcel I6	100%	2.0	148	30	10%	23
CS1	100%	3.0	1,424	399	10%	298
Residential South	80%	4.0	3,156	707	10%	505
CS3 - Puteri Harbour	50%	3.0	883	124	10%	84
Residential North	40%	4.0	2,400	307	10%	242
Gerbang Nusajaya - Eco-Industrial Park	40%	5.0	3,500	336	10%	229
Gerbang Nusajaya - Motorsports City	30%	5.0	3,700	266	10%	182
Desaru	51%	10.0	3,514	430	10%	176
Puteri Harbour (Land earmarked for 'catalytic development')	100%	3.0	9,015	2,524	10%	1,711
KLK-UEMS JV @ Gerbang Nusajaya	40%	8.0	5,000	480	10%	236
Fraser Metropolis @ Senai-Skudai	60%	15.0	15,000	2,520	10%	849
<u>Outside Nusajaya</u>						
Sinaran Hills, Kajang	100%	6.0	614	147	10%	87
MK 22	100%	4.0	866	208	10%	148
Angkasa Raya	100%	6.0	1,413	339	10%	201
Bangi Land	100%	8.0	2,415	579	10%	382
Floresta - Solaris 3	100%	6.0	1,521	426	10%	278
MCOBA	100%	4.0	600	120	10%	58
MCOBA	100%	4.0	700	140	10%	61
Jelutong Commercial Centre	50%	6.0	1,256	176	10%	94
Aurora, Conservatory, St Kilda @ Australia	100%	6.0	5,216	1,043	10%	681
Kepong land JV	50%	15.0	15,000	2,100	10%	707
Mont Kiara land	100%	4.0	450	126	10%	50
Total Pipeline Projects			111,096	22,836		11,339
Total Remaining GDV			123,929			
Catalyst Developments (Potential JVs or outright land sales)						
		Land size (ac)	NBV (RM'm)	Mkt Value (RM'm)	Mkt Value (RM psf)	Surplus/ (Deficit) (RM'm) ***
Puteri Harbour -> Treated as DEVELOPMENT	100%		0	0	380	0
SiLC	100%	207	108	405	45	297
Afiat Healthpark	100%	43	32	0	63	87
Total Catalyst Development						384
Other landbanks						
		Land size (ac)	NBV (RM'm)	Mkt Value (RM'm)	Mkt Value (RM psf)	Surplus/ (Deficit) (RM'm) ***
<u>Nusajaya</u>						
Regional Open Space	100%	436	4	836	44	751
Others	100%	552	4	721	30	614
<u>Outside Nusajaya</u>						
Klang Valley	100%	44	255	386	200	132
Mersing	100%	431	20	188	10	167
Tapah	100%	2,405	76	210	2	133
Canada	100%	0	0	0	0	0
Total other landbanks						1,798
			NBV (RM'm)	Mkt Value (RM'm)	Implied Cap Rates	Surplus/ (Deficit) (RM'm) ***
Investment Properties	100%		674	931	6%	256
Revised Asset Value						15,914
Net Profit of Land Sales (Puteri Harbour)						0
Gains on Disposal of Gerbang Nusajaya Land to UEMS-KLK JV						171
Gains on Disposal of Alderbridge Land						72
Est. Gains on Disposal Iskandar Puteri land (163.92 ac @ RM310m)						140
Subscription by UEM Group						785
Shareholders Funds @ 31/12/13						6,019
RNAV						23,100
Dilution Impact						590
FD RNAV per share (RM)						MYR 4.45
Diluted No of shares ('m)						5,323
Applied Discount (%)						-81%
Target Price (RM)						MYR 0.835
*** Effective Stake						
Source: Kenanga Research						

Fwd Core PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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17 June 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)				Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	
PROPERTY DEVELOPERS UNDER COVERAGE																	
AMVERTON BHD	1.08	394.3	Y	12/2019	-0.7%	3.4%	-58.8%	7.3%	16.5	40.0	37.3	0.6	0.5	1.4%	0.0%	1.00	UP
ECO WORLD DEVELOPMENT GROUP	0.850	2,502.7	Y	10/2019	-4.4%	-18.3%	23.4%	23.9%	15.1	12.2	9.9	0.7	0.6	4.5%	1.2%	1.15	OP
HUA YANG BHD	0.415	146.1	Y	03/2020	-11.0%	-1.2%	153.2%	-11.8%	N.A.	17.8	20.2	0.3	0.3	1.4%	0.0%	0.335	MP
IOI PROPERTIES GROUP BHD	1.33	7,323.2	Y	06/2019	-15.0%	-6.0%	5.3%	0.7%	11.1	10.5	10.4	0.4	0.4	3.8%	3.8%	1.65	OP
LBS BINA GROUP BHD	0.525	818.5	Y	12/2019	31.3%	0.9%	7.9%	3.4%	9.6	8.9	8.6	0.6	0.5	6.6%	3.4%	0.495	MP
MAGNA PRIMA BHD	0.900	299.4	Y	12/2019	40.0%	11.1%	9637.5%	338.9%	N.A.	1,194.8	272.2	0.8	0.8	0.1%	0.0%	0.740	UP
MAH SING GROUP BHD	0.945	2,294.2	Y	12/2019	4.5%	7.0%	-2.5%	1.0%	14.0	14.3	14.2	0.7	0.6	5.2%	4.2%	1.05	OP
MALAYSIAN RESOURCES CORP BHD	0.970	4,267.9	Y	12/2019	-37.3%	58.2%	3.8%	46.1%	56.4	54.4	37.2	0.9	0.9	1.6%	1.5%	0.750	UP
SIME DARBY PROPERTY BHD	1.07	7,276.9	Y	12/2019	13.6%	12.5%	7.8%	16.9%	19.8	18.4	15.7	0.7	0.8	4.1%	2.2%	1.10	MP
SP SETIA BHD	2.13	8,589.2	Y	12/2019	7.8%	29.7%	71.3%	50.5%	39.1	22.8	15.2	0.6	0.6	2.5%	3.3%	2.45	OP
SUNSURIA BHD	0.675	600.7	Y	09/2019	-18.5%	7.4%	-14.7%	9.7%	4.5	5.3	4.9	0.6	0.6	12.9%	0.0%	0.760	OP
SUNWAY BHD	1.68	8,194.3	Y	12/2019	-2.7%	12.5%	-8.5%	22.5%	14.0	15.3	12.5	1.0	0.9	6.3%	3.5%	1.60	MP
UEM SUNRISE BHD	0.860	3,902.2	Y	12/2019	37.0%	-14.3%	9.0%	-11.7%	12.0	11.0	12.4	0.6	0.6	4.9%	1.2%	0.835	MP
UOA DEVELOPMENT BHD	2.34	4,314.3	Y	12/2019	0.6%	-0.4%	4.6%	0.9%	13.0	12.4	12.3	0.9	0.9	7.4%	6.0%	2.15	MP
Simple Average					3.2%	7.3%	702.8%	35.6%	18.8	102.7	34.5	0.7	0.7	4.5%	2.2%		
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Our historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																	
CONSENSUS NUMBERS																	
GLOMAC BHD	0.355	277.0	Y	04/2019	-37.9%	22.4%	-81.8%	179.8%	8.9	48.6	17.4	0.3	N.A.	0.6%	1.1%	0.390	SELL
MATRIX CONCEPTS HOLDINGS BHD	1.98	1,557.9	Y	03/2020	10.4%	4.3%	7.2%	7.4%	7.2	6.7	6.2	1.2	1.1	16.3%	6.6%	2.36	BUY
PARAMOUNT CORP BHD	2.07	897.0	Y	12/2019	-1.4%	8.4%	2.4%	5.3%	9.8	9.5	9.1	0.8	N.A.	7.2%	4.3%	2.56	BUY
TAMBUN INDAH LAND BHD	0.775	335.9	Y	12/2019	-14.3%	10.6%	-22.4%	10.1%	6.1	7.8	7.1	0.5	N.A.	7.1%	5.5%	0.897	BUY
TITIJAYA LAND BHD	0.300	381.7	Y	06/2019	-14.3%	13.9%	-36.3%	19.5%	5.3	8.3	6.9	0.3	0.3	3.5%	42.7%	0.335	BUY
YONG TAI BHD	0.330	176.3	Y	06/2019	28.1%	108.6%	-168.0%	66.5%	11.4	N.A.	11.1	0.4	0.5	-4.5%	0.0%	0.343	NEUTRAL

Source: Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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