

21 June 2020

UEM Sunrise Bhd

1QFY20 Below Expectations

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1QFY20 CNL of RM3.5m disappointed due to slower-than-expected progress billings and sales, impacted by MCO. While Covid-19 is expected to take a toll on earnings in the immediate term, the group is capitalising on its relatively healthy balance sheet to seek out opportunistic land deals. Slash FY20/21E earnings by 62%/45% but maintain OUTPERFORM with lowered TP of RM0.565 given cheap valuations and it being a beneficiary of a potential revival of the High Speed Rail project.

Below. 1QFY20 core net loss (CNL) of RM3.5m disappointed our and consensus' forecasts (of RM283m and RM148m, respectively) on slower-than-expected progress billings and sales partially caused by the MCO but also due to our overly aggressive billings assumptions.

QoQ, 1QFY20 bottom-line dipped into the red (vs. CNP of RM165m in 4QFY19) as revenue plunged 83% **mainly because 4Q19** had higher international billings from more unit handovers in Melbourne (RM526m vs. RM41m) coupled with the St Kilda land sale worth RM305m.

YoY, 1QFY20 CNL was weaker against 1QFY19 CNP of RM31.5m as revenue dropped 53% from lower unit handovers in Melbourne coupled with slower domestic billings arising from the MCO impact and existing projects still at relatively earlier stages of construction.

New land in Australia. Alongside earnings, UEMS announced that they had purchased a 1.33ac plot of land in Hoddle St, Melbourne for AUD43m. Tentatively, official launch is in late 2021/early-2022 with a GDV of AUD250m. UEMS remain bullish on the prospects in Australia and plans to seek out another plot similar to the Hoddle St purchase. Balance sheet-wise, UEMS's net gearing level of 0.35x remains healthy with more room to gear up should any strategic land banking opportunity arises.

Scaling back targets. Given the unprecedented Covid-19 crisis, management has hinted that their initial FY20 launch target of RM2b and sales target of RM2b will likely be scaled down. Nonetheless, quantum of cut is still under deliberation. 1QFY20 had only achieved RM97m worth of sales while booking markers up till 13th June 2020 suggest potential conversions of another RM270m. **Unbilled sales of RM1.8b would provide visibility for the next 2 years.**

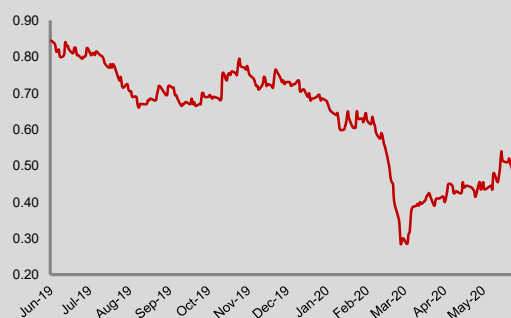
Slash FY20/21E earnings by 62%/45% after: (i) lowering FY20/21E property sales target to RM1.4b/RM1.7b (from RM1.7b/RM2.1b), (ii) lower land sales to RM300m (from RM400m) for both FY20 and FY21, and (iii) deferring progress billings in FY20 to account for the MCO.

Maintain OUTPERFORM with a lower TP of RM0.565 (from RM0.58) after rolling forward valuation base year to FY21E on unchanged 0.37x PBV (-1.5SD). Our Outperform rating is premised on the fact that valuations are cheap coupled with the fact that the revival of HSR would benefit UEMS with 75% of their remaining land bank within Johor.

OUTPERFORM ↔

Price : **RM0.450**
Target Price : **RM0.565** ↓

Share Price Performance



KLCI	1,507.26
YTD KLCI chg	-5.1%
YTD stock price chg	-36.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UEMS MK Equity
Market Cap (RM m)	2,041.8
Shares Outstanding	4,537.4
52-week range (H)	0.87
52-week range (L)	0.28
3-mth avg daily vol:	9,791,364
Free Float	21%
Beta	1.8

Major Shareholders

Khazanah Nasional Bhd	66.1%
Urusharta Jamaah Sdn Bhd	7.0%
Employee Provident Fund Board	4.6%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	2,800	1,692	1,805
EBIT	588	264	317
PBT	554	157	198
Net Profit (NP)	358	107	134
Core NP	358	107	134
Consensus (CNP)	n.a.	148	151
Earnings Revision	n.a.	-62%	-45%
Core EPS (sen)	7.9	2.4	3.0
EPS growth (%)	10	-70	26
NDPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	1.50	1.53	1.55
Core PER (x)	5.7	19.1	15.2
Price/NTA (x)	0.3	0.3	0.0
Net Gearing (x)	0.39	0.28	0.31
Dividend Yield (%)	0.0	0.0	0.0

*CNP excludes unrealized FOREX losses/gains, gain/loss on disposal of non-property assets, FV adjustments, inventory impairments,

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Result Highlights

FYE Dec (RM m)	1Q20	4Q19	QoQ	1Q19	YoY
Turnover	195.9	1,162.0	-83%	419.3	-53%
EBIT	23.3	232.3	-90%	70.9	-67%
Interest inc/(exp)	(9.4)	(11.4)	-18%	(20.4)	-54%
Associates/JV	(4.2)	24.1	-117%	(6.8)	-38%
Exceptional items [^]	(18.4)	(39.0)	-53%	(1.4)	1186%
Pretax profit	(8.7)	206.0	-104%	42.2	-121%
Taxation	(13.4)	(80.9)	-83%	(11.9)	13%
Profit after tax	(22.1)	125.1	-118%	30.3	-173%
Minority interest	0.2	1.2	-84%	(0.2)	-182%
PATAMI	(21.9)	126.2	-117%	30.1	-173%
Core PATAMI	(3.5)	165.2	-102%	31.5	-111%
DPS (sen)	0.0	0.0		0.0	
EBIT margin	11.9%	20.0%		16.9%	
Pretax margin	-4.4%	17.7%		10.1%	
EPS (sen)	-0.48	2.78		0.66	
Core EPS(sen)	-0.08	3.64		0.69	
Effective tax	n.a.	-39.3%		-28.2%	

[^] Exceptional items consist of:

Forex gain/(loss)	(18.4)	5.7	(6.4)
Impairment of int in a JV	0.0	(13.8)	0.0
Net allowance for impairment of inventories	0.0	(4.9)	0.1
Restructuring cost	0.0	(25.9)	0.0
FV adjustment of LT receivables	0.0	0.0	2.8
Gain on disposal of invmt properties	0.0	0.0	2.0
Total	(18.4)	(39.0)	(1.4)

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
<u>STOCKS UNDER COVERAGE</u>														
ECO WORLD DEVELOPMENT GROUP	0.435	1,280.80	Y	Oct-20	6.4	5.9	5.4	0.3	0.3	4.4%	2.5%	0.410	OP	
IOI PROPERTIES GROUP BHD	1.01	5,561.20	Y	Jun-20	8.4	10.4	8.1	0.3	0.3	2.9%	3.0%	1.21	OP	
LBS BINA GROUP BHD	0.365	552.6	Y	Dec-20	6.7	8.2	7.4	0.4	0.4	5.6%	4.1%	0.330	MP	
MAGNA PRIMA BHD	0.8	266.10	Y	Dec-20	N.A.	N.A.	N.A.	0.5	0.6	-4.3%	0.0%	0.550	UP	
MAH SING GROUP BHD	0.525	1,274.50	Y	Dec-20	11.7	21.9	10.3	0.4	0.4	1.7%	5.7%	0.450	MP	
MALAYSIAN RESOURCES CORP BHD	0.485	2,139.80	Y	Dec-20	89.8	82.2	32.8	0.4	0.4	1.4%	0.0%	0.750	OP	
SIME DARBY PROPERTY BHD	0.715	4,862.60	Y	Dec-19	6.9	11.9	9.8	0.5	0.5	4.3%	2.5%	0.880	OP	
SP SETIA BHD	0.91	3,678.70	Y	Dec-20	14.4	12.6	6.9	0.3	0.2	2.0%	2.4%	0.860	OP	
SUNWAY BHD	1.37	6,714.90	Y	Dec-20	10.5	16	11.2	0.7	0.7	4.4%	3.1%	1.68	OP	
UEM SUNRISE BHD	0.45	2,041.80	Y	Dec-20	6.5	7.2	8.4	0.3	0.3	1.4%	0.0%	0.565	OP	
UOA DEVELOPMENT BHD	1.78	3,499.50	Y	Dec-20	9.6	9.9	8.7	0.7	0.7	7.0%	7.9%	1.79	OP	
					17.1	18.6	10.9	0.4	0.4	2.8%	2.8%			

Source: Bloomberg, Kenanga Research

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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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