

25 November 2021

UEM Sunrise Bhd

9MFY21 Missed Expectations

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9MFY21 CNL of RM56m missed expectations due to wider-than-expected losses incurred in 3QFY21, impacted by the FMCO. That said, 9MFY21 sales of RM915m are above our conservative RM1.0b target. Despite the underperformance, we upgrade UEMS to OP with an unchanged TP of RM0.40 as we deem its current share price a value buy (at FY22E PBV of 0.25x). Our angle for the upgrade stems from internally-led initiatives which would improve earnings. However, if all these initiatives still fail to reinvigorate earnings, external intervention in the form of M&A would likely re-emerge in the mid-term given the current appealing valuations.

Below expectations. 3QFY21 core net loss (CNL) of RM45m dragged 9MFY21 CNL to RM56m – below our and consensus loss projections of RM33m and RM11m, respectively. The negative deviation stemmed from wider-than-expected losses attributed to the FMCO from June till mid-August. No dividends as expected.

3QFY21 sales of RM209m lifted 9MFY21 sales to RM915m – within management's RM1.2b target but above our overly conservative RM1.0b target. Consequently, we raise our FY21E sales target to RM1.2b – in line with management. Property launches of RM550 have been launched YTD with another c.RM50m for the rest of the year – bringing total FY21 launches to RM600m – falling short of their initial RM1.2b launch target set out earlier in the year.

The lower-than-targeted launches are due to its deferred Taman Pertama project which site could potentially be a land acquisition target for the MRT3 alignment. UEMS revealed that the authorities have temporarily halted the approval for this development as the land site could be subjected to a potential acquisition for the new MRT3 alignment. That said, no confirmation for such acquisition has been received and further updates would only be given to the group in Jan 2022. Should this acquisition go through, we view it as a blessing in disguise as we think sales on these plots of land would be challenging as it is located right beside the 50-acre Cheras Christian Cemetery which could deter buyers and limit the size of the target market.

Results' highlights. QoQ, 3QFY21 CNL of RM45m is worse off against 2QFY21 CNL of RM5.4m due to: (i) the FMCO which caused revenue to fall 14% and (ii) tax expense of RM9.4m vs. a tax gain of RM19.4m in 2QFY21. YoY, 9MFY21 CNL of RM56.3m narrowed against 9MFY20 CNL of RM93m on the back of stronger revenue (+36%) due to the easing lockdown measures.

Plans to turn around company underway. During its briefing yesterday, management has openly acknowledged for the first time that the group faces efficiency and cost issues which impedes the group from turning profitable. Key plans shared to turn around the company include: (i) shorten development turnover time to reduce holding costs, (ii) divestment of loss-making JVs and non-core assets to make the company leaner, (iii) save costs by doing bulk purchases from vendors and suppliers, and (iv) provide a more sustainable launch pipeline (instead of lumpy launches). We are positive on these initiatives but believe that execution is key for a successful turnaround.

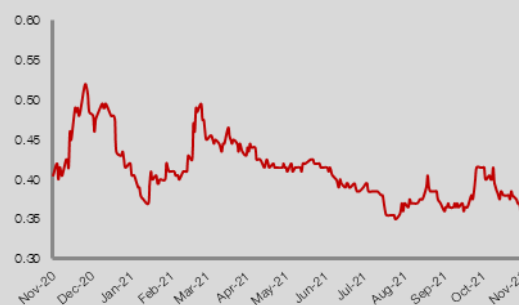
Post results, we widen FY21E CNL to RM65m (from RM33m) to factor in the wider losses in 3QFY21. While construction operating levels has normalised in 4QFY21, we still project a loss for the quarter as most of its projects are still at initial stages which impedes meaningful recognition for the group amidst due to high cost structure.

Despite the underperformance, we upgrade Uems to OP (from MP) with an unchanged TP of RM0.400 on 0.30x FY22E PBV given the slide in share price. At current share price which implies FY22E PBV of 0.25x, we deem UEMS a value buy. Our angle for the upgrade comes from internal improvements, more land/non-core asset sales, and faster turnaround of projects which would improve earnings. However, if all of these internally-led initiatives still fail to reinvigorate earnings, external intervention in the form of M&A would likely re-emerge in the medium-term given the appealing valuation of current share prices. Recall back in Oct 2020, Khazanah (through UEM Group), being the largest shareholder of UEMS (at c.70%) had proposed for UEMS to merge with ECOWLD through a share swap arrangement. However, the plans failed materialise after discussions.

OUTPERFORM

Price : **RM0.345**
Target Price : **RM0.400** 

Share Price Performance



KLCI 1,522.27
YTD KLCI chg -6.4%
YTD stock price chg -30.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UEMS MK Equity
Market Cap (RM m)	1,745.2
Shares Outstanding	5,058.5
52-week range (H)	0.54
52-week range (L)	0.35
3-mth avg daily vol:	4,346,037
Free Float	20%
Beta	1.5

Major Shareholders

Uem Group Berhad	69.6%
Urusharta Jamaah Sdn	6.3%
Employees Provident	3.3%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	1,137	933	1,368
EBIT	-7	55	205
PBT	-197	-94	77
Net Profit (NP)	-259	-64	52
Core NP	-127	-64	52
Consensus (CNP)	n.a.	-16	66
Earnings Revision	n.a.	94%	0%
Core EPS (sen)	(2.51)	(1.27)	1.04
EPS growth (%)	-126	-49	-182
NDPS (sen)	0.0	0.0	0.0
NTA/Share (RM)	1.364	1.352	1.362
Core PER (x)	(13.8)	(27.2)	33.3
Price/NTA (x)	0.3	0.26	0.25
Net Gearing (x)	0.40	0.45	0.44
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)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Revenue	213.0	249.1	-14%	217.4	-2%	714.9	525.2	36%
Cogs	-151.7	-181.5	-16%	-148.6	2%	-506.4	-393.6	29%
GP	61.3	67.6	-9%	68.8	-11%	208.5	131.7	58%
Other Income (inc int income)	8.4	7.7	9%	19.4	-57%	25.1	59.9	-58%
Expenses	-66.8	-65.1	3%	-76.3	-12%	-194.4	-205.0	-5%
Forex (loss)/gain	-5.6	4.0	-238%	-0.3	1746%	-0.6	-15.2	-96%
Operating Profit/ Losses	-2.7	14.3	-119%	11.5	-123%	38.7	-28.7	n.a.
Associates	-1.3	-6.8	-81%	2.0	-165%	1.6	2.1	-25%
JV	2.5	1.5	68%	-3.3	n.a.	2.9	-16.9	n.a.
EBIT	-1.5	9.0	-116%	10.2	-114%	43.2	-43.4	n.a.
Finance costs	-37.5	-35.7	5%	-32.2	16%	-109.4	-87.0	26%
PBT/LBT	-38.9	-26.8	45%	-21.9	77%	-66.2	-130.4	-49%
Tax	-9.4	19.4	-149%	-7.2	31%	6.5	-14.5	n.a.
PAT/LAT	-48.3	-7.4	555%	-29.1	66%	-59.7	-145.0	-59%
MI	2.0	0.0	14407%	-0.3	n.a.	2.4	-0.8	n.a.
PATAMI/LATAMI	-50.4	-7.4	581%	-28.9	74%	-62.1	-144.2	-57%
Exceptionals	5.6	2.0	172%	-2.9	n.a.	5.7	51.4	-89%
CNP/CNL	-44.8	-5.4	737%	-31.8	41%	-56.3	-92.7	-39%
DPS (sen)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Net Gearing	0.49	0.45		0.42		0.49	0.42	
GP margin	29%	27%		32%		29%	25%	
EBIT margin	-1%	4%		5%		6%	-8%	
Pretax margin	-18%	-11%		-10%		-9%	-25%	
PAT margins	-23%	-3%		-13%		-8%	-28%	
CNP margin	-21%	-2%		-15%		-8%	-18%	
Effective tax	24%	-72%		33%		-10%	11%	

Source: Company, Kenanga Research

Segmental

Revenue	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Prop development (Malaysia)	192.6	211.4	-9%	179.4	7%	625.9	364.6	72%
Prop development (Non-Malaysia)	0.0	12.7	-100%	12.9	-100%	17.8	83.7	-79%
Prop investment and Hotel ops	11.4	14.0	-18%	16.3	-30%	40.2	48.3	-17%
Others	9.0	11.0	-18%	8.8	2%	31.1	28.7	8%
Total	213.0	249.1	-14%	217.4	-2%	714.9	525.2	36%
PBT								
Prop development (Malaysia)	0.1	11.9	-99%	8.3	-99%	39.5	-65.1	n.a.
Prop development (Non-Malaysia)	-3.8	-0.4	977%	2.3	-268%	-7.9	19.1	-142%
Prop investment and Hotel ops	-16.6	-18.0	-8%	-16.3	2%	-46.7	-43.6	7%
Others	-18.6	-20.4	-9%	-16.3	14%	-51.1	-40.9	25%
Total	-38.9	-26.8	45%	-21.9	77%	-66.2	-130.4	-49%
PBT Margins								
Prop development (Malaysia)	0%	6%		5%		6%	-18%	
Prop development (Non-Malaysia)	n.a.	-3%		18%		-45%	23%	
Prop investment and Hotel ops	-145%	-128%		-100%		-116%	-90%	
Others	-206%	-185%		-184%		-164%	-143%	
Total	-18%	-11%		-10%		-9%	-25%	

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 (%) 1-Yr. Fwd.	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
<u>STOCKS UNDER COVERAGE</u>														
ECO WORLD DEVELOPMENT GROUP	0.880	2,591.0	Y	10/2021	11.0	11.0	9.8	0.6	0.5	3.7%	2.4%	0.850	MP	
IOI PROPERTIES GROUP BHD	1.12	6,166.9	Y	06/2022	9.8	9.7	8.7	0.3	0.3	3.4%	2.5%	1.32	MP	
MAH SING GROUP BHD	0.710	1,723.7	Y	12/2021	50.7	14.8	10.8	0.5	0.5	3.9%	4.2%	0.850	MP	
MALAYSIAN RESOURCES CORP BHD	0.370	1,653.0	Y	12/2021	N.A.	N.A.	33.6	0.3	0.3	-0.6%	2.7%	0.405	MP	
SIME DARBY PROPERTY BHD	0.665	4,522.6	Y	12/2021	31.7	28.9	13.0	0.5	0.5	1.7%	2.0%	0.735	MP	
SP SETIA BHD	1.35	5,491.8	Y	12/2021	150.0	43.5	10.8	0.5	0.4	0.9%	2.8%	1.19	UP	
SUNWAY BHD	1.68	8,213.6	Y	12/2021	27.1	48.7	24.1	0.9	0.8	2.1%	0.8%	1.90	MP	
UEM SUNRISE BHD	0.345	1,745.2	Y	12/2021	N.A.	N.A.	33.2	0.2	0.2	-0.9%	0.0%	0.400	OP	
UOA DEVELOPMENT BHD	1.70	3,955.0	Y	12/2021	11.3	12.1	11.3	0.7	0.7	3.0%	7.6%	1.76	OP	
Simple Average					41.7	24.1	17.3	0.5	0.5	1.9%	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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