

29 May 2024

UOA Development

Held Up by Strong Rental Incomes

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UOADEV's 1QFY24 results met expectations. Its 1QFY24 core net profit rose 8% as stronger rental incomes and hospitality profits more offset lower property development profits. We maintain our forecasts and TP of RM1.79 but downgrade our call to **UNDERPERFORM** from **MARKET PERFORM** after the run-up in its share price.

UOADEV's 1QFY24 core net profit of RM48.9m came in at only 19% and 20% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the results within expectations as we expect stronger earnings during the remaining quarters as progress billings accelerate.

YoY, its 1QFY24 revenue declined by 18% due to lower property sales, namely, from Laurel Residence and Aster Hill (with 71% and 37% take-up rates, respectively). However, its core net profit rose 8% driven largely by higher rental incomes and hospitality profits.

QoQ, its 1QFY24 top line contracted 36%, we believe, due to a seasonally low period for property sales. Its core net profit only declined by 17%, thanks largely to a lower effective tax rate.

Outlook. UOADEV will continue to focus on mid-range residential developments. The construction progress of Aster Hill and Laurel Residences seems to be on track to meet their targeted completion by FY26. Meanwhile, the group's Bamboo Hills Residences with estimated GDV of RM1.4b is on track to be launched in 1HCY24 and expected to be completed in CY29.

Its earnings visibility will be underpinned by unbilled sales of RM311.7m, coupled with stable rental income streams, supported by rising occupancy at its office premises and retail space (i.e., Bamboo Hills, Sphere). Additionally, the hospitality segment (Komune Living & Wellness) will be buoyed by the return of domestic and international guests.

Forecasts. Maintained.

Valuations. We also maintain our TP of RM1.79 based on a 55% discount to its RNAV which is in-line with the industry average. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

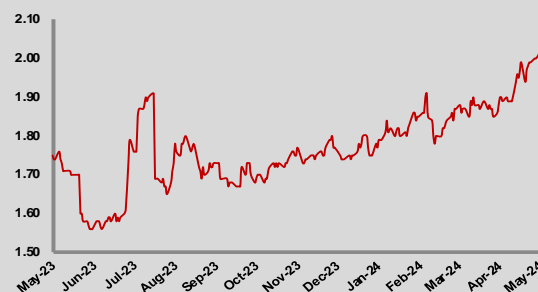
Investment case. We like UOADEV for: (i) its strategy to focus on mid-priced developments amidst a soft property market, (ii) the highly sought-after locations of its land banks in urban locations, and (iii) a strong war chest backed by a net cash of RM226.9m as at 1QFY24. However, its relatively prudent growth strategy may not appeal to investors with a short investment horizon. Downgrade to **UNDERPERFORM** from **MARKET PERFORM** after the recent run-up in its share price.

Risks to our call include: (i) a stronger-than-expected recovery in the property, hospitality, and MICE sectors, (ii) declining mortgage rates boosting affordability, and (iii) less restrictive urban development policies in the Klang Valley.

UNDERPERFORM ↓

Price : RM1.99
Target Price : RM1.79 ↔

Share Price Performance



KLCI	1,615.82
YTD KLCI chg	11.1%
YTD stock price chg	14.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UOAD MK Equity
Market Cap (RM m)	4,955.9
Shares Outstanding	2,490.4
52-week range (H)	2.02
52-week range (L)	1.56
3-mth avg. daily vol.	332,403
Free Float	13%
Beta	0.7

Major Shareholders

UOA Holdings Sdn Bhd	68.4%
Employees Provident Fund	12.3%
Amanah Saham Nasional	3.9%

Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
Turnover	399.4	593.0	582.0
Operating Profit	323.3	328.6	322.4
Profit Before Tax	368.4	343.1	335.8
Net Profit	279.6	255.5	250.1
Core Net Profit	214.2	255.5	250.1
Consensus (CNP)	-	243.0	247.8
Earnings Revision	-	-	-
Core EPS (sen)	8.9	10.6	10.4
Core EPS Growth (%)	(2.6)	19.3	(2.1)
NDPS (sen)	10.0	6.5	6.5
BV/Share (RM)	2.2	2.3	2.3
Core PER (x)	22.4	18.7	19.1
Price/BV (x)	0.9	0.9	0.9
Net Gearing (x)	-	-	-
Dividend Yield (%)	5.0	3.3	3.3

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Results Highlight

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	70.3	109.0	-36%	85.2	-18%	70.3	85.2	-18%
Cost of Goods Sold	-43.2	-55.5	-22%	-47.1	-8%	-43.2	-47.1	-8%
Gross Profit	27.0	53.5	-49%	38.1	-29%	27.0	38.1	-29%
Fair Value Adjustments on Investment Properties	0.0	39.4	-100%	0.0	N.M.	0.0	0.0	N.M.
Other Income	89.5	93.2	-4%	74.6	20%	89.5	74.6	20%
Impairment (Loss)/Reversal	0.5	22.8	-98%	0.9	-45%	0.5	0.9	-45%
Inventories Written Down	0.3	-2.5	-112%	0.0	N.M.	0.3	0.0	N.M.
Administrative Expenses	-45.6	-53.8	-15%	-47.6	-4%	-45.6	-47.6	-4%
Other Expenses	-21.8	-17.8	23%	-18.9	15%	-21.8	-18.9	15%
Operating Profit	50.0	134.8	-63%	47.2	6%	50.0	47.2	6%
Net Finance Income / (Cost)	11.8	11.2	5%	10.2	16%	11.8	10.2	16%
Profit Before Tax	61.8	146.0	-58%	57.4	8%	61.8	57.4	8%
Taxation	-10.8	-26.8	-60%	-10.2	6%	-10.8	-10.2	6%
Minority interest	-1.2	-0.4	192%	-1.1	14%	-1.2	-1.1	14%
Net Profit	49.8	118.8	-58%	46.1	8%	49.8	46.1	8%
One-off Adjustments	0.8	59.7	-99%	0.9	-12%	0.8	0.9	-12%
Core Net Profit	49.0	59.1	-17%	45.2	8%	49.0	45.2	8%
Gross Profit Margin	38.5%	49.1%		44.7%		38.5%	44.7%	
Operating Margin	71.2%	123.6%		55.4%		71.2%	55.4%	
Pretax Margin	88.0%	133.9%		67.4%		88.0%	67.4%	
Net Margin	70.9%	108.9%		54.1%		70.9%	54.1%	
Effective Tax Rate	17.5%	18.4%		17.8%		17.5%	17.8%	
Net Gearing	-0.33	-0.34		-0.41		-0.38	-0.36	

Source: Company, Kenanga Research

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UOADEV's RNAV			
Project	Remaining Land Bank (acres)	Outstanding GDV (RMb)	Effective NPV of profit (RMm)
<u>On-going/Up-coming Projects</u>			
Laurel Residence		550.0	87.2
Aster Hill		480.0	76.1
Desa 3		18.0	3.1
Duo Tower		1,300.0	206.0
<u>To be developed</u>			
Jalan Ipoh	27.3	6,000.0	737.3
UOA Business Park (Phase 2)		140.0	17.2
Bangsar South Land (Commercial)		2,300.0	282.7
Bangsar South Land (Residential)		1,850.0	227.3
Land Around Bangsar South		900.0	110.6
Cyberjaya Land		265.0	32.6
	27.3	13,803.0	1,780.1
Unbilled Sales (as of FY22)		308.4	53.5
Property Development Net Assets (FY22)			4,105.1
Property Development RNAV (RM m)			5,938.8
Discount ascribed to PD RNAV			55%
Discounted PD RNAV			2,672.5
Property Investment	0.9x NAV	1,652.2	1,486.9
Total SoP			4,159.4
Number of shares (m)			2,326.5
RNAV/share (RM)			1.79

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RMm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
PROPERTY DEVELOPERS																	
ECO WORLD DEVELOPMENT GROUP	UP	1.49	1.27	-14.8%	4,387.1	Y	10/2024	9.7	10.0	5.2%	3.6%	15.4	14.8	0.9	5.9%	6.0	4.0%
IOI PROPERTIES GROUP BHD	UP	2.48	1.75	-29.4%	13,655.2	N	06/2024	14.1	14.4	23.5%	2.0%	17.5	17.2	0.6	3.4%	4.5	1.8%
MAH SING GROUP BHD	OP	1.50	1.60	6.7%	3,840.2	Y	12/2024	10.2	11.0	14.6%	8.5%	14.8	13.6	0.9	6.5%	4.0	2.7%
MKH BHD	OP	1.32	2.11	59.8%	762.2	Y	09/2024	18.0	20.1	41.8%	11.2%	7.3	6.6	0.4	5.3%	6.0	4.5%
S P SETIA BHD	UP	1.48	0.800	-45.9%	7,026.0	Y	12/2024	5.9	6.1	16.0%	2.7%	25.1	24.4	0.4	1.9%	5.5	3.7%
SIME DARBY PROPERTY BHD	MP	1.25	1.08	-13.6%	8,501.0	Y	12/2024	6.3	6.5	7.1%	3.8%	19.9	19.2	0.8	4.1%	3.0	2.4%
SUNWAY BHD	UP	3.70	2.47	-33.2%	20,833.8	Y	12/2024	14.6	14.7	26.0%	1.2%	25.4	25.1	1.4	6.0%	6.0	1.6%
UOA DEVELOPMENT BHD	MP	1.99	1.79	-10.1%	4,955.9	Y	12/2024	10.6	10.4	19.3%	-2.1%	18.8	19.2	0.8	4.5%	6.5	3.3%
SECTOR AGGREGATE					63,961.5					18.8%	2.7%	20.0	19.4	0.8	4.7%		3.0%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	☆		
	Effluent/Water Management	★	★	☆		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★	☆	
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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