

25 February 2020

UEM Sunrise Bhd

Overseas Gains Offset By Lumpy Items

By Goh Yin Foo | gohyf@kenanga.com.my

FY19 CNP of RM312.2m (-4% YoY) came in below our expectation (90% of our estimate) but above consensus expectations (at 129%). After locking in property sales of RM1.13b in FY19, UEMS has set a sales target of RM2.0b for FY20. Forward earnings will be underpinned by unbilled sales of RM1.8b as of end-Dec last year. Still **OUTPERFORM** but with a lower TP of RM0.72 (from RM0.85) based on adjusted P/BV multiple of 0.46x (which is pegged at 1SD below its 3-year mean).

Slightly below our expectations. FY19 CNP of RM312.2m (-4% YoY) made up 90% of our forecast and 129% of consensus estimate. The full-year results included profit recognition from land sales amounting to RM55m in FY19, versus a profit of RM260m in FY18. No dividends were declared, as expected.

Results' highlights. Full-year performance was lifted by its international projects (in particular Aurora Melbourne Central and Conservatory), which contributed RM284.8m (or 80%) of property development earnings, up from RM69.1m (or 30%) of the segment's profit in FY18. However, overall reported earnings was dragged down by RM88.4m losses from exceptional items (see breakdown in table overleaf), mainly from: (i) RM51.1m in impairment of interest in JV company (40%-owned Malaysian Bio-Xcell which is involved in a development in Iskandar Puteri), and (ii) RM25.9m in restructuring cost from a staff separation scheme. QoQ, stripping out exceptional items, CNP of RM165.2m came in higher than 3Q19's RM36.7m and 4Q18's RM47.1m. Net gearing stood at 0.32x as of end-Dec 2019 (versus 0.50x end-Dec 18).

Inventory on the decline. UEMS saw property sales of RM1.13b in FY19, compared with RM1.43b in FY18. This included sales of completed properties of RM392m, as inventory of completed properties declined from RM695m end-Dec 2018 to RM546m in end-Dec 2019.

Optimistic on FY20. The Group plans to launch RM1.5b worth of new properties this year and targets to lock in property sales of RM2.0b. This includes land sales valued at between RM400m and RM500m in non-strategic areas.

Keeping earnings projection. Forward earnings will be driven by unbilled sales of RM1.8b as of end-Dec 19. We have retained our net profit forecasts at RM283m for FY20 and introduce RM244m (new) for FY21.

Maintain OUTPERFORM with a revised TP of RM0.72 (from RM0.85), which is based on P/BV multiple of 0.46x (pegged at minus 1SD below its 3-year historical band) on an adjusted BV/share of RM1.56 (after imputing a 40% discount to its latest available inventory level of completed properties). This is to take into consideration the still challenging property market conditions which are expected to persist.

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

OUTPERFORM ↔

Price : RM0.615
Target Price : RM0.72 ↓

Share Price Performance



KLCI	1,490.06
YTD KLCI chg	-6.2%
YTD stock price chg	-12.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	UEMS MK Equity
Market Cap (RM m)	2,790.5
Shares Outstanding	4,537.4
52-week range (H)	1.02
52-week range (L)	0.58
3-mth avg daily vol:	1,749,584
Free Float	20%
Beta	1.6

Major Shareholders

Khazanah Nasional Bhd	66.1%
Urusharta Jamaah Sdn Bhd	7.7%
Employee Provident Fund Board	5.1%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	2,909	2,401	2,380
EBIT	521	486	497
PBT	385	397	340
Net Profit (NP)	224	283	244
Core NP	312	283	244
Consensus (CNP)	N.A.	186.2	155.9
Earnings Revision	N.A.	0%	N.A.
Core EPS (sen)	6.88	6.2	5.4
EPS growth (%)	-4.4	-21	-14
NDPS (sen)	0.0	1.0	1.0
NTA/Share (RM)	1.41	1.55	1.60
Core PER (x)	8.9	9.9	11.4
Price/NTA (x)	0.4	0.4	0.4
Net Gearing (x)	0.32	0.36	0.36
Dividend Yield (%)	0.0	1.6	1.6

*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)	4Q19	3Q19	QoQ	4Q18	YoY	FY19	FY18	YoY
Turnover	1,162.0	327.6	255%	752.8	54%	2,909.5	2,044.0	42%
EBIT	232.3	72.7	219%	90.3	157%	520.9	478.1	9%
Interest inc/(exp)	(11.4)	(18.0)	-37%	(18.5)	-38%	(68.2)	(58.7)	16%
Associates/JV	24.1	4.3	466%	25.4	-5%	20.3	41.1	-51%
Exceptional items [^]	(39.0)	(9.6)	307%	(27.4)	42%	(88.4)	(44.5)	99%
Pretax profit	206.0	49.5	317%	69.9	195%	384.5	416.0	-8%
Taxation	(80.9)	(22.4)	261%	(50.2)	61%	(161.9)	(135.6)	19%
Profit after tax	125.1	27.1	362%	19.7	534%	222.7	280.5	-21%
Minority interest	1.2	0.1	1900%	0.0	3642%	1.1	(0.5)	-333%
PATAMI	126.2	27.1	366%	19.7	539%	223.8	280.0	-20%
Core PATAMI	165.2	36.7	350%	47.1	251%	312.2	324.5	-4%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	20.0%	22.2%		12.0%		17.9%	23.4%	
Pretax margin	17.7%	15.1%		9.3%		13.2%	20.4%	
EPS (sen)	2.78	0.60		0.44		4.93	6.17	
Core EPS(sen)	3.64	0.81		1.04		6.88	7.15	
Effective tax	4.9%	24.7%		20.4%		13.1%	12.3%	

[^] Exceptional items consist of:

Forex gain/(loss)	5.7	(9.6)		(8.8)		(8.6)	(6.7)	
Impairment of int in a JV	(13.8)	0.0		(0.7)		(51.1)	(10.2)	
Net allowance for impairment of inventories	(4.9)	0.0		(17.8)		(4.9)	(27.6)	
Restructuring cost	(25.9)	0.0		0.0		(25.9)	0.0	
Gain on disposal of invmt properties	0.0	0.0		0.0		2.0	0.0	
Total	(39.0)	(9.6)		(27.4)		(88.4)	(44.5)	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)				1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
PROPERTY DEVELOPERS UNDER COVERAGE																		
AMVERTON BHD	1.20	438.1	Y	12/2019	-34.7%	1.3%	-83.6%	30.5%	18.3	111.8	85.7	0.6	0.6	0.5%	0.0%	0.890	UP	
ECO WORLD DEVELOPMENT GROUP	0.640	1,884.4	Y	10/2020	-19.2%	25.6%	8.0%	7.8%	9.4	8.6	8.0	0.4	0.4	4.8%	1.7%	0.750	MP	
IOI PROPERTIES GROUP BHD	1.06	5,836.5	Y	06/2020	1.4%	2.6%	-3.0%	8.2%	8.8	9.1	8.4	0.3	0.3	3.5%	4.7%	1.55	OP	
LBS BINA GROUP BHD	0.475	727.1	Y	12/2019	34.1%	1.5%	-18.1%	10.6%	8.7	10.6	9.6	0.5	0.5	5.1%	2.2%	0.520	MP	
MAGNA PRIMA BHD	0.755	251.1	Y	12/2020	7.7%	8.4%	-136.3%	-115.2%	N.A.	N.A.	N.A.	0.5	0.5	-4.3%	0.0%	0.545	UP	
MAH SING GROUP BHD	0.665	1,614.4	Y	12/2019	-17.5%	6.5%	-36.9%	7.0%	9.8	15.6	14.6	0.5	0.5	3.4%	6.0%	0.750	MP	
MALAYSIAN RESOURCES CORP BHD	0.655	2,889.9	Y	12/2019	-41.9%	70.5%	-95.3%	2791.2%	38.1	813.9	28.2	0.6	0.6	1.2%	0.0%	0.700	UP	
SIME DARBY PROPERTY BHD	0.760	5,168.6	Y	12/2019	129.2%	11.0%	9700.0%	-4.4%	760.0	7.5	7.9	0.6	0.5	7.3%	5.3%	1.00	OP	
SP SETIA BHD	1.27	5,134.0	Y	12/2019	5.5%	24.3%	15.6%	57.6%	24.6	21.3	13.5	0.4	0.4	1.7%	3.3%	1.80	OP	
SUNSURIA BHD	0.555	497.2	Y	09/2020	-2.7%	7.3%	-4.0%	4.8%	3.7	3.9	3.7	0.5	0.5	14.5%	0.0%	0.585	MP	
SUNWAY BHD	1.75	8,579.7	Y	12/2019	-2.7%	12.5%	-8.5%	10.6%	14.6	15.9	14.4	1.0	1.0	6.3%	3.4%	1.60	UP	
UEM SUNRISE BHD	0.615	2,790.5	Y	12/2020	-17.5%	-0.9%	-9.3%	-13.8%	8.9	9.9	11.4	0.4	0.4	3.9%	1.6%	0.720	OP	
UOA DEVELOPMENT BHD	1.92	3,774.8	Y	12/2019	-0.5%	-6.4%	9.2%	-8.7%	10.6	9.7	10.7	0.8	0.7	7.7%	7.3%	2.15	OP	
Simple Average					3.2%	12.6%	718.3%	214.3%	76.3	86.3	17.9	0.6	0.5	4.3%	2.8%			
*SIMEPROP change of FY-end from 30-Jun to 31-Dec. Out historical numbers are based on FY18A while 1-Yr and 2-Yr Fwd are based on FY19E and FY20E figures																		
CONSENSUS NUMBERS																		
GLOMAC BHD	0.345	268.2	Y	04/2020	11.9%	40.2%	22.6%	85.9%	18.2	14.9	8.0	0.2	N.A.	1.7%	2.6%	0.385	N.A	
MATRIX CONCEPTS HOLDINGS BHD	1.93	1,588.0	Y	03/2020	7.3%	9.1%	5.8%	4.8%	7.3	6.9	6.6	1.0	1.0	15.9%	6.4%	2.28	BUY	
PARAMOUNT CORP BHD	1.31	794.8	Y	12/2019	N.A.	N.A.	N.A.	N.A.	8.7	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	BUY	
TAMBUN INDAH LAND BHD	0.670	290.4	Y	12/2019	-11.3%	4.0%	-21.7%	-1.0%	5.2	6.7	6.8	0.5	0.5	6.6%	6.0%	0.840	N.A	
TITIJAYA LAND BHD	0.285	360.9	Y	06/2020	-21.3%	8.5%	-35.0%	15.7%	10.8	16.7	14.4	0.3	0.3	1.7%	44.2%	0.305	N.A	
YONG TAI BHD	0.100	95.1	Y	06/2020	128.4%	8.6%	-3718.7%	-130.6%	N.A.	N.A.	N.A.	0.2	0.2	-0.6%	0.0%	0.183	N.A	

Source: 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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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

