

# Flash Note



Refer to important disclosures at the end of this report

AllianceDBS Research, Malaysia Equity

23 May 2018

## UEM Sunrise (UEMS MK) : HOLD

**Mkt. Cap:** US\$969m | **3m Avg. Daily Val:** US\$0.59m

**Last Traded Price ( 22 May 2018):** RM0.85

**Price Target 12-mth:** RM0.95 (12% upside) (Prev RM1.05)

**Shariah Compliant:** Yes

### Analyst

QUAH He Wei, CFA +603 2604 3966; hewei@alliancedbs.com

## Better performance in 2H18

- 1Q18 met our expectation but significantly missed consensus'
- RM434m property sales in 1Q18
- Lumpy sales recognition from Australian projects in 2H18
- Maintain HOLD with lower TP of RM0.95

### Forecasts and Valuation

FY Dec (RMm)	2017A	2018F	2019F	2020F
Revenue	2,903	2,706	3,023	1,104
EBITDA	395	292	373	221
Pre-tax Profit	439	386	284	144
Net Profit	280	268	197	98.6
Net Pft (Pre Ex.)	150	121	197	98.6
Net Pft Gth (Pre-ex) (%)	1.1	(19.4)	62.8	(50.0)
EPS (sen)	6.17	5.91	4.34	2.17
EPS Pre Ex. (sen)	3.31	2.67	4.34	2.17
EPS Gth Pre Ex (%)	1	(19)	63	(50)
Diluted EPS (sen)	3.31	2.67	4.34	2.17
Net DPS (sen)	1.54	1.48	1.09	0.54
BV Per Share (sen)	156	160	163	164
PE (X)	13.8	14.4	19.6	39.1
PE Pre Ex. (X)	25.7	31.9	19.6	39.1
P/Cash Flow (X)	nm	5.0	5.8	2.2
EV/EBITDA (X)	19.0	23.8	17.4	22.3
Net Div Yield (%)	1.8	1.7	1.3	0.6
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	0.4	0.4	0.3	0.1
ROAE (%)	4.0	3.7	2.7	1.3

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### What's New

**Within expectation:** Excluding RM5.2m unrealised forex loss and RM7.6m land sales gain, UEM Sunrise (UEMS) reported a 1Q18 core profit of RM22.9m. This comprised 19% of our full-year estimate but only 9% of consensus'.

**Lumpy recognition from Australia in 2H18.** 1Q18 revenue came in at RM288m, which represents a y-o-y drop of 32%, as new projects launches were still at the early stage of construction while several projects such as Residensi 22, Arcoris and Teega were completed last year. Nevertheless, 2H18 revenue is expected to come in strongly as the first separable parcels of Aurora Melbourne Central (AUD\$87m) and Conservatory (AUD\$320m) will be delivered.

**RM434m sales in 1Q18:** UEMS' 1Q18 property sales came in at a commendable RM434m, largely due to RM161m sales from Australia and RM104m from inventory monetisation following its aggressive sales initiatives. UEMS has set its FY18 sales target at RM1.2bn while launch pipeline stands at RM1bn. It is also actively working on selling its completed inventory of RM564m (as at end-1Q18) via various incentive schemes and campaigns that have shown some promising results.

**Dependent on international projects.** Unbilled sales stood at RM4.8bn as at end-Mar 2018, of which 73% (or RM3.5bn) came from its Australian projects. We estimate that



## Flash Note

---

RM1.2bn worth of revenue from Australia will be recognised in 2H18. Therefore, strong sales replenishment, especially for its Malaysian projects, is critical to sustain its earnings momentum.

**Borrowings on an uptrend:** UEMS's net gearing stood at 48% as at end-1Q18. We note that its borrowings have been on an uptrend over the past few quarters, suggesting high upfront outlays for its Australian projects. We understand that its gearing level will continue to rise and peak in 2018.

**Maintain HOLD.** We revise down our TP to RM0.95, based on a 70% discount to our revised RNAV, after incorporating lower land prices for its vast Johor land bank. We reiterate our HOLD rating given the lack of catalysts due to a largely challenging property market in Malaysia that may affect its property sales replenishment.

### Quarterly / Interim Income Statement (RMm)

FY Dec	1Q2017	4Q2017	1Q2018	% chg yoy	% chg qoq
Revenue	420	208	288	(31.5)	38.3
Cost of Goods Sold	(355)	(250)	(251)	(29.3)	0.4
<b>Gross Profit</b>	<b>65.6</b>	<b>(41.7)</b>	<b>37.1</b>	<b>(43.5)</b>	<b>nm</b>
Other Oper. (Exp)/Inc	(5.9)	(7.5)	(6.7)	14.9	(10.0)
<b>Operating Profit</b>	<b>59.8</b>	<b>(49.1)</b>	<b>30.4</b>	<b>(49.2)</b>	<b>(161.8)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	3.05	8.84	10.3	238.5	16.7
Net Interest (Exp)/Inc	(16.7)	(12.2)	(13.6)	18.6	(11.4)
Exceptional Gain/(Loss)	(5.0)	11.5	2.40	nm	(79.1)
<b>Pre-tax Profit</b>	<b>41.1</b>	<b>(41.0)</b>	<b>29.5</b>	<b>(28.2)</b>	<b>nm</b>
Tax	(17.2)	(8.6)	(4.3)	(75.0)	(49.9)
Minority Interest	(0.6)	0.0	0.10	nm	(488.5)
<b>Net Profit</b>	<b>23.3</b>	<b>(49.6)</b>	<b>25.3</b>	<b>8.5</b>	<b>(151.0)</b>
Net profit bef Except.	28.3	(61.1)	22.9	(19.3)	(137.5)
EBITDA	68.7	(32.8)	47.4	(31.0)	nm
<b>Margins (%)</b>					
Gross Margins	15.6	(20.0)	12.9		
Opg Profit Margins	14.2	(23.6)	10.6		
Net Profit Margins	5.5	(23.8)	8.8		

Source of all data: Company, AllianceDBS

## Target Price &amp; Ratings History



*Note: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Jun 17	1.27	1.25	HOLD
2:	24 Aug 17	1.16	1.25	HOLD
3:	31 Oct 17	1.11	1.25	HOLD
4:	01 Nov 17	1.12	1.25	HOLD
5:	21 Nov 17	1.06	1.10	HOLD
6:	13 Dec 17	1.04	1.10	HOLD
7:	03 Jan 18	1.17	1.10	HOLD
8:	28 Feb 18	1.09	1.10	HOLD
9:	22 Mar 18	1.00	1.05	HOLD
10:	16 Apr 18	0.95	1.05	HOLD

Source: AllianceDBS

Analyst: QUAH He Wei, CFA

### DISCLOSURE

---

#### Stock rating definitions

STRONG BUY	-	> 20% total return over the next 3 months, with identifiable share price catalysts within this time frame
BUY	-	> 15% total return over the next 12 months for small caps, >10% for large caps
HOLD	-	-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps
FULLY VALUED	-	negative total return > -10% over the next 12 months
SELL	-	negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame

#### Commonly used abbreviations

Adex = advertising expenditure	EPS = earnings per share	PBT = profit before tax
bn = billion	EV = enterprise value	P/B = price / book ratio
BV = book value	FCF = free cash flow	P/E = price / earnings ratio
CF = cash flow	FV = fair value	PEG = P/E ratio to growth ratio
CAGR = compounded annual growth rate	FY = financial year	q-o-q = quarter-on-quarter
Capex = capital expenditure	m = million	RM = Ringgit
CY = calendar year	M-o-m = month-on-month	ROA = return on assets
Div yld = dividend yield	NAV = net assets value	ROE = return on equity
DCF = discounted cash flow	NM = not meaningful	TP = target price
DDM = dividend discount model	NTA = net tangible assets	trn = trillion
DPS = dividend per share	NR = not rated	WACC = weighted average cost of capital
EBIT = earnings before interest & tax	p.a. = per annum	y-o-y = year-on-year
EBITDA = EBIT before depreciation and amortisation	PAT = profit after tax	YTD = year-to-date

**DISCLAIMER**

This report has been prepared for information purposes only by AllianceDBS Research Sdn Bhd ("ADBSR"), a subsidiary of Alliance Investment Bank Berhad ("AIBB") and an associate of DBS Vickers Securities Holdings Pte Ltd ("DBSVH"). DBSVH is a wholly-owned subsidiary of DBS Bank Ltd. This report is strictly confidential and is meant for circulation to clients of ADBSR, AIBB and DBSVH only or such persons as may be deemed eligible to receive such research report, information or opinion contained herein. Receipt and review of this report indicate your agreement not to distribute, reproduce or disclose in any other form or medium (whether electronic or otherwise) the contents, views, information or opinions contained herein without the prior written consent of ADBSR.

This report is based on data and information obtained from various sources believed to be reliable at the time of issuance of this report and any opinion expressed herein is subject to change without prior notice and may differ or be contrary to opinions expressed by ADBSR's affiliates and/or related parties. ADBSR does not make any guarantee, representation or warranty (whether express or implied) as to the accuracy, completeness, reliability or fairness of the data and information obtained from such sources as may be contained in this report. As such, neither ADBSR nor its affiliates and/or related parties shall be held liable or responsible in any manner whatsoever arising out of or in connection with the reliance and usage of such data and information or third party references as may be made in this report (including, but not limited to any direct, indirect or consequential losses, loss of profits and damages).

The views expressed in this report reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendation(s) or view(s) in this report. ADBSR prohibits the analyst(s) who prepared this report from receiving any compensation, incentive or bonus based on specific investment banking transactions or providing a specific recommendation for, or view of, a particular company.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation to buy or sell any securities or other investments or any options, futures, derivatives or other instruments related to such securities or investments. In particular, it is highlighted that this report is not intended for nor does it have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. Investors are therefore advised to make their own independent evaluation of the information contained in this report, consider their own individual investment objectives, financial situations and particular needs and consult their own professional advisers (including but not limited to financial, legal and tax advisers) regarding the appropriateness of investing in any securities or investments that may be featured in this report.

ADBSR, AIBB, DBSVH and DBS Bank Ltd, their directors, representatives and employees or any of their affiliates or their related parties may, from time to time, have an interest in the securities mentioned in this report. AIBB, DBSVH and DBS Bank Ltd, their affiliates and/or their related persons may do and/or seek to do business with the company(ies) covered in this report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell or buy such securities from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

AIBB, DBSVH, DBS Bank Ltd (which carries on, inter alia, corporate finance activities) and their activities are separate from ADBSR. AIBB, DBSVH and DBS Bank Ltd may have no input into company-specific coverage decisions (i.e. whether or not to initiate or terminate coverage of a particular company or securities in reports produced by ADBSR) and ADBSR does not take into account investment banking revenues or potential revenues when making company-specific coverage decisions.

ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, may beneficially own a total of 1% or more of any class of common equity securities of the subject company mentioned in this report. ADBSR, AIBB, DBSVH, DBS Bank Ltd and/or other affiliates of DBSVUSA may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company. DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this report should contact DBSVUSA exclusively. DBS Vickers Securities (UK) Ltd is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Services Authority. Research distributed in the UK is intended only for institutional clients.

In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the overriding issue of confidentiality, available upon request to enable an investor to make their own independent evaluation of the information contained herein.



Wong Ming Tek, Executive Director

Published by

**AllianceDBS Research Sdn Bhd (128540 U)**

19th Floor, Menara Multi-Purpose, Capital Square, 8 Jalan Munshi Abdullah, 50100 Kuala Lumpur, Malaysia.

Tel.: +603 2604 3333 Fax: +603 2604 3921 email : general@alliancedbs.com