

UEM Sunrise (UEMS MK)

Earnings recovery could be hit by sector headwinds

Growing risks in the sector; D/G to SELL

UEMS has been focusing on rectifying internal issues over the last one year and it has come out with several strategies. These include the divestment of non-core assets and improvement of cost structure. We maintain our earnings forecasts. As we see more headwinds in the sector that will likely linger into 2023, we raise the discount on PBV for property stocks under coverage. We now value UEMS at MYR0.27 (or 0.2x FY23 PBV, vs. 0.3x before) as we roll over our base year for valuation. D/G to SELL.

Embarking on a transformation program

UEMS is currently embarking on a 3-stage turnaround program - Triage (2022-2023), Stabilise (2023-2025) and Sustain (>2025). These initiatives including divestment of non-core/underperforming assets/JV projects, reviewing existing land use and identify lands for sales, improving cost structure and procurement process as well as expediting development programs. UEMS is targeting to dispose MYR300m worth of non-core landbank/assets this year.

Remains confident on achieving its FY22 sales goal

Despite the weak sales performance in 1Q22, UEMS remains confident of achieving its FY22 sales goal of MYR1.5b. To recap, UEMS recorded MYR110m in sales in 3M22, or just 7% of its FY22 sales target. Management however expects sales to pick up in the 2H22, driven by MYR3.3b worth of new launches including its Melbourne (AUD250m GDV) and Taman Connaught (phase 1: MYR742m GDV) projects.

Maintaining our earnings forecasts

We maintain our earnings forecasts and keep our FY22 sales assumption of MYR1.5b for now. Nevertheless, we see growing sales risks amid a rising interest rate environment. Also, new property launches could be delayed due to labour shortage. On top of that, buying sentiment on big ticket items may be affected by political uncertainties ahead of GE15. Given the risks, we raise the discount on PBV and now value UEMS on 0.2x FY23 PBV (instead of 0.3x FY22 PBV).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,137	1,211	1,562	1,751	2,501
EBITDA	11	(78)	264	290	417
Core net profit	(175)	(121)	73	104	205
Core EPS (sen)	(3.5)	(2.4)	1.4	2.1	4.1
Core EPS growth (%)	nm	nm	nm	42.8	96.9
Net DPS (sen)	0.0	0.0	0.3	0.4	0.8
Core P/E (x)	nm	nm	21.1	14.8	7.5
P/BV (x)	0.4	0.2	0.2	0.2	0.2
Net dividend yield (%)	0.0	0.0	0.9	1.4	2.7
ROAE (%)	(3.9)	(3.2)	1.1	1.5	3.0
ROAA (%)	(1.3)	(0.9)	0.6	0.8	1.5
EV/EBITDA (x)	nm	nm	20.1	18.3	12.5
Net gearing (%) (incl perps)	40.8	49.4	53.5	52.7	50.4
Consensus net profit	-	-	49	68	87
MKE vs. Consensus (%)	-	-	48.9	53.2	136.8

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SELL

[Prior:HOLD]

Share Price	MYR 0.31
12m Price Target	MYR 0.27 (-11%)
Previous Price Target	MYR 0.35

Company Description

UEM Sunrise is principally involved in the property development business.

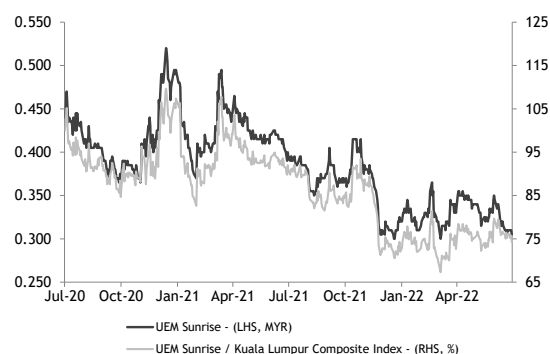
Statistics

52w high/low (MYR)	0.42/0.30
3m avg turnover (USDm)	0.1
Free float (%)	18.6
Issued shares (m)	5,058
Market capitalisation	MYR1.5B
	USD350M

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	69.6%
Urusharta Jamaah Sdn. Bhd.	6.2%
Employees Provident Fund	3.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(12)	(8)	(24)
Relative to index (%)	(5)	2	(19)

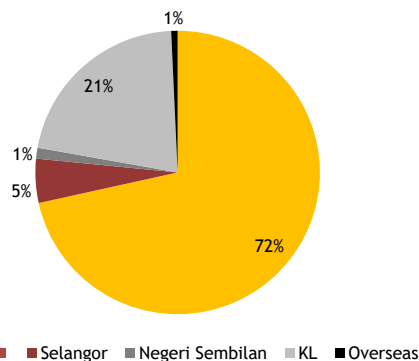
Source: FactSet

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Tear Sheet Insert

Value Proposition

- The largest land owner in Iskandar Malaysia (IM), Johor. Khazanah owns a 70% stake in UEMS.
- 72% of total GDV is derived from Johor (mostly located in IM area).
- UEMS' low land cost should allow it to be more flexible in pricing and project launches in IM.
- Over the past four years, UEMS has been actively looking for land outside of IM to reduce its concentration risk in that region.

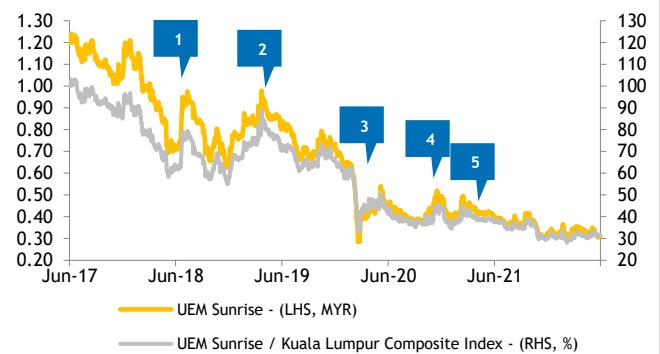
GDV breakdown by location - MYR108b as at end-2021



Source: Company

Price Drivers

Historical share price trend



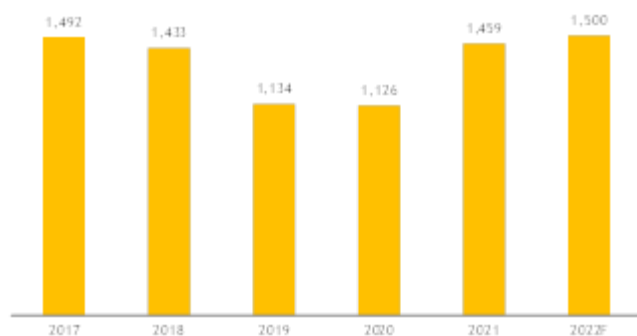
Source: Company, Maybank IBG Research

1. 2018: Buying sentiment for properties was weak pre-GE14.
2. 2019: Earnings were boosted by two completed Australian projects.
3. 1H 20: Earnings and sales were severely hit by MCO1.0.
4. Oct 2020: Proposed merger between ECW-UEMS by UEMS' major shareholder in Oct 20 (source: Bursa Malaysia).
5. 2021: UEMS has decided not to pursue the proposed merger with ECW after the latter called off the deal (source: Bursa Malaysia).

Financial Metrics

- UEMS has a dividend payout policy of 20-40% of its realised PATAMI.
- UEMS has set a MYR1.5b sales target for 2022.

Historical sales track record (MYRm)



Source: Company

Swing Factors

Upside

- RNAV-accretive land acquisitions.
- Higher-than-expected property sales.
- Land/asset sales.

Downside

- Slow-than-expected property sales and longer-than-expected downturn in the property sector.
- Delay in obtaining necessary approvals for its projects
- Country/currency risks as UEMS has property projects in Australia and South Africa.

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Risk Rating & Score ¹	15.9 (Low)
Score Momentum ²	0.0
Last Updated	31 Mar 2021
Controversy Score ³ (Updated: 01 Dec 2021)	0 -No incidents

Business Model & Industry Issues

- UEMS is one of the largest land owners in Malaysia (10,643 acres; 72% of total GDV is derived from Johor projects). Its projects span over 3 countries i.e. Malaysia, Australia and South Africa. Its geographical spread naturally exposes UEMS to multiple ESG risks including bribery and corruption.
- UEMS has a zero-tolerance approach to bribery and corruption practices in its business conduct and operations. With the support of the Board Governance & Risk Committee (BGRC), the Board oversees the formulation and building of a strong governance, ethical and integrity culture within UEMS and provides oversight and guidance on the integrity, governance and anti-corruption initiatives. In 2020, the Board has approved UEMS' Anti-Corruption Guidelines. Its anti-corruption policy is also communicated to suppliers, contractors, agents and JV partners.
- UEMS has been a constituent of the FTSE4Good Bursa Malaysia Index since 2014. Its score has been steadily improving, from 2.3 to 3 in 2021. Guided by the United Nations' Sustainable Development Goals (UNSDGs), UEMS has identified 11 relevant SDGs for sustainable development.

Material E issues

- UEMS embeds sustainable features in its township and high-rise developments.
- It has installed 12 electric vehicle charging points that are now operational across UEMS developments.
- In 2020, five of its projects have achieved Green Building certifications including Residensi Allevia, KAIA Heights and Solaris Parq. These buildings are designed to save energy and resources, recycle materials and minimise the emission of toxic substances throughout their life cycles. UEMS partnered with Kloth Malaysia S/B to install a fabric bank recycling bin at Publika on 1 Dec 2020. It has also installed an e-Waste bin in Publika to collect electronic waste. In 2020, UEMS has collected close to 205kg of fabric and 250kg of e-waste. Both bins continue to be stationed in Publika in 2021 with plans to expand collections to other suitable locations.

Material S issues

- UEMS' workforce consisted of 50% women, with 48%/25% women representation in Management/Top Management.
- UEMS has adopted 16 schools under the PINTAR programme (led by its major shareholder, Khazanah). PINTAR stands for Promoting Intelligence, Nurturing Talent and Advocating Responsibility. It conducted the Highly Immersive Programme to encourage and instil confidence in students when communicating in English. It has also set up Melbourne's International Student Pop-Up Store in Aurora Melbourne Central together with Foodbank Victoria for international students experiencing food insecurity caused by the pandemic. It has supplied over 195,000 kg of food to 263 learning institutions, covering 84 different nationalities.

Key G metrics and issues

- There are 10 members on UEMS's board comprising of 4 Non-independent Non-Executive Director (NINED; including Chairman) and 6 Independent Non-Executive Director (INED).
- In terms of board gender and diversity, 4 of the 10 board members are female (40% of board members) and 3 are non-bumiputera.
- UEMS has been audited by Ernst & Young PLT since 2008.
- The cumulative remuneration of the board members (MYR10m) represented 2% of UEMS's core net loss in FY20 (FY19: 1% of core net profit).
- Audit committee is made up of 3 INEDs. Its nomination and remuneration committees comprise 3 INEDs and 1 NINED while Board Governance & Risk Committee comprises 1 NINED and 4 INEDs.
- UEMS reported losses since 2020 are due to various phases of lockdown and impairments. In 2020, it reported total core net loss of MYR175m, excluding the MYR36m impairment of inventories and MYR26m impairment on Marina Walk in Puteri Harbour and MYR17.5m on Artisan Hills.

UEMS is jointly-developing 228 acres of land in Desaru with its major shareholder, Khazanah. In Oct 2020, Khazanah had proposed a merger between UEMS and Eco World Development (ECW MK; TP: MYR0.93; HOLD) via share and warrant swap in Oct 2020. However, the proposed merger was called off in Jan 2021 after ECW decided not to pursue the proposed merger after discussions with UEMS (source: Bursa Malaysia).

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

UEM Sunrise's RNAV estimates

Landbank at market value

	Location	Stake	Acres	MV (MYR m)
Nusajaya -Residential	Nusajaya	100%	1,916.0	2,086.5
Nusajaya -Commercial	Nusajaya	100%	2,332.1	3,555.5
Nusajaya -Industrial	Nusajaya	100%	230.0	350.7
Puteri Harbour	Nusajaya	100%	276.1	330.5
- Residential	Nusajaya	100%	207.7	226.2
- Commercial	Nusajaya	100%	68.4	104.3
Regional commercial centre	Nusajaya	100%	480.0	731.8
Bangi land	Selangor	100%	448.6	195.4
Tapah land	Perak	100%	2,405.0	168.4
Symphony Hills	Cyberjaya	100%	24.1	21.0
Setia Haruman land	Cyberjaya	25%	2,000.0	588.1
- Residential	Cyberjaya	25%	1,200.0	326.7
- Commercial	Cyberjaya	25%	800.0	261.4
Desaru	Johor	51%	678.7	226.2
Fraser Metropolis	Johor	60%	2,500.0	522.7
Mont Kiara	Kuala Lumpur	100%	43.2	470.4
Mersing, Johor	Johor	100%	431.1	53.7
Seremban	Seremban	50%	225.5	49.1
Sub-total (1)				9,349.9

Active developments: DCF @ 12-18% WACC

			(MYR m)
East Ledang	Nusajaya	100%	21.9
Horizon Hills	Nusajaya	50%	45.2
Nusa Bayu	Nusajaya	100%	4.4
SiLC	Nusajaya	100%	9.0
Northern Estuary	Nusajaya	100%	113.4
R10/R11	Nusajaya	100%	4.2
Ledang Heights	Nusajaya	100%	4.3
Afiat Healthpark	Nusajaya	100%	1.2
Ascendas-UEML Tech Park	Nusajaya	40%	52.1
Gerbang Nusajaya, JV with KKK	Nusajaya	40%	45.3
Angkasaraya, KLCC	KLCC vicinity	100%	31.5
Bukit Jelutong	Selangor	50%	24.9
Solaris 3	Mont kiara	100%	106.4
Kepong	Kepong	50%	130.3
Cheras	Cheras	100%	33.1
KAIA	Sri Kembangan	100%	34.5
Sub-total (2):			661.7

Investment properties

	NLA (sq.ft.)	MYRm
Plaza Mont Kiara -office	31,980	17.6
Solaris MK - retail & car park	18,146 sq.ft. & 1,776 bays	70.9
Solaris Dutamas - retail & car park	335,000 sq.ft. & 5,000 bays	459.2
Sub-total (3):		547.7

UEM Sunrise's RNAV estimates (continued)

Grand total = (1) + (2) + (3)	10,636.1
Net debt-2021	(3,359.2)
RNAV (MYR m)	7,276.9
Enlarged share capital (m shares)	5,145.5
FD RNAV (MYR/sh)	1.40

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	nm	21.1	14.8	7.5
Core P/E (x)	nm	nm	21.1	14.8	7.5
P/BV (x)	0.4	0.2	0.2	0.2	0.2
P/NTA (x)	0.4	0.3	0.3	0.2	0.2
Net dividend yield (%)	0.0	0.0	0.9	1.4	2.7
FCF yield (%)	nm	nm	nm	13.6	18.4
EV/EBITDA (x)	nm	nm	20.1	18.3	12.5
EV/EBIT (x)	nm	nm	20.1	18.3	12.5

INCOME STATEMENT (MYR m)

Revenue	1,136.9	1,211.2	1,561.5	1,751.3	2,501.0
EBITDA	11.3	(78.1)	264.2	290.4	416.6
Depreciation	0.0	0.0	0.0	0.0	0.0
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	11.3	(78.1)	264.2	290.4	416.6
Net interest income / (exp)	(132.9)	(144.7)	(206.0)	(205.7)	(204.2)
Associates & JV	(64.7)	13.0	39.4	52.6	56.3
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(9.1)	(5.3)	0.0	0.0	0.0
Pretax profit	(195.3)	(215.2)	97.6	137.3	268.8
Income tax	(81.4)	1.8	(23.4)	(33.0)	(64.5)
Minorities	(0.6)	(0.9)	(1.2)	(0.2)	0.8
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(277.3)	(214.3)	73.0	104.2	205.1
Core net profit	(174.8)	(120.9)	73.0	104.2	205.1

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,086.3	853.0	482.4	493.2	571.0
Accounts receivable	494.3	484.7	624.9	700.8	1,000.8
Inventory	580.5	456.9	589.0	660.6	943.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	478.6	446.7	540.2	633.7	727.2
Intangible assets	621.4	621.4	621.4	621.4	621.4
Investment in Associates & JVs	1,475.6	1,743.7	1,743.7	1,743.7	1,743.7
Other assets	8,743.2	8,371.6	8,680.9	8,683.7	8,747.4
Total assets	13,479.9	12,978.0	13,282.5	13,537.1	14,354.9
ST interest bearing debt	1,493.1	999.7	1,099.7	1,099.7	1,099.7
Accounts payable	1,007.0	1,043.5	1,345.2	1,508.7	2,154.6
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	2,600.3	3,212.6	3,049.0	3,049.0	3,049.0
Other liabilities	1,009.0	927.0	935.0	943.0	951.0
Total Liabilities	6,109.3	6,183.2	6,429.3	6,600.7	7,254.4
Shareholders Equity	6,901.6	6,691.8	6,750.2	6,833.5	6,997.6
Minority Interest	469.0	102.9	102.9	102.9	102.9
Total shareholder equity	7,370.6	6,794.8	6,853.1	6,936.5	7,100.5
Total liabilities and equity	13,479.9	12,978.0	13,282.5	13,537.1	14,354.9

CASH FLOW (MYR m)

Pretax profit	(195.3)	(215.2)	97.6	137.3	268.8
Depreciation & amortisation	0.0	0.0	0.0	0.0	0.0
Adj net interest (income)/exp	11.6	8.3	206.0	205.7	204.2
Change in working capital	0.0	0.0	(29.5)	(16.0)	(63.1)
Cash taxes paid	(187.7)	(37.3)	1.8	(23.4)	(33.0)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(89.8)	(49.5)	282.4	310.2	383.4
Capex	(277.9)	(568.2)	(568.2)	(100.0)	(100.0)
Free cash flow	(367.7)	(617.7)	(285.8)	210.2	283.4
Dividends paid	0.0	0.0	0.0	(14.6)	(20.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	706.5	118.9	100.0	0.0	0.0
Other invest/financing cash flow	(343.8)	283.8	(184.8)	(184.8)	(184.8)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(4.9)	(215.0)	(370.7)	10.8	77.8

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(60.9)	6.5	28.9	12.2	42.8
EBITDA growth	(97.7)	nm	nm	9.9	43.5
EBIT growth	(97.7)	nm	nm	9.9	43.5
Pretax growth	nm	nm	nm	40.7	95.7
Reported net profit growth	nm	nm	nm	42.8	96.9
Core net profit growth	nm	nm	nm	42.8	96.9
Profitability ratios (%)					
EBITDA margin	1.0	nm	16.9	16.6	16.7
EBIT margin	1.0	nm	16.9	16.6	16.7
Pretax profit margin	nm	nm	6.2	7.8	10.7
Payout ratio	0.0	0.0	20.0	20.0	20.0
DuPont analysis					
Net profit margin (%)	nm	nm	4.7	5.9	8.2
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.2
Assets/Equity (x)	2.0	1.9	2.0	2.0	2.1
ROAE (%)	(3.9)	(3.2)	1.1	1.5	3.0
ROAA (%)	(1.3)	(0.9)	0.6	0.8	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.2	2.1	2.1	2.1	2.0
Net gearing (%) (incl perps)	40.8	49.4	53.5	52.7	50.4
Net gearing (%) (excl. perps)	40.8	49.4	53.5	52.7	50.4
Net interest cover (x)	0.1	na	1.3	1.4	2.0
Debt/EBITDA (x)	nm	nm	15.7	14.3	10.0
Capex/revenue (%)	24.4	46.9	36.4	5.7	4.0
Net debt/ (net cash)	3,007.1	3,359.2	3,666.4	3,655.6	3,577.8

Source: Company; Maybank IBG Research

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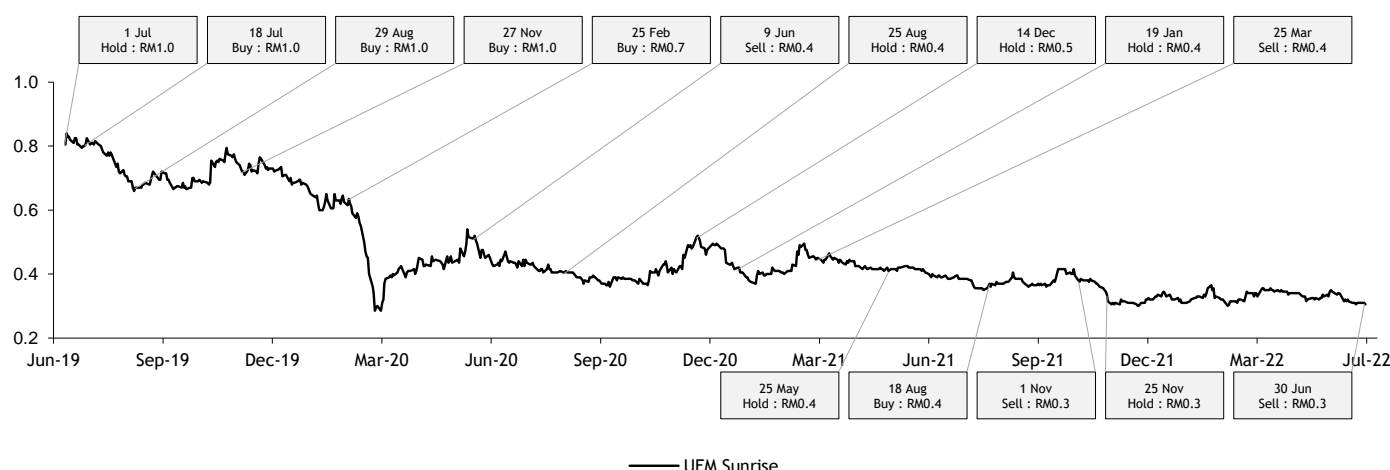
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