

29 August 2018 | 2QFY18 Results Review

UEM Sunrise Berhad

Earnings to pick up in 2HFY18

Maintain BUY

Revised Target Price (TP): RM1.18
(Previously RM1.25)

INVESTMENT HIGHLIGHTS


- **1HFY18 earnings below expectations**
- **Earnings to pick up in 2HFY18**
- **1HFY18 new sales at RM663.8m**
- **Earnings forecasts reduced**
- **Maintain BUY with lower Target Price of RM1.18**

1HFY18 earnings below expectations. UEM Sunrise Berhad (UEMS) 1HFY18 core net income of RM43.7m came in below expectations, meeting only 20% and 18% of our and consensus full year estimates respectively. The deviation could be mainly attributed to the slower-than-expected progress billing of local projects.

Earnings to pick up in 2HFY18. UEMS reported headline net income of RM213.8m in 2QFY18 as earnings were ballooned by gain from land sales. Stripping out gain from land sales, core net income in 2QFY18 is estimated at RM24.3m, bringing 1HFY18 core net income to RM43.7m (+7.1%yoy). UEMS recorded lower progress billing in 1HFY18 as project development cycle are still at the early stages for Solaris Parq, Serimbun and Kiara Kasih. Nevertheless, 1HFY18 earnings chalked up positive growth of +7.1%yoy as 1HFY17 figures were restated lower. Note that UEMS restated its 1HFY17 figures due to adoption of MFRS 15 which has resulted in deferment on the recognition of land sales and unwinding the recognition of Australia projects. Meanwhile, unbilled sales of RM4.9b in 2QFY18 provides 3.3 year of earnings visibility. Looking ahead, we expect earnings in 2HFY18 to come in stronger as earnings contribution from Melbourne projects is expected to boost earnings in 3QFY18 and 4QFY18 upon completion of the projects.

1HFY18 new sales at RM663.8m. UEMS recorded new property sales of RM229.5m in 2QFY18, lower than new sales of RM434.m in 1QFY18. That brought total new sales to RM663.8m in 1HFY18, higher than new sales of RM391.7m in 1HFY17. New sales in 1HFY18 are within expectations, making up 55% of management sales target of RM1.2b. Meanwhile, key upcoming launches include Residensi Astrea (GDV: RM326.7m) in Mont' Kiara, Eugenia (double storey terraced houses with GDV of RM54.8m) in Serene Heights Bangi, Parcel i6 (GDV: RM136.7m) in Southern Industrial and Logistics Clusters. UEMS will also continue its inventory monetisation campaign.

RETURN STATS	
Price (28 Aug 2018)	RM0.92
Target Price	RM1.18
Expected Share Price Return	28.2%
Expected Dividend Yield	1.4%
Expected Total Return	29.6%
STOCK INFO	
KLCI	1,826.90
Bursa / Bloomberg	5148 / UEMS MK
Board / Sector	Main / Properties
Syariah Compliant	Yes
Issued shares (mil)	4,537.44
Market cap. (RM'm)	4,174
Price over NA	0.60
52-wk price Range	RM0.69 - RM1.26
Beta (against KLCI)	1.42
3-mth Avg Daily Vol	1.51m
3-mth Avg Daily Value	RM1.26m
Major Shareholders (%)	
Khazanah Nasional Bhd	66.06
Lembaga Tabung Haji	7.76

Maintain BUY with a revised Target Price of RM1.18. We revised downwards our earnings forecasts for FY18/19 by -8.6%/-11.3% to account for the lower than expected progress billing. Our TP is revised to RM1.18 from RM1.25 after widening RNAV discount to -48% from -45%. We maintain our BUY call on UEMS due to its attractive valuation of trading at -36% discount to latest NTA per share of RM1.42. Earnings outlook for 2HFY18 is expected to be stronger due to contribution from Melbourne projects. We also favour management's strategy of focusing on Klang Valley to expand its presence in Central region of Malaysia. 

INVESTMENT STATISTICS

FYE Dec	FY15A	FY16A	FY17A	FY18F	FY19F
Revenue	1750	1841	2155	2218	2229
Core EBIT	245	256	499	177	185
Core PBT	295	256	435	268	274
Net Income	257	147	280	204	208
Core Net Income	209	185	276	204	208
EPS (sen)	5.67	2.97	6.17	4.49	4.59
Core EPS (sen)	4.62	3.74	6.09	4.49	4.59
Net DPS (sen)	1.60	0.00	1.00	1.26	1.29
Net Dvd Yield	1.7%	0.0%	1.1%	1.4%	1.4%
Core PER	19.9	24.6	15.1	20.5	20.0
NTA/share (RM)	1.36	1.37	1.38	1.42	1.45
P/NTA	0.67	0.67	0.66	0.65	0.63
Core ROE	3.1%	2.7%	4.0%	2.9%	2.9%
Core ROA	1.8%	1.4%	1.9%	1.4%	1.4%

Source: Company, MIDF Research Estimate

UEMS: 2QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	2QFY18	%YoY	%QoQ	FY18	%YoY
Revenue	573.4	97.1%	99.3%	861.1	21.1%
Core EBIT	-136.7	NA	NA	-101.0	NA
Core PBT	-160.0	NA	NA	-136.5	NA
Net Income	213.8	NA	745.5%	239.1	1674.8%
Core Net Income	24.3	NA	NA	43.7	7.1%
EPS (sen)	4.71	NA	745.5%	5.3	1674.8%
Core EPS (sen)	0.54	NA	-9.8%	1.0	7.1%
Net DPS (sen)	0.0	NA	NA	0.0	NA
NTA/share (RM)	1.42	2%	2%	1.42	2%
Net Gearing (x)	0.57	NA	NA	0.57	NA
Core EBIT Margin	-23.8%	NA	NA	-11.7%	NA
Core PBT Margin	-27.9%	NA	NA	-15.8%	NA

Source: Company

UEMS RNAV

UEM Sunrise Fully Diluted RNAV					
	Location	Stake	Est remaining GDV (RM m)	WACC (%)	Value (RM m)
Ongoing projects					
East Ledang	Iskandar Puteri	100%	2309.4	10%	157.51
Nusa Idaman	Iskandar Puteri	100%	933.3	10%	69.50
Nusa Bayu	Iskandar Puteri	100%	415.4	10%	32.36
Almas, Puteri Harbour	Iskandar Puteri	100%	1380.2	10%	107.51
Estuari, Puteri Harbour	Iskandar Puteri	100%	5890.3	10%	309.17
Melia Gerbang Nusajaya	Iskandar Puteri	100%	304.4	10%	22.67
Mall of Medini	Iskandar Puteri	55%	2097	10%	78.67
Horizon Hills	Iskandar Puteri	50%	2728.7	10%	97.20
Emerald Bay	Iskandar Puteri	40%	3177	10%	86.68
Nusajaya Tech park	Iskandar Puteri	40%	3185	10%	85.07
Serene Heights	Selangor	100%	3118.1	10%	196.13
Radia Bukit Jelutong	Selangor	50%	1038.9	10%	38.68
Arcoris	KL	100%	439	10%	39.38
Solaris Parq Residences	KL	100%	2183.2	10%	187.06
Seremban Forest Heights	Negeri Sembilan	50%	1809.1	10%	59.11
Mayfair, Melbourne	Melbourne	100%	811.6	10%	66.48
Pipeline projects					
Gerbang Nusajaya	Iskandar Puteri	100%	25682.1	10%	962.15
Laman Nusantara	Iskandar Puteri	100%	485.2	10%	37.79
D'Santuary	Iskandar Puteri	100%	106.7	10%	8.31
Residential South	Iskandar Puteri	80%	2827.4	10%	122.40
CS 3 - Puteri Harbour	Iskandar Puteri	50%	1201	10%	38.89
Gerbang Nusajaya - Mulpha JV (UEMS land)	Iskandar Puteri	50%	2771	10%	98.70
Gerbang Nusajaya - Mulpha JV (Mulpha Land)	Iskandar Puteri	50%	2586.3	10%	88.20
Gerbang Nusajaya - KLK	Iskandar Puteri	40%	5000	10%	104.98
Gerbang Nusajaya - Motorsports City	Iskandar Puteri	30%	3700	10%	72.54
Fraser Metropolis	Johor	60%	15000	10%	354.39
Desaru	Johor	51%	10460	10%	245.22
Artisan Hills, Kajang	Selangor	100%	1485.9	10%	96.23
Angkasa Raya	KL	100%	1903.6	10%	128.86
MCOBA Land	KL	62%	843.4	10%	35.67
Seri Kembangan	Selangor	100%	700	10%	52.12
MK 31	KL	100%	1483.5	10%	101.18
MK27	KL	100%	249.9	10%	20.38
Kepong Land	Kepong	50%	15000	10%	357.35
Durban, South Africa	South Africa	100%	1631.9	10%	77.12
Unbilled sales (FY17)		100%	4766	10%	379.90

Total	5,015.54
Shareholder Funds	7,069.03
Total RNAV	12,084.6
FD number of shares	5,329.95
FD RNAV per share	2.27
Discount	48%
Target Price (RM)	1.18

Source: MIDF Estimate

DAILY PRICE CHART



Jessica Low Jze Tieng
Jessica.low@midf.com.my
03-2173 8391

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.