

## COMPANY RESULTS

### UEM Sunrise (UEMS MK)

2Q23: In line; Expect A Stronger 2H On Improvement In Progressive Billing

UEM's 2Q23 results came in within expectation. 1H23 saw revenue weakness due to lower land sales but net margin improved on project cost savings and lower operating expenses (on lower headcount). We expect a slightly stronger 2H23 on higher land sales and an improvement in progressive billing from higher unbilled sales. Maintain **HOLD**. Target price: RM0.58.

#### 2Q23 RESULTS

Year to 31 Dec (RMm)	2Q23	1Q22	qoq % chg	yoy % chg	1H23	yoy % chg
Revenue	364.0	240.8	51.2	(0.3)	604.7	(22.6)
EBIT	68.8	63.5	8.5	12.3	132.3	16.1
Profit before tax	44.9	27.6	62.8	39.4	72.6	6.7
Net Profit	24.7	15.4	60.9	19.3	40.1	0.8
Core PATAMI	23.6	12.2	93.8	(2.6)	35.8	(2.2)

Margins	%	%	+/- ppt	+/- ppt	%	+/- ppt
Gross Profit	18.6	25.0	(6.4)	0.9	21.2	7.0
EBIT	12.3	11.5	0.9	3.5	12.0	3.3
PBT	6.8	6.4	0.4	1.1	6.6	1.5
Core Net Profit	6.5	5.1	1.4	(0.2)	5.9	1.2

Source: UEM Sunrise, UOB Kay Hian

#### RESULTS

- In line.** UEM Sunrise (UEMS) recorded a 2Q23 core net profit of RM23.6m (+94% qoq, 3% yoy) on the back of revenue of RM364m (+51% qoq, -0.3% yoy). Cumulatively, 1H23 core net profit of RM35.8m (-2.2%) accounted for 44% of both our and consensus' full-year estimates. We deem the results in line as we expect stronger earnings ahead from land sales and improving progressive billings. On a qoq basis, revenue and earnings were stronger, boosted by land sales, better progressive billings, and higher share of profit of JV.
- 1H23 core net profit of RM35.8m was derived after excluding exceptional items amounting to RM 4.4m (mainly on forex gain) from reported net profit of RM40.2m.

#### KEY FINANCIALS

Year to 31 Dec (RMm)	2021	2022	2023F	2024F	2025F
Net turnover	1,185	1,473	1,483	1,516	1,552
EBITDA	(138)	197	188	198	209
Operating profit	(82)	249	239	250	263
Net profit (rep./act.)	(213)	81	81	87	95
Net profit (adj.)	(115)	75	81	87	95
EPS (sen)	(2.3)	1.5	1.6	1.7	1.9
PE (x)	n.m.	42.0	38.6	36.0	33.1
P/B (x)	0.5	0.5	0.5	0.5	0.4
EV/EBITDA (x)	n.m.	32.9	34.4	32.6	30.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(18.0)	5.5	5.5	5.7	6.1
Net debt/(cash) to equity (%)	50.0	47.9	47.0	42.4	37.6
Interest cover (x)	(1.0)	1.4	1.2	1.2	1.2
ROE (%)	n.a.	1.2	1.2	1.3	1.4
Consensus net profit	-	-	81	93	110
UOBKH/Consensus (x)	-	-	1.01	0.96	0.95

Source: UEM Sunrise, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## HOLD

(Maintained)

Share Price	RM0.62
Target Price	RM0.58
Upside	-6.5%
(Previous TP)	RM0.23)

#### COMPANY DESCRIPTION

UEM Group's flagship company for property development, with great focus in repositioning Nusajaya in the Iskandar Region and transforming South Johor into a new economic and development region.

#### STOCK DATA

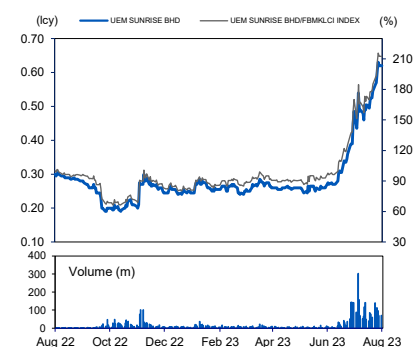
GICS sector	Real Estate
Bloomberg ticker:	UEMS MK
Shares issued (m):	5,058.5
Market cap (RMm):	3,136.3
Market cap (US\$m):	674.6
3-mth avg daily t'over (US\$m):	4.2
Price Performance (%)	

52-week high/low RM0.630/RM0.190

1mth	3mth	6mth	1yr	YTD
59.0	138.5	143.1	110.2	143.1

Major Shareholders	%
Khazanah Nasional Bhd	69.56
Urusharta Jamaah	4.95
CIMB Group	1.94
FY23 NAV/Share (RM)	1.35
FY23 Net Debt/Share (RM)	0.64

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

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## STOCK IMPACT

- **1H23 revenue declined 23%** due to land sale of the 19 industrial plots in SiLC (to AME Elite) and the sale of non-strategic lands (collectively RM194m) in 1H22 (vs RM69m of land sales in 1H23). However, core net profit declined at a lower rate of 2.2% on project cost savings and lower operating expenses (-11% on lower headcount) despite higher finance cost (+11%).
- **Property sales for 1H23 came in close to RM1.5b.** This is on track to exceeding its target of RM1.5b, and can be mainly attributed to its fund-through project in Collingwood, Australia (RM874m). 1H23 inventory was further reduced by 17% yoy to RM145m. As inventories continue to decline, future sales will rely more on the upcoming new product launches ahead (83% of 1H23 total sales came from newly launch projects). Unbilled sales soared to RM2.7b from RM1.7b in 1Q23, which will be recognised in the next 18-36 months.
- **No change in guidance sales and launch target.** RM2.7b worth of projects have been launched to date, exceeding the target GDV of RM2.5b. Management indicated that they will not be revising its sales and launch targets for 2023. However, UEMS still plans to launch its Kiara Bay new phase (namely Residensi ZIG) with GDV of RM646m, bringing total GDV launched to RM3.3b for 2023. In view of higher launches, we think sales for 2023 can reach RM1.8b-2b, supported by bookings of RM300m to date.
- **More land disposal in the pipeline.** UEMS has identified some non-core lands potentially for disposal with value RM1b. This should reduce its gearing further progressively to 31% (1H23: 46%). For 2H23, UEMS likely to recognise another RM92m in land sales (from Tapah land and Nusajaya Tech Park), bringing total land sales to RM161m for 2023 (2022: RM307m; 2021: RM218m)
- **No Johor launch plan at the moment.** Management has not expressed any intention to carry out launches in Johor yet (at least for this year, in our view). We think UEMS will adopt a wait-and-see approach to monitor the property market demand in Johor before making any decisions regarding a potential launch.

## EARNINGS REVISION/RISK

- **No changes to earnings.**

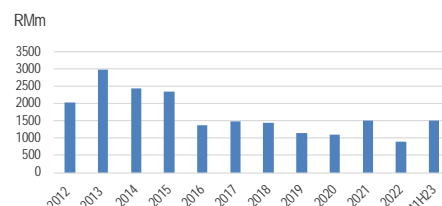
## VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher target price of RM0.58 (from RM0.23)** as we peg to a lower discount of 68% to RNAV (from 88%) given the positive prospects of Johor's property landscape ahead (as the development of Rapid Transit System (RTS) between Johor and Singapore may help to spur the purchase of residential properties in the Iskandar regions). The pegged 68% discount is in line with its five-year historical average discount to RNAV.
- **Our target price implies 0.5x 2023F P/B (1.2SD above its five-year historical mean).** In terms of PE, the stock is trading at 38.6x 2023F PE (1.6SD above its five-year forward PE). The valuation seems a bit expensive at this juncture, but is justified by its bigger exposure to Johor. We keep our HOLD call for the time being, as we await further concrete development on the company's strategic plans for its landbank in Johor. UEMS owns 5,103 acres of landbank (60% of total landbank) in Iskandar Puteri (20-30km from RTS Bukit Chagar station) with GDV of RM59.1b (55% of total remaining GDV of RM107b).

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

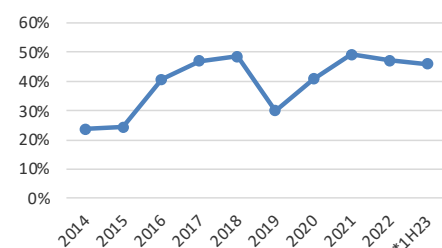
<b>• Environmental</b>	
-	UEMS partnered with GENTARI and PETRONAS Global Technical Solutions Sdn. Bhd. towards a shared sustainability agenda, to build a low carbon future by 2030.
<b>• Social</b>	
-	RM167,596 invested in community involvement, CSR, and community programmes (2021: RM194,674).
<b>• Governance</b>	
-	33% of the board's members are women.

## PROPERTY SALES



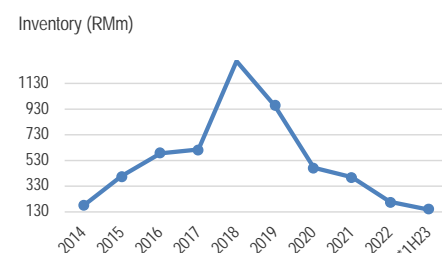
Source: UEM Sunrise, UOB Kay Hian

## GEARING LEVEL



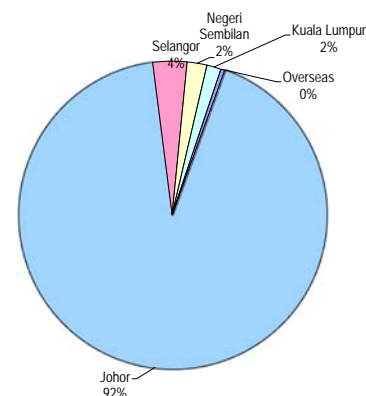
Source: UEM Sunrise, UOB Kay Hian

## INVENTORY LEVEL



Source: UEM Sunrise, UOB Kay Hian

## 8,440 ACRES OF REMAINING LANDBANK



Source: UEM Sunrise, UOB Kay Hian

## RNAV TARGET PRICE OF RM0.58/SHARE

NPV of Development Profits	(RMm)
Central Region	1,260.5
Southern Region	1,194.7
International	73.4
<b>Total</b>	<b>2,528.6</b>
Shareholders' Funds	6,769
<b>RNAV</b>	<b>9,297.8</b>
Existing Share Base (m)	5,058.5
RNAV/share (RM)	1.84
Discount (%)	68%
<b>Target Price (RM/share)</b>	<b>0.58</b>

Source: UEM Sunrise, UOB Kay Hian

**PROFIT & LOSS**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Net turnover	1,473	1,483	1,516	1,552
EBITDA	197	188	198	209
Deprec. & amort.	(52)	(51)	(52)	(53)
EBIT	249	239	250	263
Associate contributions	28	29	30	31
Net interest income/(expense)	(143)	(162)	(165)	(169)
Pre-tax profit	134	107	115	125
Tax	(51)	(26)	(28)	(30)
Minorities	(2)	0	0	0
Net profit	81	81	87	95
Net profit (adj.)	75	81	87	95

**CASH FLOW**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Operating	383	266	278	290
Pre-tax profit	134	107	115	125
Tax	(27)	(26)	(28)	(30)
Deprec. & amort.	52	51	52	53
Associates	(28)	(29)	(30)	(31)
Working capital changes	391	1	4	4
Non-cash items	143	162	165	169
Other operating cashflows	(282)	0	0	0
Investing	(106)	(80)	167	179
Capex (growth)	(20)	(20)	(21)	(21)
Investments	(86)	(221)	0	0
Proceeds from sale of assets	0	161	188	200
Others	0	0	0	0
Financing	(102)	(60)	(61)	(63)
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	107	102	104	106
Others/interest paid	(209)	(162)	(165)	(169)
Net cash inflow (outflow)	175	125	383	406
Beginning cash & cash equivalent	858	1,071	1,196	1,579
Changes due to forex impact	37	0	0	0
Ending cash & cash equivalent	1,071	1,196	1,579	1,985

**BALANCE SHEET**

Year to 31 Dec (RMm)	2022	2023F	2024F	2025F
Fixed assets	407	376	345	314
Other LT assets	9,118	9,208	9,050	8,881
Cash/ST investment	1,071	1,196	1,579	1,985
Other current assets	2,458	2,463	2,483	2,505
<b>Total assets</b>	<b>13,054</b>	<b>13,243</b>	<b>13,458</b>	<b>13,684</b>
ST debt	1,955	1,955	1,955	1,955
Other current liabilities	1,166	1,173	1,197	1,222
LT debt	2,361	2,462	2,566	2,672
Other LT liabilities	699	699	699	699
Shareholders' equity	6,769	6,850	6,938	7,032
Minority interest	104	104	104	104
<b>Total liabilities &amp; equity</b>	<b>13,054</b>	<b>13,243</b>	<b>13,458</b>	<b>13,684</b>

**KEY METRICS**

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	13.3	12.7	13.1	13.5
Pre-tax margin	9.1	7.2	7.6	8.0
Net margin	5.5	5.5	5.7	6.1
ROA	0.6	0.6	0.7	0.7
ROE	1.2	1.2	1.3	1.4
<b>Growth</b>				
Turnover	24.4	0.6	2.3	2.4
EBITDA	n.a.	(4.6)	5.6	5.7
Pre-tax profit	n.a.	(20.0)	7.4	8.7
Net profit	n.a.	0.8	7.4	8.7
Net profit (adj.)	n.a.	8.8	7.4	8.7
EPS	n.a.	8.8	7.4	8.7
<b>Leverage</b>				
Debt to total capital	38.6	38.8	39.1	39.3
Debt to equity	63.7	64.5	65.2	65.8
Net debt/(cash) to equity	47.9	47.0	42.4	37.6
Interest cover (x)	1.4	1.2	1.2	1.2

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