

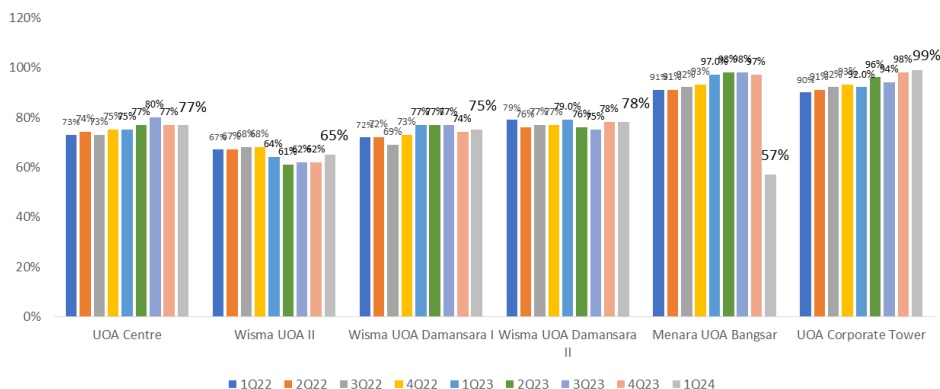
UOA Real Estate Investment Trust

Started The Year On A Softer Tone

Summary

- **Below expectations.** UOAREIT registered 1Q24 core PATMI of RM11.7m (+12.1% QoQ, -17.8% YoY), which is below expectations, accounting for 19.9% of ours and consensus estimates. Key deviations were mainly due to (i) lower-than-expected gross rental income and (ii) higher-than-expected operating expenses.
- **YoY.** UOAREIT's core PATMI was down 17.8% YoY, mainly contributed by the decline of approximately 8.5% in gross rental due to weaker occupancy rate of 57% (vs. 97% in 1Q23) in Menara UOA Bangsar following the departure of the anchor tenant, while the direct operating expenses rose 15% YoY.
- **QoQ.** Meanwhile, despite softer gross rental income at RM26.2m (-3.3% QoQ) for 1Q24, core PATMI rose 2.5%, mainly contributed by the decline in operating expenses in 1Q24 as compared to 4Q23.
- **Income distribution.** No income distribution declared for the current quarter.
- **Buildings occupancy rate.** Most of the properties under UOAREIT have gained traction in terms of occupancy rate except for Menara UOA Bangsar, which has dropped significantly from 97% in 4Q23 to 57% in 1Q24.

Fig #1 UOAREIT's buildings occupancy rate



Source: UOAREIT, M+ Online

Quarterly performance 1Q24

FYE Dec (RM m)	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)
Revenue	28.7	27.1	26.2	(3.3)	(8.5)
EBITDA	19.4	14.9	17.2	15.4	(11.7)
PBT	14.2	9.9	11.7	18.5	(17.9)
PAT	14.2	11.4	11.7	2.5	(17.9)
Core PATMI	14.2	11.4	11.7	2.5	(17.8)
Reported PATMI	14.6	11.4	11.7	2.5	(20.2)
Core EPS (sen)	2.1	1.7	1.7	2.5	(17.8)
EBITDA margin (%)	67.9	54.9	65.5		
PBT margin (%)	49.6	36.3	44.5		
Core PATMI margin (%)	49.5	42.0	44.5		

Source: UOAREIT, M+ Online

Results Note – 1QFY24

Loui Low
louilow@msec.com.my
 (603) 2201 2100

HOLD

Share price	RM1.10
Target price	RM1.02
Previous TP	1.20
Capital upside	-7.5%
Dividend return	5.9%
Total return	-1.6%

Company profile

Principally involved in the investment in real estate used for commercial purposes.

Stock information

Bursa Code	5110
Bloomberg ticker	UOAR MK
Listing market	MAIN
Share issued (m)	675.6
Market Cap (m)	743.2
52W High/Low	1.16 / 1.08
Est. Free float (%)	27.4
Beta (x)	0.4
3-mth avg vol ('000)	207.6
Shariah compliant	No

Major shareholders

Desa Bukit Pantai Sdn Bhd	15.1
Wisma UOA Sdn Bhd	11.5
Rich Accomplishment Sdn Bhd	11.1

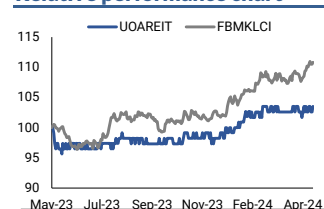
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-1.8	-4.3	-5.2
Relative	-3.9	-9.0	-14.6

Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	55.8	49.1	52.0
EPS (sen)	7.87	7.27	7.70
P/E (x)	14.0	15.1	14.3

Relative performance chart



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- **Weighted average lease expiry (WALE) stood at 1.54.** As at 1Q24, UOAREIT's weighted average lease expiry (WALE) stood at 1.54, as compared to 1.52 and 1.08 in FY23 and FY22, respectively. Overall tenancy expiry profile is 4.1% to 30.5% over 2024-2026.
- **Gearing ratio slightly higher.** Gearing ratio added 1.1% to 40.5% as at 1Q24 versus 39.4% in end-FY23. We expect the borrowing cost will gradually increase after Bank Negara Malaysia raised the overnight policy rate (OPR) to 3.00% in May-2023.
- **Outlook.** We believe the office space outlook will remain cautious amid the uncertainties arising from elevated inflation, future interest rate hikes as well as oversupply conditions in the office space segment; thus rental rates are expected to be flattish. Overall portfolio occupancy rate stood at 75.2% following the departure of an anchor tenant in Menara UOA Bangsar (MUB) could be a sign of softer rental income for FY24.

Valuation & Recommendation

- **Maintained earnings forecast.** As the core PATMI came in below expectation, we reduce the earnings forecast for FY24-25f by 12-16% to RM49.1-52.0m.
- **HOLD recommendation with RM1.02 TP.** Despite revising the forecast lower, we maintain a **HOLD** recommendation on UOAREIT, with a target price of RM1.02. The target price is derived by ascribing a P/E of 14.0x to FY24f EPS of 7.3 sen. The group is committed to reward at least 90.0% of the distributable income. Prospective dividend yield stood at 5.9-6.3% for FY24-25f.
- **Downside risks.** Risks to our recommendation include the slower-than-expected replacement of the anchor tenant in MUB. Besides, should the BNM increase interest rate going forward, the group may incur higher borrowing cost. Also, if there is a hike in electricity tariff, it could weigh on UOAREIT's margins and overall financial performance moving forward.



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Financial Highlights

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Revenue	116.4	114.4	112.8	108.3	112.1	Cash	7.2	3.9	4.3	2.2	2.0
EBITDA	80.6	80.8	74.9	70.6	73.7	Receivables	9.0	8.0	13.6	8.0	8.3
EBIT	80.6	80.7	74.7	70.4	73.5	Inventories	-	-	-	-	-
Net finance income/ (cost)	(18.8)	(19.7)	(21.5)	(21.3)	(21.5)	PPE	1,716.6	1,717.2	1,719.8	1,719.7	1,720.0
Associates & JV	-	-	-	-	-	Others	-	-	-	-	-
Profit before tax	61.8	61.1	53.2	49.1	52.0	Assets	1,732.7	1,729.1	1,737.7	1,729.9	1,730.2
Tax	(0.0)	-	-	-	-	Debts	683.2	675.4	684.7	661.6	654.7
Net profit	61.8	61.1	53.2	49.1	52.0	Payables	35.3	36.8	39.8	41.8	43.1
Minority interest	-	-	-	-	-	Others	21.2	21.2	19.7	19.6	19.6
Core earnings	61.8	61.1	53.2	49.1	52.0	Liabilities	739.7	733.4	744.1	723.1	717.5
Exceptional items	19.7	0.2	(2.6)	-	-	Shareholder's equity	993.0	995.7	993.6	998.5	1,003.7
Reported earnings	42.1	60.9	55.8	49.1	52.0	Minority interest	-	-	-	-	-
						Equity	993.0	995.7	993.6	998.5	1,003.7
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23	FY24f	FY25f
Profit before taxation	61.8	61.1	53.2	49.1	52.0	Core EPS (sen)	9.1	9.0	7.9	7.3	7.7
Depreciation & amortisation	0.1	0.1	0.1	0.2	0.2	P/E (x)	12.0	12.2	14.0	15.1	14.3
Changes in working capital	9.0	2.5	(2.6)	7.6	1.0	DPS (sen)	8.6	8.6	7.9	6.5	6.9
Share of JV profits	-	-	-	-	-	Dividend yield	7.9%	7.8%	7.2%	5.9%	6.3%
Taxation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	BVPS (RM)	1.47	1.47	1.47	1.48	1.49
Others	(0.0)	(0.2)	10.8	0.1	0.1	P/B (x)	0.7	0.7	0.7	0.7	0.7
Operating cash flow	89.6	83.1	83.1	78.3	74.8	EBITDA margin	69.3%	70.7%	66.3%	65.2%	65.8%
Net capex	(0.0)	(0.7)	(4.0)	(0.0)	(0.5)	EBIT margin	69.3%	70.6%	66.2%	65.0%	65.6%
Others	0.1	0.1	3.4	-	-	PBT margin	53.1%	53.4%	47.1%	45.3%	46.4%
Investing cash flow	0.1	(0.6)	(0.6)	(0.0)	(0.5)	PAT margin	53.1%	53.4%	47.1%	45.3%	46.4%
Changes in borrowings	(20.8)	(7.8)	9.3	(23.1)	(6.9)	Core PAT margin	53.1%	53.4%	47.1%	45.3%	46.4%
Issuance of shares	(0.2)	-	(0.0)	0.0	-	ROE	6.3%	6.1%	5.3%	4.9%	5.2%
Interest paid	(18.9)	(19.7)	(21.6)	(21.4)	(21.6)	ROA	3.5%	3.5%	3.1%	2.8%	3.0%
Dividends paid	(58.4)	(58.2)	(52.8)	(44.2)	(46.8)	Gearing ratio	39.4%	39.1%	39.4%	38.2%	37.8%
Others	10.3	0.1	(20.6)	-	-						
Financing cash flow	(87.9)	(85.7)	(85.7)	(88.7)	(75.3)						
Net cash flow	1.7	(3.2)	(3.2)	(2.1)	(0.2)						
Forex	-	-	-	-	-						
Others	(0.0)	0.0	3.6	-	-						
Beginning cash	5.4	7.2	3.9	4.3	2.2						
Ending cash	7.2	3.9	4.3	2.2	2.0						

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As of **Monday, 06 May, 2024**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned

