

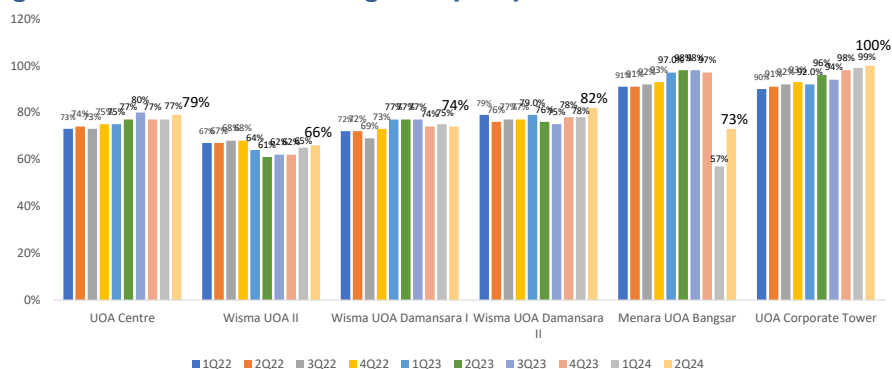
UOA Real Estate Investment Trust

Below Expectations: Hit By Higher Operating Expenses

Summary

- Below expectations.** UOAREIT recorded 2Q24 core PAT of RM8.1m (-30.6% QoQ, -41.7% YoY), bringing the 6M24 core PAT to RM19.8m (-29.6% YoY), which is below expectations, accounting for 40.2% and 33.7% of ours and consensus estimates. Key deviations were mainly due to higher-than-expected operating expenses due to an increase in contribution of sinking fund following the upgrading works in Menara UOA Bangsar (replacement of chiller plants).
- YoY.** UOAREIT's core PAT was down 41.7% YoY, mainly contributed by the decline of approximately 3.1% in gross rental due to the departure of anchor tenant in Menara UOA Bangsar, albeit occupancy rate has recovered to 73% from 57% in 1Q24, while the direct operating expenses rose 235% YoY.
- QoQ.** Despite gross rental income rose 5.2% QoQ for 2Q24, core PAT declined 30.6%, mainly contributed by the higher direct operating expenses in 2Q24 as compared to 1Q24 by 44%, coming specifically from Menara UOA Bangsar (+161%), as well as Wisma UOA Damansara I (+10%) and II (+34%).
- Income distribution.** 2.90 sen income distribution declared for the quarter, ex-date on 8th of Aug.
- Buildings occupancy rate.** Occupancy rate across all the properties have increased QoQ, except for Menara UOA Damansara I, which has slipped marginally by 1%.

Fig #1 UOAREIT's buildings occupancy rate



Source: UOAREIT, M+ Online

Quarterly performance 2Q24

Quarterly performance								
FYE Dec (RM m)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	6MFY23	6MFY24	YoY (%)
Revenue	28.5	26.2	27.6	5.2	(3.1)	57.1	53.8	(5.8)
EBITDA	19.2	17.2	13.8	(19.9)	(28.5)	38.7	30.9	(20.0)
PBT	13.9	11.7	8.1	(30.8)	(41.8)	28.1	19.8	(29.7)
Core PAT	13.9	11.7	8.1	(30.6)	(41.7)	28.1	19.8	(29.6)
Reported PAT	14.0	11.7	8.1	(30.6)	(42.1)	28.6	19.8	(30.9)
Core EPS (sen)	2.06	1.73	1.20	(30.6)	(41.7)	4.16	2.92	(29.6)
EBITDA margin (%)	67.6	65.5	49.8			67.7	57.5	
PBT margin (%)	48.8	44.5	29.3			49.2	36.7	
Core PAT margin (%)	48.8	44.5	29.3			49.2	36.7	

Source: UOAREIT, M+ Online

Results Note – 2QFY24

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SELL (from HOLD)

Share price	RM1.12
Target price	RM0.93
Previous TP	1.02
Capital upside	-17.0%
Dividend return	4.7%
Total return	-12.3%

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)	756.7
52W High/Low	1.15 / 1.08
Est. Free float (%)	27.4
Beta (x)	0.4
3-mth avg vol ('000)	189.8
Shariah compliant	No

Major shareholders

Desa Bukit Pantai S/B	15.1
Wisma UOA S/B	11.5
Rich Accomplishment S/B	11.1

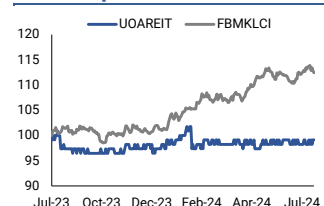
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	0.9	0.9	-0.9
Relative	-0.6	-1.6	-11.1

Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	53.2	39.1	44.9
EPS (sen)	7.87	5.79	6.64
P/E (x)	14.2	19.4	16.9

Relative performance chart



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- **Weighted average lease expiry (WALE) stood at 1.59.** As at 2Q24, UOAREIT's WALE stood at 1.59, as compared to 1.52 and 1.08 in FY23 and FY22, respectively. Overall tenancy expiry profile is 15.2% to 40.2% over 2024-2027.
- **Gearing ratio slightly higher.** Gearing ratio rose slightly by 0.7% to 40.1% as at 2Q24 versus 39.4% in FY23. We expect the borrowing cost will gradually increase if BNM raised the overnight policy rate (OPR) going forward.
- **Outlook.** We expect the office space market to remain cautious despite a slight improvement in sentiment. Overall, the influx of new office supply and accelerated inflation continue to be the headwinds going forward, thus rental rates are expected to be flat in the office space market. Nevertheless, overall portfolio occupancy rate has improved to 79% from 75.2% in 1Q24.

Valuation & Recommendation

- **Downward revision in forecast.** As the core PAT came in below expectation, we reduce the earnings forecast by 20.4% and 13.7% to RM39.1-44.0m for FY24-25f accounting for higher direct operating expenses going forward.
- **SELL recommendation with RM0.93 TP.** With the revised earnings forecast, we downgrade to SELL from Hold on UOAREIT, with a lower target price of RM0.93. The target price is derived by ascribing a P/E of 14.0x to FY25f EPS of 6.64 sen as we roll over to FY25f earnings. The group is committed to reward at least 90.0% of the distributable income, translating to a prospective dividend yield of 4.7-5.3% for FY24-25f.
- **Downside risks.** Risks to our recommendation include the slower-than-expected pick up in occupancy rate 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.



Friday, 26 Jul, 2024

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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	60.6	66.6	Receivables	9.0	8.0	13.6	8.0	8.3
EBIT	80.6	80.7	74.7	60.4	66.3	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	39.1	44.9	Assets	1,732.7	1,729.1	1,737.7	1,729.9	1,730.2
Tax	(0.0)	-	-	-	-	Debits	683.2	675.4	684.7	661.6	654.7
Net profit	61.8	61.1	53.2	39.1	44.9	Payables	35.3	36.8	39.8	55.7	53.0
Minority interest	-	-	-	-	-	Others	21.2	21.2	19.7	19.6	19.6
Core earnings	61.8	61.1	53.2	39.1	44.9	Liabilities	739.7	733.4	744.1	736.9	727.4
Exceptional items	19.7	0.2	(2.6)	-	-	Shareholder's equity	993.0	995.7	993.6	997.5	1,002.0
Reported earnings	42.1	60.9	55.8	39.1	44.9	Minority interest	-	-	-	-	-
						Equity	993.0	995.7	993.6	997.5	1,002.0
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	39.1	44.9	Core EPS (sen)	9.1	9.0	7.9	5.8	6.6
Depreciation & amortisation	0.1	0.1	0.1	0.2	0.2	P/E (x)	12.2	12.4	14.2	19.4	16.9
Changes in working capital	9.0	2.5	(2.6)	21.5	(3.0)	DPS (sen)	8.6	8.6	7.9	5.2	6.0
Share of JV profits	-	-	-	-	-	Dividend yield	7.7%	7.7%	7.1%	4.7%	5.3%
Taxation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	BVPS (RM)	1.47	1.47	1.47	1.48	1.48
Others	(0.0)	(0.2)	10.8	0.1	0.1	P/B (x)	0.8	0.8	0.8	0.8	0.8
Operating cash flow	89.6	83.1	83.1	82.1	63.7	EBITDA margin	69.3%	70.7%	66.3%	56.0%	59.4%
Net capex	(0.0)	(0.7)	(4.0)	(0.0)	(0.5)	EBIT margin	69.3%	70.6%	66.2%	55.8%	59.2%
Others	0.1	0.1	3.4	-	-	PBT margin	53.1%	53.4%	47.1%	36.1%	40.0%
Investing cash flow	0.1	(0.6)	(0.6)	(0.0)	(0.5)	PAT margin	53.1%	53.4%	47.1%	36.1%	40.0%
Changes in borrowings	(20.8)	(7.8)	9.3	(23.1)	(6.9)	Core PAT margin	53.1%	53.4%	47.1%	36.1%	40.0%
Issuance of shares	(0.2)	-	(0.0)	0.0	-	ROE	6.3%	6.1%	5.3%	3.9%	4.5%
Interest paid	(18.9)	(19.7)	(21.6)	(21.4)	(21.6)	ROA	3.5%	3.5%	3.1%	2.3%	2.6%
Dividends paid	(58.4)	(58.2)	(52.8)	(35.2)	(40.4)	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)	(79.7)	(68.8)						
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 **Friday, 26 Jul, 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



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