Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

Stronger quarter

UOA achieved RM209m in core net profit in 1H17, above consensus and our forecasts (55% of RM381.5m for FY17E). But, we expect lower earnings in 2H17 due to near-completion of several existing projects. Hence, we maintain our FY17E EPS but tweak the FY18-19E EPS upwards by 0.8-1.4% to reflect new planned launches in 4Q17, and raise our RNAV/share to RM4.29. Maintain BUY call with a higher TP of RM3.00, based on the same 30% discount to RNAV. Attractive 2017E net dividend yield of 5.8%, supported by net cash of RM0.43/share.

Stronger quarter

Revenue jumped 58% yoy and tripled qoq to RM465.6m in 2Q17 (2Q16: RM294.8m), mainly derived from the completion of South View, Desa Sentul and Suria@North Kiara, and progress billing for ongoing projects like United Point Residences and Sentul Point. However, EBITDA margin was slashed by 10.4 ppts yoy to 49.3% due to higher operating costs (+99% yoy), translating to slower core net profit growth of 34% yoy to RM166.1m in 2Q17. For 1H17, core net profit declined 5% yoy to RM209.2m despite an increase of 25% yoy in revenue to RM620.7m due to higher operating costs (+56%), depreciation (+23%) and lower associate income (-96%).

Expect lower earnings in 2H17

For 1H17, UOA achieved RM209.2m in core net profit, comprising 55% of the consensus and our full-year forecasts of RM381.5m. Although earnings are above our and consensus expectations, we are maintaining our FY17E earnings as we expect lower earnings from its two main contributing projects, i.e. Sentul Point and United Point Residences, in 2H17. Both are still at the early stage of construction (completion rate of 17%). 2H17 will be mainly supported by its remaining unbilled sales of RM1.4bn (+16% yoy), new property sales of RM613m in 1H17 and existing inventory of RM210m as at 30 June 2017.

Maintain BUY with higher 12-month TP of RM3.00

We maintain our FY17E EPS but tweak our FY18-19E EPS upwards by 0.8-1.4% to reflect new planned launches in 4Q17 i.e. South Link (RM550m), South Point (RM220m) and Bandar Tun Razak (RM300m). We raise our RNAV/share estimate to RM4.29 from RM4.21 after imputing upcoming new launches to derive our target price of RM3.00 (based on 30% discount to RNAV). We continue to like UOA for its strong management, good product branding and strong net cash position (RM0.43/share). Maintain BUY. The key risk to our view is a prolonged downturn for the Klang Valley property market.

Earnings & Valuation Summary

FYE 31 Dec (RMm)	2015	2016	2017E	2018E	2019E
Revenue	1,643.2	996.2	1,296.2	1,400.7	1,600.2
EBITDA	597.4	507.3	527.0	545.5	695.2
Pretax profit	645.3	929.4	547.9	564.3	715.7
Net profit	417.0	676.7	381.5	420.5	543.9
EPS (sen)	28.3	43.1	23.4	25.8	33.3
PER	9.1	6.0	11.0	10.0	7.7
Core net profit	399.5	374.7	381.5	420.5	543.9
Core EPS (sen)	27.1	23.0	23.4	25.8	33.3
Core EPS growth (%)	35.4	(15.4)	1.8	10.2	29.4
Core PER	9.5	11.2	11.0	10.0	7.7
Net DPS (sen)	15.0	15.0	15.0	16.0	16.0
Dividend Yield (%)	5.8	5.8	5.8	6.2	6.2
EV/EBITDA	5.0	6.9	6.2	5.9	4.6
Chg in EPS (%)			0.0	0.8	1.4
Affin/Consensus (x)			1.0	1.0	1.2

Source: Company, Affin Hwang estimates, Bloomberg

Results Note

UOA Development

UOAD MK
Sector: Property

RM2.57 @ 23 Aug 2017

BUY (maintain)

Upside 16.7%

Price Target: RM3.00

Previous Target: RM2.95

Price Performance

	1M	3M	12M
Absolute	+1.6%	-3.4%	+7.5%
Rel to KLCI	+0.8%	-3.7%	+2.1%

Stock Data

Issued shares (m)	1,733.1
Mkt cap (RMm)/(US$m)	4,454.1/1,041
Avg daily vol - 6mth (m)	1.0
52-wk range (RM)	2.22-2.77
Est free float	20.0%
BV per share (RM)	2.32
P/BV (x)	1.1
Net cash/ (debt) (RMm) (2Q17)	701.4
ROE (2017F)	9.3%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

UOA Holdings Sdn Bhd	69.1%
EPF	4.2%
Edgbaston Asian	3.0%
CIMB-Principal Asset	2.4%

Source: Affin Hwang, Bloomberg

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New property launches planned in 2017

UOA has launched Desa Commercial Center, Bandar Tun Razak Development, and affordable homes in Selayang in 1H17, and plans to launch South Link (RM550m), South Point (RM220m) and redevelopment of The Sphere in 4Q17. Earlier launches should sustain its sales in FY17 while new planned launches are expected to contribute in FY18.

Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q17	QoQ % chg	YoY % chg	1HFY17	YoY % chg	Comments
Revenue	**465.6**	**200.2**	**57.9**	**620.7**	**25.1**	Revenue jumped 58% yoy and tripled qoq in 2Q17, mainly derived from the completion of South View, Desa Sentul and Suria@North Kiara and progress billing for ongoing projects like United Point Residences and Sentul Point.
Op costs	(236.2)	>100	98.8	(317.4)	55.7	
EBITDA	**229.4**	**>100**	**30.3**	**303.3**	**3.8**	
EBITDA margin (%)	*49.3*	*1.6 ppts*	*(10.4 ppts)*	*48.9*	*(10.0 ppts)*	EBITDA margin fell by 10.4 ppts yoy to 49.3% due to higher operating costs (+99% yoy).
Depn and amort	(5.4)	2.8	24.7	(10.6)	22.9	
EBIT	**224.0**	**>100**	**30.5**	**292.6**	**3.2**	
EBIT margin (%)	*48.1*	*3.9 ppts*	*(10.1 ppts)*	*47.1*	*(10.0 ppts)*	
Int expense	(0.9)	(17.0)	(53.3)	(2.1)	(46.3)	
Int income	4.0	22.5	(56.3)	7.2	(46.9)	
Associates	0.4	(20.3)	(88.5)	0.9	(95.6)	
EI	(0.4)	NA	NA	(0.1)	NA	
Pretax profit	**227.0**	**>100**	**24.5**	**298.6**	**(4.9)**	
Tax	(55.9)	>100	46.8	(75.0)	6.5	
Tax rate (%)	*24.6*	*(2.2 ppts)*	*3.7 ppts*	*25.1*	*2.7 ppts*	
MI	(5.5)	(39.2)	(72.6)	(14.5)	(37.1)	
Net profit	**165.7**	**>100**	**33.3**	**209.0**	**(5.1)**	Above expectations.
EPS (sen)	10.2	>100	24.2	12.8	(11.6)	
Core net profit	**166.1**	**>100**	**33.7**	**209.2**	**(5.1)**	For 1H17, core net profit declined 5% yoy despite a 25% yoy increase in revenue due to higher operating costs (+56%), depreciation (+23%) and lower associate income (-96%).

Source: Company, Affin Hwang estimates

Fig 2: RNAV and target price

Project type	New GDV (RM bn)	New NPV (RMm)	Previous GDV (RM bn)	Previous NPV (RMm)
Commercial development	3.2	725	4.4	777
Residential development	3.9	674	3.9	674
Mixed development	11.7	3,454	12.1	3,265
Investment properties	-	1,477	-	1,477
Total	**18.8**	**6,331**	**20.5**	**6,194**
Net cash/(debt)		671		671
RNAV		**7,002**		**6,865**
Number of shares		1,631		1,631
RNAV/share (RM)		**4.29**		**4.21**
Target price @ 30% discount to RNAV (RM)		**3.00**		**2.95**

Source: Company, Affin Hwang estimates

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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