

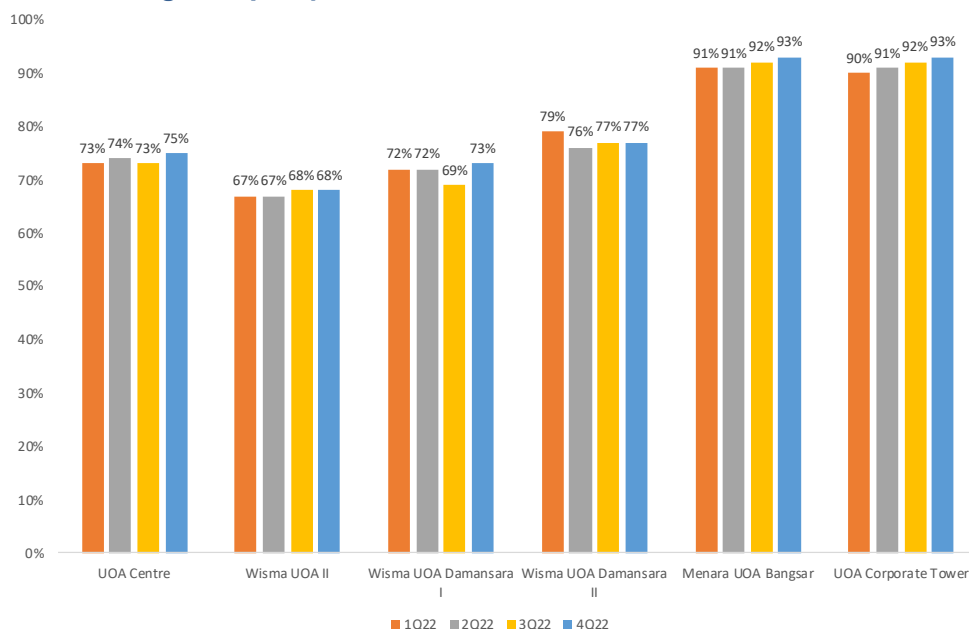
## UOA Real Estate Investment Trust

### Higher borrowing costs outweighed improved occupancy rate

#### Summary

- UOA Real Estate Investment Trust (UOAR) 4Q22 core net profit declined 3.4% YoY to RM14.1m, bringing the FY22 core net profit to RM61.1m. The results came in below expectations, amounting to 94.3% of our full year forecast at RM64.8m and 95.6% of the consensus at RM63.9m. Key deviations were mainly due to the lower-than-expected occupancy rate for the older buildings and higher borrowing costs.
- QoQ, core net profit shrank 12.6% primarily attributed to a higher direct operating expenses incurred by Wisma UOA Damansara II and UOA Corporate Tower in the current quarter. Meanwhile, Wisma UOA II and UOA Corporate Tower contributed a lower gross rental income QoQ.
- In terms of occupancy rate, improvements were seen across most of its buildings. As at 4Q22, the occupancy rate for older buildings aged more than 20 years which include UOA Centre, Wisma UOA II, and Wisma UOA Damansara I stood around 68.0-75.0%. For newer buildings such as Menara UOA Bangsar and UOA Corporate Tower, occupancy rate climbed above 93.0%. Meanwhile, rental reversion for 4Q22 remained flattish.

#### UOAR buildings occupancy rate



Source: UOAR, M+ Online

- As at 4Q22, UOAR portfolio's weighted average lease expiry (WALE) stood at 1.08, as compared to 1.47 and 1.33 in FY20 and FY21, respectively. We expect the portfolio's WALE to increase in FY23 upon renewal of tenancies, as overall tenancy expiry profile stood above 56.5% in FY23. On a side note, rental rates are expected to be flat upon renewal of tenancies.

#### Results Note – 4QFY22

Ng Hui Yee  
[hnyng@msec.com.my](mailto:hnyng@msec.com.my)  
(603) 2201 2100

#### BUY

Share price	RM1.17
Target price	RM1.35
Previous TP	RM1.40
Capital upside	15.4%
Dividend return	7.4%
Total return	22.8%

#### 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)	790.5
52W High/Low	1.20 / 1.10
Est. Free float	28.0
Beta	0.4
3-mth avg vol ('000)	76.8
Shariah compliant	No

#### Major shareholders

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

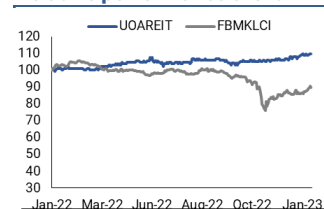
#### Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	1.7	4.5	1.7
Absolute	-0.2	0.4	3.9
Relative			

#### Earnings snapshot

	FY22	FY23f	FY24f
FYE (Dec)			
PATMI (m)	61.1	65.1	67.2
EPS (sen)	9.0	9.6	9.9
P/E (x)	12.9	12.1	11.8

#### Relative performance chart



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- Gearing ratio decreased slightly to 39.1% as at 4Q22 from 39.4% in FY21. Do note that all UOAR's debts are currently under revolving credit loan facilities where approximately 40.0% of which are floating rate loan.
- Moving forward, we are cautiously optimistic on the office space outlook over the near term as we expect the market sentiment to remain soft amid rising inflationary pressures on the global economy. Besides, we expect an increase in property operating expenses due to electricity tariff hike effective 1<sup>st</sup> January 2023 to 30<sup>th</sup> June 2023.
- Although UOAR has Right of First Refusal over UOA Development Bhd's investment assets which granted the group a series of potential pipelines including convention centre as well as hotel, it might be challenging to hunt for a yield accretive acquisition at current juncture.

Quarterly performance								
FYE Dec (RM m)	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	12MFY21	12MFY22	YoY (%)
Revenue	28.0	28.6	28.1	(1.7)	0.4	116.4	114.4	(1.7)
EBITDA	17.2	21.2	19.5	(8.4)	13.4	78.6	80.9	3.1
PBT	12.4	16.2	14.1	(12.6)	13.6	59.7	61.2	2.4
PAT	14.6	16.2	14.1	(12.6)	(3.4)	61.8	61.1	(1.2)
Core PATMI	14.6	16.2	14.1	(12.6)	(3.4)	61.8	61.1	(1.2)
Reported PATMI	(5.2)	16.0	13.8	(13.6)	NM	42.1	60.9	44.6
Core EPS (sen)	2.2	2.4	2.1	(12.6)	(3.4)	9.1	9.0	(1.2)
EBITDA margin (%)	61.2	74.2	69.1			67.5	70.8	
PBT margin (%)	44.4	56.5	50.2			51.3	53.5	
Core PATMI margin (%)	52.1	56.4	50.2			53.1	53.4	

## Valuation & Recommendation

- As the core net profit came in below our expectations, we slashed our forecasted earnings by 4.0% and 5.4% to RM65.1m and RM67.2m for FY23f and FY24f respectively. Meanwhile, FY25f forecasted core net profit is introduced at RM67.1m. The earnings forecast takes into account the steady improvement in occupancy rate, as well as the higher borrowing cost and electricity tariff moving forward.
- We retained our **BUY** recommendation on UOAR, with a revised target price at RM1.35 (from RM1.40). The target price is derived by ascribing a P/E of 14.0x to FY23f EPS of 9.6 sen. Meanwhile, we assumed a 90.0% payout from the trust's distributable income over the next three years, in order to qualify for tax relief SC's guideline.
- Risks to our recommendation include the prolonged impact from Covid-19 on the occupancy rate as overall economy remained uncertain. Besides, the higher borrowing cost and electricity tariff may hit UOAR's margins and weigh on its bottom line moving forward.

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## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
<b>Revenue</b>	<b>116.4</b>	<b>114.4</b>	<b>121.5</b>	<b>125.3</b>	<b>125.8</b>	Cash	7.2	3.9	1.4	2.1	1.6
EBITDA	80.6	80.8	85.6	88.5	89.2	Receivables	9.0	8.0	9.0	9.3	9.3
EBIT	80.6	80.7	85.5	88.4	89.0	Inventories	-	-	-	-	-
Net finance income/ (cost)	(18.8)	(19.7)	(20.4)	(21.2)	(22.0)	PPE	1,716.6	1,717.2	1,717.1	1,717.0	1,717.3
Associates & JV	-	-	-	-	-	Others	-	-	-	-	-
<b>Profit before tax</b>	<b>61.8</b>	<b>61.1</b>	<b>65.1</b>	<b>67.2</b>	<b>67.1</b>	<b>Assets</b>	<b>1,732.7</b>	<b>1,729.1</b>	<b>1,727.5</b>	<b>1,728.3</b>	<b>1,728.2</b>
Tax	(0.0)	-	-	-	-	Debts	683.2	675.4	667.6	660.8	653.9
<b>Net profit</b>	<b>61.8</b>	<b>61.1</b>	<b>65.1</b>	<b>67.2</b>	<b>67.1</b>	Payables	35.3	36.8	36.5	37.5	37.5
Minority interest	-	-	-	-	-	Others	21.2	21.2	21.2	21.2	21.2
<b>Core earnings</b>	<b>61.8</b>	<b>61.1</b>	<b>65.1</b>	<b>67.2</b>	<b>67.1</b>	<b>Liabilities</b>	<b>739.7</b>	<b>733.4</b>	<b>725.3</b>	<b>719.4</b>	<b>712.6</b>
Exceptional items	19.7	0.2	-	-	-	Shareholder's equity	993.0	995.7	1,002.2	1,008.9	1,015.6
Reported earnings	42.1	60.9	65.1	67.2	67.1	Minority interest	-	-	-	-	-
						<b>Equity</b>	<b>993.0</b>	<b>995.7</b>	<b>1,002.2</b>	<b>1,008.9</b>	<b>1,015.6</b>
Cash Flow Statement						Valuation & Ratios					
FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f	FYE Dec (RM m)	FY21	FY22	FY23f	FY24f	FY25f
Profit before taxation	61.8	61.1	65.1	67.2	67.1	Core EPS (sen)	9.1	9.0	9.6	9.9	9.9
Depreciation & amortisation	0.1	0.1	0.1	0.1	0.2	P/E (x)	12.8	12.9	12.1	11.8	11.8
Changes in working capital	9.0	2.5	(1.3)	0.7	(0.0)	DPS (sen)	8.6	8.6	8.7	8.9	8.9
Share of JV profits	-	-	-	-	-	Dividend yield	7.4%	7.4%	7.4%	7.6%	7.6%
Taxation	(0.1)	(0.1)	(0.1)	(0.1)	-	BVPS (RM)	1.47	1.47	1.48	1.49	1.50
Others	(0.0)	(0.2)	0.1	0.1	-	P/B (x)	0.8	0.8	0.8	0.8	0.8
<b>Operating cash flow</b>	<b>89.6</b>	<b>83.1</b>	<b>84.4</b>	<b>89.3</b>	<b>89.3</b>	EBITDA margin	69.3%	70.7%	70.5%	70.6%	70.9%
Net capex	(0.0)	(0.7)	(0.0)	(0.0)	(0.5)	EBIT margin	69.3%	70.6%	70.4%	70.5%	70.7%
Others	0.1	0.1	-	-	-	PBT margin	53.1%	53.4%	53.6%	53.6%	53.3%
<b>Investing cash flow</b>	<b>0.1</b>	<b>(0.6)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.5)</b>	PAT margin	53.1%	53.4%	53.6%	53.6%	53.3%
Changes in borrowings	(20.8)	(7.8)	(7.8)	(6.9)	(6.9)	Core PAT margin	53.1%	53.4%	53.6%	53.6%	53.3%
Issuance of shares	(0.2)	-	-	-	-	ROE	6.3%	6.1%	6.5%	6.7%	6.6%
Interest paid	(18.9)	(19.7)	(20.5)	(21.3)	(22.1)	ROA	3.5%	3.5%	3.8%	3.9%	3.9%
Dividends paid	(58.4)	(58.2)	(58.6)	(60.5)	(60.3)	Net gearing	68.1%	67.4%	66.5%	65.3%	64.2%
Others	10.3	0.1	-	-	-						
<b>Financing cash flow</b>	<b>(87.9)</b>	<b>(85.7)</b>	<b>(86.9)</b>	<b>(88.6)</b>	<b>(89.3)</b>						
<b>Net cash flow</b>	<b>1.7</b>	<b>(3.2)</b>	<b>(2.5)</b>	<b>0.7</b>	<b>(0.5)</b>						
Forex	-	-	-	-	-						
Others	(0.0)	0.0	-	-	-						
Beginning cash	5.4	7.2	3.9	1.4	2.1						
Ending cash	7.2	3.9	1.4	2.1	1.6						