



AmInvestment Bank

UOA REAL ESTATE INVESTMENT TRUST

(UOAR MK EQUITY, UOAR.KL)

20 Jan 2023

Improvement seen in occupancy rate

Company report

BUY

(Maintained)

Khoo Zing Sheng

khoo.zing-sheng@ambankgroup.com

03-2036 2299

Rationale for report: Company results

| | |
|------------------|---------------|
| Price | RM1.17 |
| Fair Value | RM1.42 |
| 52-week High/Low | RM1.20/RM1.10 |

Key Changes

| | |
|------------|---|
| Fair value | ↔ |
| EPS | ↔ |

| YE to Dec | FY22 | FY23F | FY24F | FY25F |
|-------------------------------|-------|-------|-------|-------|
| Gross Rental Income (RM mil) | 114.4 | 124.5 | 128.8 | 133.3 |
| Distributable Income (RM mil) | 60.9 | 65.2 | 66.5 | 68.0 |
| EPU | 9.0 | 9.6 | 9.8 | 10.1 |
| Consensus Net Profit (RM mil) | - | 65.9 | 68.0 | - |
| DPU (sen) | 8.6 | 9.3 | 9.5 | 9.7 |
| DPU Growth (%) | 0.5 | 7.0 | 2.1 | 2.2 |
| PE (x) | 13.0 | 12.1 | 11.9 | 11.6 |
| EV/EBITDA (x) | 17.7 | 18.1 | 16.7 | 16.2 |
| Distribution yield (%) | 7.4 | 7.9 | 8.1 | 8.3 |
| ROE (%) | 6.1 | 6.5 | 6.7 | 6.8 |
| Debt/Assets (%) | 39.5 | 39.3 | 39.3 | 39.2 |

Stock and Financial Data

| | |
|------------------------------|-------|
| Shares Outstanding (million) | 675.6 |
| Market Cap (RMmil) | 790.5 |
| Book Value (RM/share) | 1.47 |
| P/BV (x) | 0.8 |
| ROE (%) | 4.3 |
| Net Gearing (%) | 68.1 |

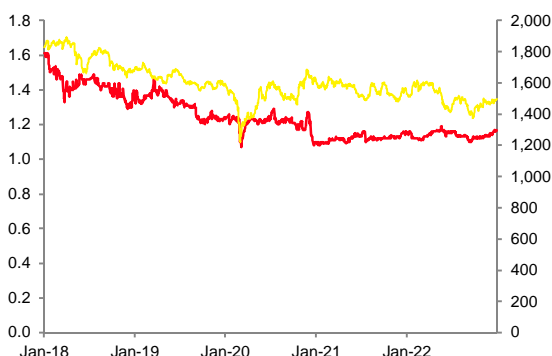
| | |
|--------------------|---|
| Major Shareholders | Desa Bukit Pantai (15.1%) Wisma UOA (11.5%) Rich Accomplishment (11.1%) |
|--------------------|---|

| | |
|-------------------------|------|
| Free Float | 62.3 |
| Avg Daily Value (RMmil) | 0.1 |

| Price performance | 3mth | 6mth | 12mth |
|-------------------|-------|-------|-------|
| Absolute (%) | 4.5 | 1.7 | 0.9 |
| Relative (%) | (3.4) | (3.8) | 3.8 |

Investment Highlights

- We maintain BUY on UOA REIT with an unchanged fair value (FV) of RM1.42/unit based on dividend discount model (DDM), which incorporates a neutral 3-star ESG rating (Exhibits 8 & 9). This implies a FY24F distribution yield of 6%, at parity to its 5-year median.
- We make no changes to our earnings forecast as UOA REIT's FY22 distributable income of RM61mil was within our and consensus' expectations. It came in 4% below our estimates and 5% of street's.
- We also take the opportunity to introduce our FY25F earnings with a growth of 2% on the basis of stable improvements in occupancy rates and rental reversions.
- In FY22, both UOA REIT's gross revenue and net property income (NPI) declined 2% YoY as a result of a decline in its average occupancy rate to 80% in 4QFY22 from 82% in 4QFY21.
- QoQ, UOA REIT's revenue slid 2% while NPI fell 8%. The lower NPI was mainly attributed to higher direct operating expenses incurred in UOA Corporate Tower.
- 57% of its tenancies are set to expire in FY23 (Exhibit 4). We expect rental reversion to be flattish upon the renewal of tenancies given the growing oversupply of office spaces, coupled with heightening inflationary pressures on tenant sales.
- UOA REIT declared its gross distribution per unit (DPU) of 4.3 sen in 4QFY22. The FY22 DPU of 8.6 sen represents a distribution yield of 7%.
- We anticipate the Fed rate to peak in 1HFY23 as a result of weaker economic data and softening inflation. Our in-house economist projects another 0.75% hike in the Fed rate in 1HCY23 from the current level of 4.25-4.5%. Meanwhile, the 10-year MGS yield is forecasted to be lower by the end of 2023 at 3.8%-4%.
- We anticipate the yield spread from FY23F onwards to widen to 4% vs. 5-year median of 2%. Hence, we expect UOA REIT to be appealing to yield-seeking investors with its higher yield spread against 10-year MGS (Exhibit 7).



— UOAR MK — FBMKLCI Index

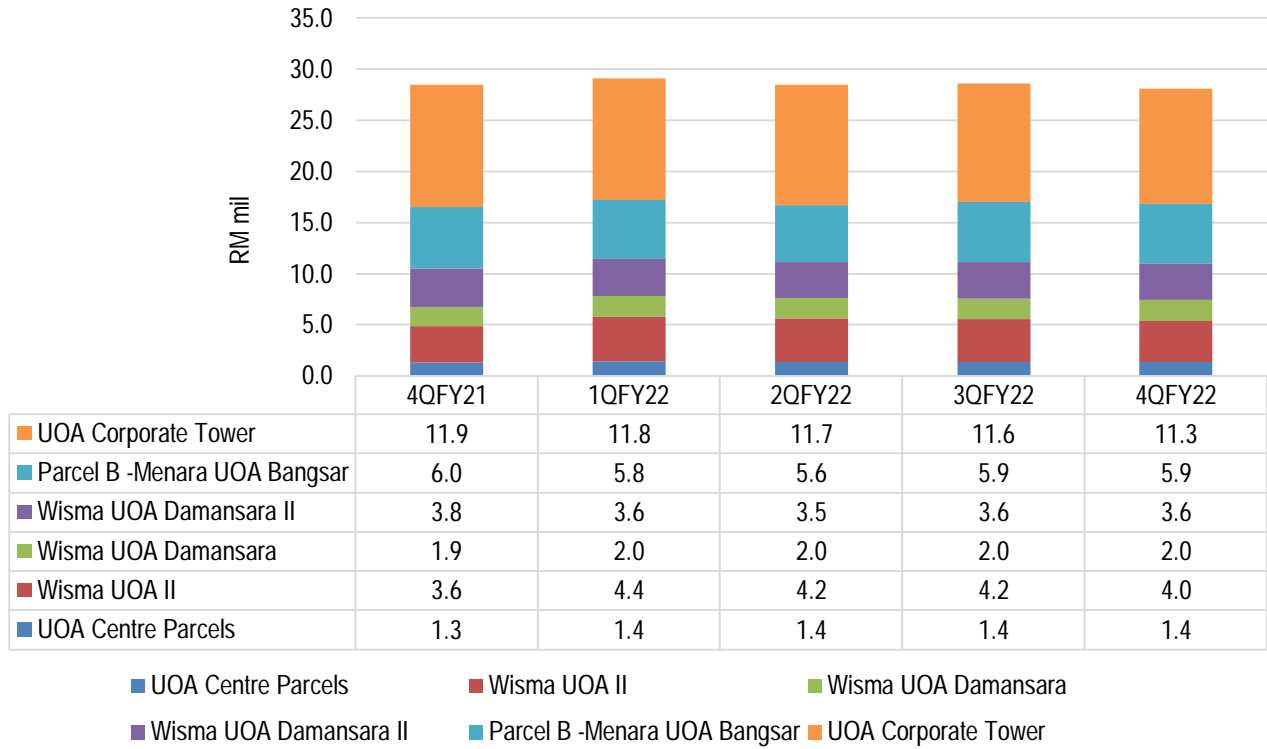
- We like UOA REIT's long-term prospects, bolstered by its:
 - (i) strategically located properties which are well-connected in neighbourhoods via bridges, major highways and public transportation;
 - (ii) diverse tenant mix, which could mitigate potential rental collection risks during economic downturns (Exhibit 5);
 - (iii) excellent track record of distributing at least 94% of net income to unitholders with a strong distribution yield of 8% from FY23F to FY25F; and
 - (iv) large pipeline of potential asset injections from its sponsor – UOA Development (Exhibit 6).
- UOA REIT currently trades at a compelling FY24F PE of 12x vs. 4-year average of 17x. Meanwhile, FY24F distribution yield of 8% is attractive vs. 10-year MGS yield of 4%.

EXHIBIT 1: RESULT SUMMARY

| RM 'mil | 4QFY21 | 3QFY22 | 4QFY22 | QoQ (%) | YoY (%) | FY21 | FY22 | YoY (%) |
|--|--------------|-------------|-------------|---------------|----------------|-------------|-------------|--------------|
| Gross rental | 28.0 | 28.6 | 28.1 | (1.7) | 0.4 | 116.4 | 114.4 | (1.7) |
| Property operating costs | (6.7) | (5.6) | (6.9) | 22.9 | 2.2 | (26.7) | (26.1) | (2.2) |
| Net property income | 21.3 | 23.0 | 21.3 | (7.7) | (0.1) | 89.6 | 88.2 | (1.5) |
| Interest income | 0.0 | 0.0 | 0.0 | 8.1 | (4.0) | 0.1 | 0.1 | (30.5) |
| Other income | 0.1 | 0.1 | 0.1 | 65.8 | 7.8 | 0.4 | 0.3 | (16.8) |
| Net Investment Income | 21.4 | 23.1 | 21.4 | (7.5) | (0.1) | 90.2 | 88.7 | (1.7) |
| Manager's fee | (1.7) | (1.7) | (1.7) | 0.5 | (1.0) | (6.7) | (6.6) | (1.3) |
| Trustee's fee | (0.1) | (0.1) | (0.1) | 0.5 | (1.0) | (0.3) | (0.3) | (1.3) |
| Other trust expenses | (0.3) | (0.2) | (0.2) | 24.4 | (27.7) | (2.5) | (1.1) | (56.8) |
| EBIT | 19.3 | 21.2 | 19.4 | (8.4) | 0.5 | 80.7 | 80.7 | 0.0 |
| Borrowing cost | (4.7) | (5.1) | (5.3) | 5.1 | 12.4 | (18.9) | (19.7) | 4.6 |
| Profit Before Taxation | 14.6 | 16.2 | 14.1 | (12.6) | (3.4) | 61.8 | 60.9 | (1.4) |
| Taxation | 2.2 | (0.0) | (0.0) | (21.4) | (>100) | 2.1 | (0.1) | (>100) |
| Net Profit | 16.8 | 16.1 | 14.1 | (12.6) | (16.0) | 63.8 | 60.8 | (4.7) |
| Distribution adjustment | (22.0) | (0.1) | (0.3) | 92.0 | (98.7) | (21.8) | 0.2 | >100 |
| Distributable Income | (5.2) | 16.0 | 13.8 | (13.6) | >100 | 42.1 | 61.0 | 45.1 |
| <u>Distribution:</u> | | | | | | | | |
| EPU - Diluted (Sen) | (0.8) | 2.4 | 2.0 | (13.6) | >100 | 6.2 | 9.0 | 44.5 |
| Proposed DPU (Sen) - Interim | 4.3 | 0.0 | 4.3 | n.m. | 0.0 | 8.6 | 8.6 | (0.2) |
| Distribution Yield (as at the end of the period) (%) | 7.5 | 7.8 | 7.5 | (0.3) | (0.0) | 7.5 | 7.5 | 0.0 |
| NAV/unit | 1.4 | 1.4 | 1.4 | (0.0) | 0.3 | 1.4 | 1.4 | 0.3 |
| Weighted average unit ('mil) | 675.6 | 675.6 | 675.6 | 0.0 | 0.0 | 675.6 | 675.6 | 0.0 |
| <u>Margin:</u> | | | | | | | | |
| NPI margin (%) | 75.9 | 80.4 | 75.5 | (4.9) | (0.4) | 77.0 | 77.2 | 0.1 |
| EBIT margin (%) | 69.0 | 74.0 | 69.0 | (5.0) | 0.0 | 69.3 | 70.5 | 1.2 |
| Net Interest coverage (x) | 4.1 | 4.2 | 3.7 | (12.8) | (10.6) | 4.3 | 4.1 | (4.4) |
| Debt-to-Asset Ratio (%) | 39.4 | 40.0 | 39.1 | (0.9) | (0.4) | 39.4 | 39.1 | (0.4) |

Source: Company, AmInvestment Bank Berhad

EXHIBIT 2: BREAKDOWN OF GROSS RENTAL INCOME



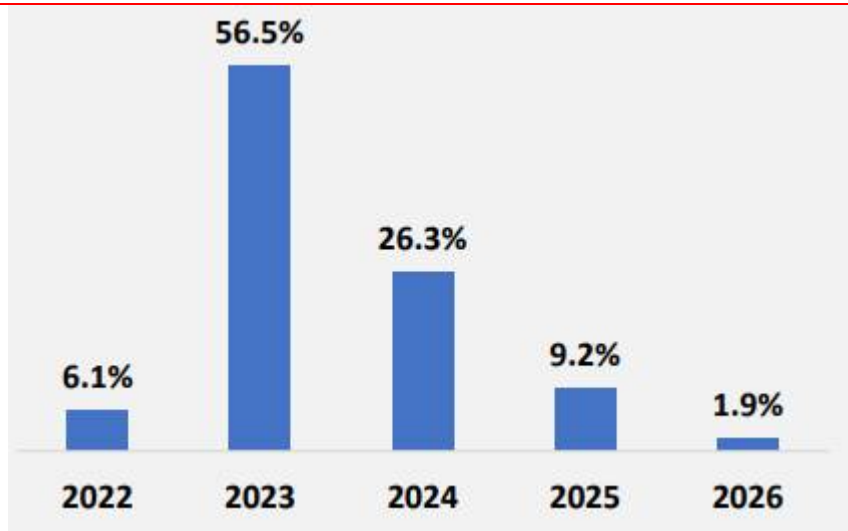
Source: Company, AmInvestment Bank Berhad

EXHIBIT 3: OCCUPANCY RATES

| Occupancy Rate (%) | 4QFY19 | 2QFY21 | 3QFY21 | 4QFY21 | 1QFY22 | 2QFY22 | 3QFY22 | 4QFY22 |
|------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| UOA Centre Parcels | 81 | 77 | 77 | 76 | 73 | 74 | 73 | 75 |
| Wisma UOA II | 82 | 73 | 74 | 72 | 67 | 67 | 68 | 68 |
| Wisma UOA Damansara | 96 | 73 | 72 | 71 | 72 | 72 | 69 | 73 |
| Wisma UOA Damansara II | 99 | 86 | 86 | 84 | 79 | 76 | 77 | 77 |
| Parcel B -Menara UOA Bangsar | 99 | 94 | 94 | 94 | 91 | 91 | 92 | 93 |
| UOA Corporate Tower | n/a | 91 | 95 | 93 | 90 | 91 | 92 | 93 |
| Average | 92 | 82 | 83 | 82 | 79 | 79 | 79 | 80 |

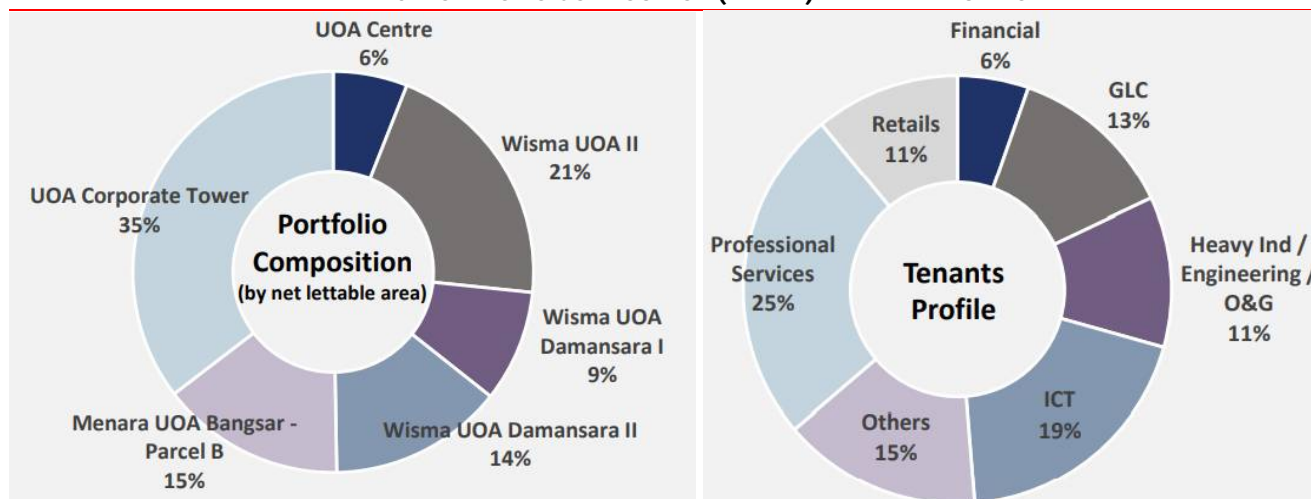
Source: Company, AmInvestment Bank Berhad

EXHIBIT 4: OVERALL TENANCY EXPIRY PROFILE AS AT 31 DECEMBER 2022



Source: Company

EXHIBIT 5: PORTFOLIO COMPOSITION (BY NLA) AND TENANTS PROFILE



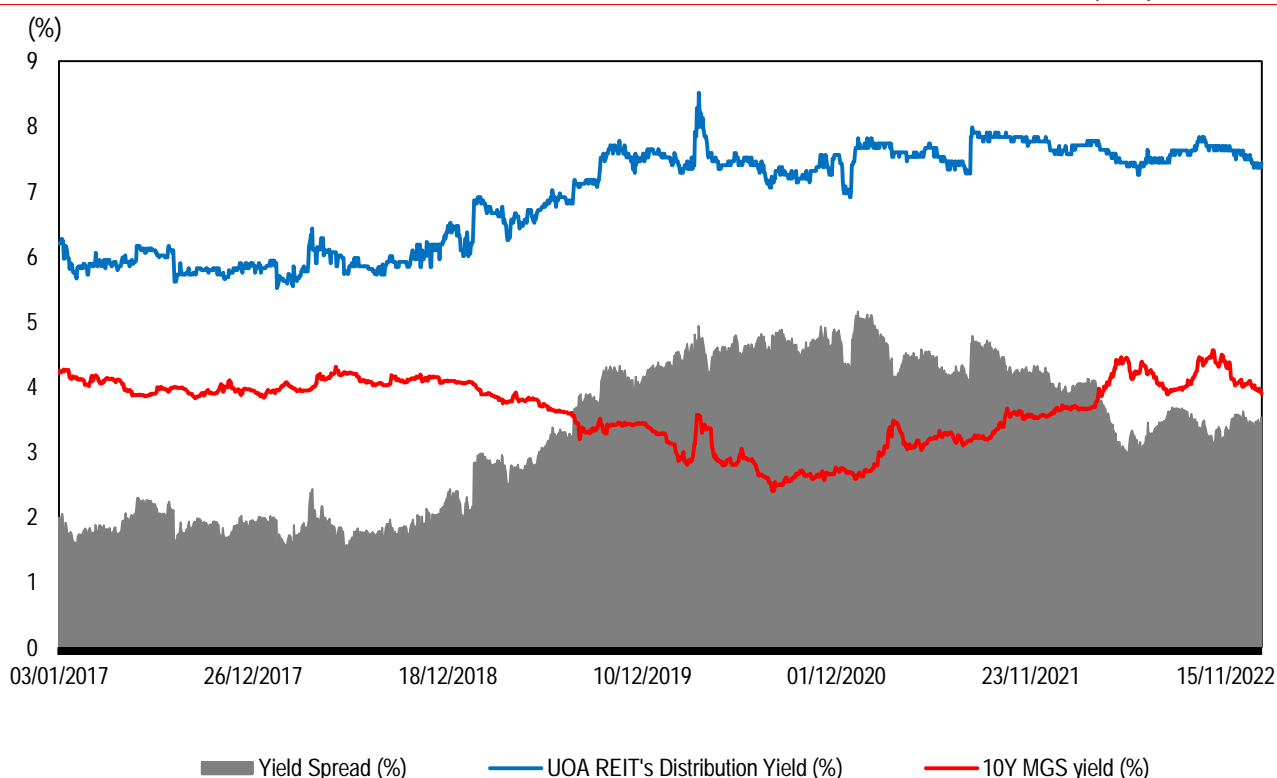
Source: Company

EXHIBIT 6: POTENTIAL PIPELINE ASSETS

| | Nexus | V E Hotel & Residence | UOA Business Park | KÓmune Living | UOA Tower, Ho Chi Minh City |
|------------------------|---|---|---|---|---|
| |  |  |  |  |  |
| Description | Retail and convention centre in Bangsar South | Hotel in Bangsar South | 14-storey office tower in Shah Alam | 30-storey co-living space | 23-storey office tower |
| Age of Building | 6 years | 3 years | 3 years | 1 year | Completed in 3Q 2020 |
| Net Book Value | RM200 million | RM189 million | RM75 million | RM183 million | - |

Source: Company

EXHIBIT 7: YIELD SPREAD AGAINST 10-YEAR MALAYSIAN GOVERNMENT SECURITIES (MGS)



Source: AmInvestment Bank Bhd, Bloomberg

EXHIBIT 8: DIVIDEND DISCOUNT MODEL (DDM)

Assumption for Weighted Average Cost of Capital (WACC)

| | |
|----------------------------|--------------|
| Risk Free Rate | 4.0% |
| Beta | 0.64 |
| Market Return | 14.5% |
| Cost of Equity (Ke) | 10.7% |

Average Cost of Debt 3.3%

Capital Structure: (RM Mil)

| | | |
|-----------------|----------------|---------------|
| Market Cap | 790.5 | 53.6% |
| Total Borrowing | 683.2 | 46.4% |
| Total | 1,473.7 | 100.0% |

Weighted Average Cost of Capital (WACC):

| | | | |
|----------------------|-------|-------|-------------|
| Cost of Equity (Ke) | 53.6% | 10.7% | 5.8% |
| Average Cost of Debt | 46.4% | 3.3% | 1.5% |
| WACC | | | 7.3% |

| Multi-Stage DDM | 2022 | 2023 | 2024 | 2025 | 2026 | Terminal Value |
|---|-------------|-------------|-------------|-------------|-------------|-----------------------|
| Period | 1 | 2 | 3 | 4 | 5 | |
| Dividends (RM) | 0.09 | 0.09 | 0.09 | 0.10 | 0.10 | 1.47 |
| Present Value (RM) | 0.08 | 0.08 | 0.08 | 0.07 | 0.07 | 1.03 |
| Valuation | 1.42 | | | | | |
| (+0%) no adjustment for 3-star ESG rating | 0.00 | | | | | |
| Fair Value/unit (RM)+ESG | 1.42 | | | | | |
| Rate of Return (%) | 7.3% | | | | | |
| Growth Rate (%) | 0.5% | | | | | |

Source: Company, AmInvestment Bank Berhad

EXHIBIT 9: ESG RATING

| Overall | ★ | ★ | ★ | | |
|---------------------------------|---|---|---|---|--|
| Zero-carbon initiatives | ★ | ★ | ★ | ★ | |
| Waste management | ★ | ★ | ★ | | |
| Pollution Control | ★ | ★ | ★ | | |
| Health and safety compliance | ★ | ★ | ★ | ★ | |
| Corporate social responsibility | ★ | ★ | ★ | | |
| Employees welfare & training | ★ | ★ | ★ | ★ | |
| Corruption free pledge | ★ | ★ | ★ | | |
| Diversity and inclusion | ★ | ★ | | | |
| Accessibility & transparency | ★ | ★ | ★ | ★ | |

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star.

Source: AmInvestment Bank Bhd

EXHIBIT 10: PB BAND CHART

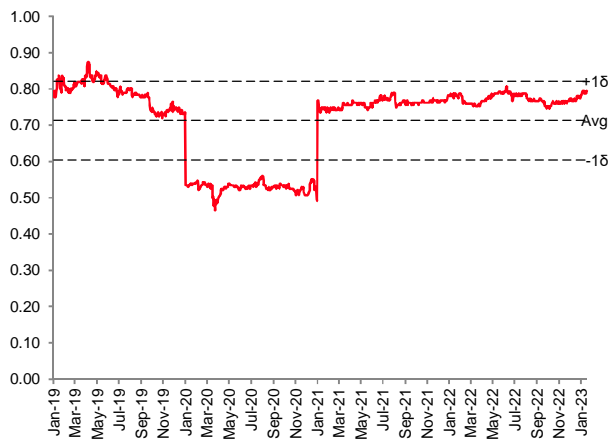


EXHIBIT 11: PE BAND CHART

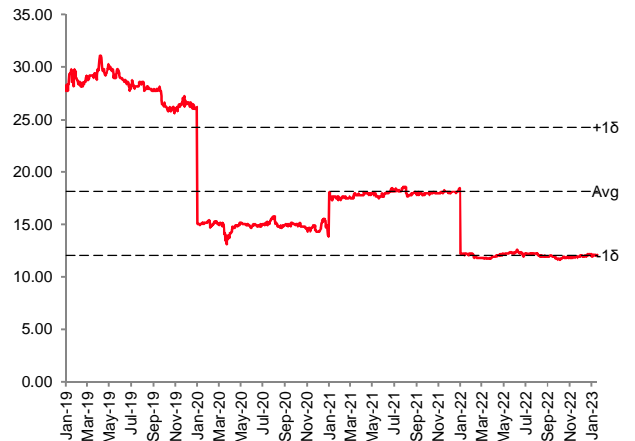


EXHIBIT 12: FINANCIAL DATA

| Income Statement (RMmil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Gross Rental Income | 116.4 | 114.4 | 124.5 | 128.8 | 133.3 |
| Net Property Income | 89.6 | 88.2 | 95.5 | 98.8 | 102.2 |
| Net Investment income | 90.1 | 88.6 | 95.9 | 99.2 | 102.7 |
| EBITDA | 82.7 | 81.3 | 87.7 | 90.7 | 93.8 |
| Net interest | (18.8) | (19.7) | (22.1) | (23.8) | (25.5) |
| Exceptional items (EI) | (23.9) | (0.6) | 0.0 | 0.0 | 0.0 |
| Pretax profit | 40.0 | 61.0 | 65.5 | 66.9 | 68.3 |
| Taxation | 2.1 | (0.1) | (0.4) | (0.4) | (0.4) |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income | 42.1 | 60.9 | 65.1 | 66.4 | 67.9 |
| Distributable Income | 61.8 | 60.9 | 65.2 | 66.5 | 68.0 |
| Balance Sheet (RMmil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Plant and equipment | 0.4 | 0.9 | 0.6 | 0.7 | 0.7 |
| Investment Properties | 1,716.2 | 1,716.3 | 1,716.3 | 1,716.3 | 1,716.3 |
| Total non-current assets | 1,716.6 | 1,717.2 | 1,716.8 | 1,716.9 | 1,717.0 |
| Cash & equivalent | 7.2 | 3.9 | 7.0 | 7.3 | 7.5 |
| Inventories | - | - | - | - | - |
| Trade receivables | 3.4 | 2.0 | 3.1 | 3.2 | 3.4 |
| Other current assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total current assets | 16.1 | 11.9 | 22.4 | 23.1 | 23.9 |
| Trade payables | 21.4 | 36.9 | 24.2 | 25.1 | 25.9 |
| Short-term borrowings | 683.2 | 675.4 | 683.2 | 683.2 | 683.2 |
| Other current liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total current liabilities | 704.6 | 712.3 | 707.4 | 708.3 | 709.1 |
| Long-term borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long-term liabilities | 13.9 | 0.0 | 14.2 | 14.7 | 15.3 |
| Total long-term liabilities | 35.1 | 21.2 | 36.9 | 38.2 | 39.5 |
| Total Unitholders' funds | 993.0 | 995.7 | 994.9 | 993.6 | 992.3 |
| Minority interests | - | - | - | - | - |
| NAV per unit (RM) | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Cash Flow (RMmil, YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Pretax profit | 40.0 | 61.0 | 65.5 | 66.9 | 68.3 |
| Depreciation/Amortisation | - | - | - | - | - |
| Net change in working capital | 6.9 | 1.7 | (5.7) | 0.8 | 0.8 |
| Others | 42.6 | 20.4 | 21.8 | 23.5 | 25.2 |
| Cash flow from operations | 89.6 | 83.1 | 81.6 | 91.1 | 94.3 |
| Capital expenditure | 0.0 | (0.1) | (0.0) | (0.0) | (0.0) |
| Net investments & sale of fixed assets | 0.0 | (0.6) | 0.0 | 0.0 | 0.0 |
| Others | 0.1 | 0.1 | 3.3 | 0.4 | 0.4 |
| Cash flow from investing | 0.1 | (0.6) | 3.3 | 0.4 | 0.4 |
| Debt raised/(repaid) | (20.8) | (7.8) | 7.8 | 0.0 | 0.0 |
| Equity raised/(repaid) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Distribution paid to unitholders | (48.0) | (58.2) | (62.8) | (64.1) | (65.5) |
| Others | (19.1) | (19.7) | (26.8) | (27.2) | (29.0) |
| Cash flow from financing | (87.9) | (85.7) | (81.8) | (91.3) | (94.5) |
| Net cash flow | 1.8 | (3.2) | 3.1 | 0.2 | 0.3 |
| Net cash/(debt) b/f | 5.4 | 7.1 | 3.9 | 7.0 | 7.3 |
| Net cash/(debt) c/f | 7.1 | 3.9 | 7.0 | 7.3 | 7.5 |
| Key Ratios (YE 31 Dec) | FY21 | FY22 | FY23F | FY24F | FY25F |
| Revenue growth (%) | 60.8 | (1.7) | 8.8 | 3.5 | 3.5 |
| Net Property Income growth (%) | 72.7 | (1.5) | 8.2 | 3.5 | 3.5 |
| Pretax margin (%) | 34.4 | 53.3 | 52.6 | 51.9 | 51.3 |
| Distribution income margin (%) | 53.1 | 53.2 | 52.3 | 51.6 | 51.0 |
| Net Interest cover (x) | 4.4 | 4.1 | 4.0 | 3.8 | 3.7 |
| Effective tax rate (%) | (5.1) | 0.6 | 0.6 | 0.6 | 0.6 |
| DPU payout (%) | 94.5 | 96.4 | 96.4 | 96.4 | 96.4 |
| Receivable turnover (days) | 9.3 | 9.2 | 9.2 | 9.2 | 9.2 |
| Payable turnover (days) | 318.6 | 305.1 | 305.1 | 305.1 | 305.1 |
| Revenue growth (%) | 60.8 | (1.7) | 8.8 | 3.5 | 3.5 |

Source: Company, AmInvestment Bank Bhd estimates

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