

29 January 2020

UOA Development (UOAD MK)

At The Forefront Of Industry Trend

Property | Real Estate

Neutral (from Buy)

Target Price (Return) MYR2.17 (+6%)
Price: MYR2.05
Market Cap: USD986m
Avg Daily Turnover (MYR/USD) 1.86m/0.45m

- **Downgrade to NEUTRAL from Buy with unchanged MYR2.17 TP, 6% upside.** Being a developer/asset owner, UOAD is at the forefront of the industry trend. Last year, it ventured into co-living and co-working space under the brand Komune. While earnings contribution is negligible at this juncture, it completes the Bangsar South business community and company's portfolio. Although upside to current share price is limited, we think its stable earnings and strong balance sheet should continue to support its high dividend yield.
- **Komune Living – a new experiment.** We recently visited UOA Development's Komune Living, a co-living concept/hotel. Since commencing operations three months ago, it has achieved an average occupancy rate of 85%. We think the encouraging demand is largely due to the building's location, reasonable rates, as well as facilities provided to the tenants that are more suitable to the young population. For now, management is unlikely expand Komune Living further until demand picks up more materially.
- **Setting up an aged care centre in Bandar Tun Razak.** In the pipeline, UOAD is also constructing an aged care centre in Bandar Tun Razak, bringing in similar concepts that are already widely accepted in Singapore, Korea and Australia. This is something that none of the top-tier developers/asset owners have ventured into. While we think many Malaysians are still not ready for the elderly care market, we think the industry will move towards that direction over the medium term.
- **Recurring income to drive earnings.** UOAD's recurring income from its offices should gain more momentum as we believe 2020 will reflect the full-year impact of its high occupancy (>90%) at Vertical Corporate Towers A and B. Currently, its other income (contributed from all investment properties) contributes >50% of its PBT, with rental from offices as the key source of income, followed by the hospitality segment.
- **Expect flat property sales growth this year.** UOAD is likely to close MYR800-900m new sales for 2019 (9M sales MYR583.3m). Given that Goodwood Residence (GDV: MYR600m) and Aster Green Residence (GDV: MYR250m) were only launched in 4Q19, we believe most of the sales from these projects will only contribute more materially this year. Thus far, the take-up rates for both projects are 17% and 25%, respectively. As expected, sales for Goodwood should be slower given that it is a mid- to high-end product. En bloc sale for its remaining office blocks is possible, which could potentially lift total property sales for the year.
- **Downgrade to NEUTRAL as share price has recovered over the last 2-3 months.** Our unchanged TP is based on 40% discount to RNAV.

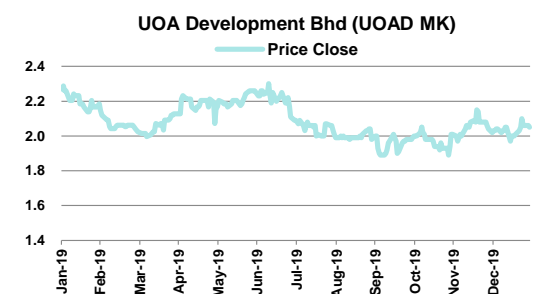
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.0	0.5	3.5	(2.8)	(13.9)
Relative	3.3	4.2	4.7	3.0	(5.1)
52-wk Price low/high (MYR)				1.87	2.45



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (MYRm)	1,082	1,264	1,230	1,102	1,092
Recurring net profit (MYRm)	401	332	391	424	424
Recurring net profit growth (%)	7.2	(17.1)	17.7	8.5	(0.1)
Recurring EPS (MYR)	0.23	0.18	0.20	0.21	0.20
DPS (MYR)	0.15	0.14	0.14	0.15	0.15
Recurring P/E (x)	8.9	11.4	10.0	9.6	10.0
P/B (x)	0.8	0.8	0.8	0.8	0.8
Dividend Yield (%)	7.3	6.8	6.8	7.3	7.3
Return on average equity (%)	9.9	7.4	8.2	8.7	8.5
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Interest coverage (x)	153.3	75.3	124.4	136.4	138.0

Source: Company data, RHB

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Financial Exhibits

Asia Malaysia Property UOA Development UOAD MK	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Core EPS (MYR)	0.23	0.18	0.20	0.21	0.20
	EPS (MYR)	0.28	0.21	0.20	0.21	0.20
	DPS (MYR)	0.15	0.14	0.14	0.15	0.15
	BVPS (MYR)	2.47	2.54	2.51	2.48	2.44
Valuation basis 40% discount to RNAV	ROE (%)	9.90	7.41	8.24	8.71	8.49
	ROA (%)	7.62	5.87	6.67	7.09	6.94
	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Core P/E (x)	8.9	11.4	10.0	9.6	10.0
	P/B (x)	0.8	0.8	0.8	0.8	0.8
Key drivers Our FY19-21 forecasts are driven by: i. Sales from new projects and existing stocks; ii. Unbilled sales.	Dividend yield (%)	7.32	6.83	6.83	7.32	7.32
	EV/EBITDA (x)	5.7	3.9	3.7	3.8	3.6
	Income statement (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Total turnover	1,082	1,264	1,230	1,102	1,092
	Gross profit	585	503	489	540	535
Key risks The downside risks include: i. Worse-than-expected economic growth; ii. Delay in launches; iii. Cancellation of infrastructure projects.	EBITDA	661	523	556	609	617
	Operating profit	639	502	536	588	595
	Net interest	(4)	(7)	(4)	(4)	(4)
	Exceptional items	90	47	-	-	-
	Pre-tax profit	656	506	542	594	601
Company Profile UOA Development is a Klang Valley-based developer. The company specialises in building high-rise residential and commercial projects. Its flagship development at Bangsar South has seen strong en bloc transactions.	Taxation	(129)	(94)	(119)	(137)	(144)
	Net profit	491	379	391	424	424
	Core net profit	401	332	391	424	424
	Cash flow (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Cash flow from operations	148	325	531	686	487
	Capex	(326)	(242)	(170)	(200)	(100)
	Cash flow from investing activities	(302)	(231)	(170)	(200)	(100)
	Cash flow from financing activities	(60)	(85)	(259)	(289)	(300)
	Cash at beginning of period	780	567	576	678	875
	Net change in cash	(213)	8	102	197	87
	Ending balance cash	567	576	678	875	962
	Balance sheet (MYRm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Total cash and equivalents	376	445	547	744	831
	Tangible fixed assets	2,464	2,666	2,816	2,995	3,072
	Intangible assets	-	-	-	-	-
	Total investments	-	-	-	-	-
	Total other assets	2,696	2,681	2,572	2,301	2,282
	Total assets	5,535	5,791	5,934	6,040	6,185
	Short-term debt	114	76	76	76	76
	Total long-term debt	13	2	2	2	2
	Total liabilities	991	846	831	774	770
	Shareholders' equity	4,287	4,681	4,807	4,936	5,053
	Minority interests	257	265	297	329	362
	Total equity	4,544	4,946	5,104	5,265	5,415
	Total liabilities & equity	5,535	5,791	5,934	6,040	6,185
	Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
	Revenue growth (%)	8.6	16.8	(2.6)	(10.4)	(0.9)
	Core net profit growth (%)	7.2	(17.1)	17.7	8.5	(0.1)
	Core EPS growth (%)	1.0	(22.1)	13.1	4.4	(4.0)
	Gross margin (%)	54.1	39.8	39.8	49.0	49.0
	Core net profit margin (%)	37.1	26.3	31.8	38.5	38.8
	Dividend payout ratio (%)	64.8	77.7	68.6	70.5	73.4

Source: Company data, RHB

A Visit To Komune Living

Komune Living in Bangsar South

We recently visited UOAD's Komune Living in Bangsar South, hosted by Yap Kang Beng, Larry Lee (both from the IR team) and Mark Chen (GM from Komune Living). Komune Living is a co-living space with private studios/apartment-style rooms, and communal facilities.

We were impressed with the concept and facilities offered. The corridor area is designed with natural air ventilation, and hence, air-conditioning is not needed. It has a total of 648 rooms, which were opened progressively since 4Q last year. All rooms – comprising single-bed studios and units with two queen-sized beds and sofa – have a clean and minimalist look. The smallest room is 17 sqm while the largest is 38 sqm.

Co-working space Komune is also housed in Komune Living, for tenants who would like to work within the building. Other facilities include a swimming pool, communal kitchen, communal lounge, gym, games room etc.

We understand that the occupancy rate for the last two months in 2019 was 85%, which was encouraging, in our view. Tenants with long-term stay made up 20% of the total last year, and it has increased to 35-38% currently. According to management, about 60% of the long-stay tenants are foreigners. The long-term rate starts from MYR1,800 per month, with housekeeping included, while the 2-bed units are priced at MYR3,300-3,600 per month. The key target market is young executives that prefer lifestyle living, without the hassle of regular housekeeping chores.

Komune – small business but completes the hospitality offerings

Although the potential earnings from Komune Living could be minimal for the company, we think this business fills the gap in the hospitality offerings in the market as well as completes the Bangsar South business community. Komune Living was initially planned as a hotel called South Point. However, this new hybrid hotel/co-living concept could be a success given its encouraging occupancy rate thus far. Management has no plans to expand at this juncture, as property development is still its main stream business. Co-working and co-living space are just to complement the product portfolio, enhancing the amenities provided to the residents and offices in Bangsar South.

Earnings outlook

Recall, UOAD's 3Q19 earnings surprised the market on the upside, largely due to its strong recurring income stream from its Vertical Corporate Towers A and B, which has achieved >90% occupancy. While the office segment contributed almost 50% of recurring income, the hospitality segment made up about 34%. Currently, the hospitality segment owns about MYR500m worth of hospitality assets, including VE Hotel & Residence, Invito Hotel & Residence, Connexion Conference & Event Centre, Komune Living as well as Komune Co-working.

For property development, UOAD's current unbilled sales stands at MYR1.05bn. The company is likely to close MYR800-900m new sales in 2019 (vs 9M sales of MYR583.3m). Given that Goodwood Residence and Aster Green Residence were only launched in 4Q19, we believe sales from these projects will contribute more materially in 2020. Thus far, the current take-up rates for both projects are 17% and 25%, respectively. The slow sales in Goodwood are within expectations, given that it is a mid- to high-end product in Bangsar South. Sales in Aster Green is likely pick up further in 1H20, as it is a mid-range product in Sri Petaling.

Figure 1: Natural air ventilation at Komune Living's corridors



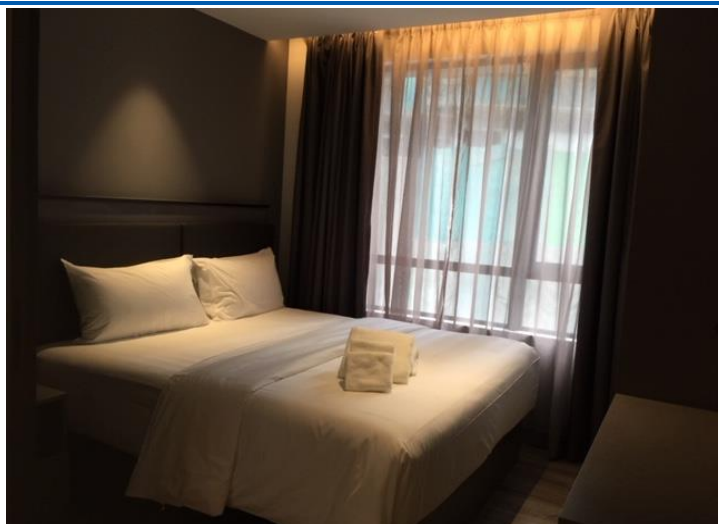
Source: RHB

Figure 2: Corridor design of one of the floors



Source: RHB

Figure 3: Example of a co-living unit



Source: RHB

Figure 4: Facilities offered in one of the units



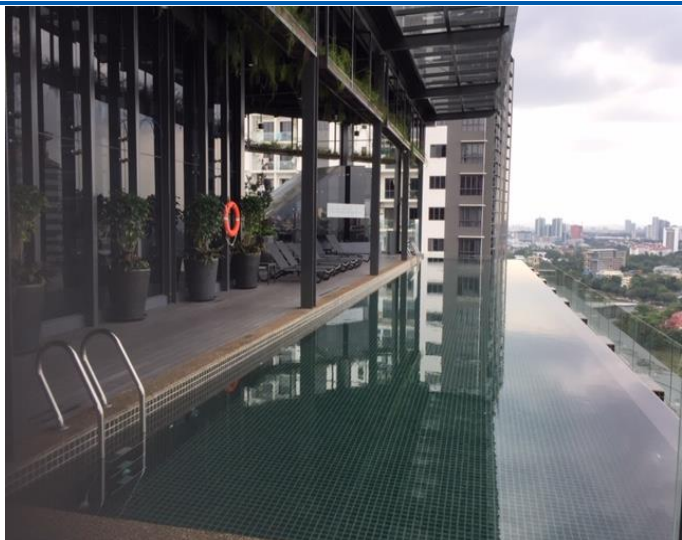
Source: RHB

Figure 5: Komune co-working space



Source: RHB

Figure 6: Swimming pool



Source: RHB

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Figure 7: Communal kitchen



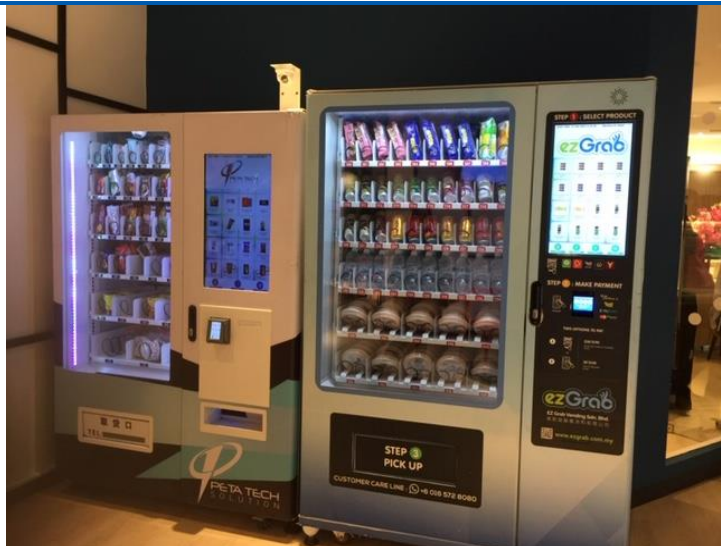
Source: RHB

Figure 8: Communal lounge near the kitchen



Source: RHB

Figure 9: Vending machine in the kitchen area



Source: RHB

Figure 10: Games room



Source: RHB

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Figure 11: RNAV estimate

Projects	Location/ Type	Stake (%)	GDV (MYRm)	NPV @ 10% (MYRm)
Desa Center, Taman Desa	Mixed development	85%	300	52.8
UOA Business Park (Ph. 2)	Commercial	74%	140	21.5
United Point Residence	Mixed development	100%	1,500	79.9
Bandar Tun Razak land	Retirement home	100%	300	45.8
Jalan Ipoh land	Mixed development	100%	6,000	757.4
Desa Sentul	Residential	100%	1,500	95.9
South Link	Commercial	100%	550	83.9
Goodwood Residence	Residential	100%	600	81.1
New land at Sri Petaling	Residential	100%	1,000	125.9
New land at Cyberjaya	Retirement home	100%	265	29.5
Undeveloped Bangsar South land	Commercial	100%	2,300	252.1
Undeveloped Bangsar South land	Residential	100%	2,400	263.1
Land around Bangsar South	Commercial	100%	900	83.9
Total projects' DCF				1,972.9
Shareholders' fund				4,680.73
Total RNAV				6,653.60
Shares base (mil)				1,843.74
RNAV per share (MYR)				3.61
Discount				40%
TP				2.17

Source: RHB

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