

26 January 2024

Property | Real Estate

UEM Sunrise (UEMS MK)

Buy (Maintained)

Proxy For Johor's Multi-Year Growth Story; BUY

Target Price (Return): MYR1.60 (+50%)
 Price (Market Cap): MYR1.07 (USD1,144m)
 ESG score: 2.9 (out of 4)
 Avg Daily Turnover (MYR/USD) 29.0m/6.20m

• **Maintain BUY, with new TP of MYR1.60 from MYR1.18, 50% upside.**

The strong response for the submission of Kuala Lumpur-Singapore High Speed Rail (HSR) proposals could indicate that various funding proposals are being offered for the government's consideration, and as such, cost competitiveness will be the key determinant. If the Light Rail Transit (LRT) and HSR projects proceed, the growth in human traffic and population should gradually transform Iskandar Malaysia into another important metropolis. UEM Sunrise is the best proxy for this multi-year growth story.

• **RTS, and potentially LRT and HSR?** We think all these rail transit systems are necessary to make the Johor-Singapore Special Economic Zone more compelling.

Assuming the LRT and HSR projects are implemented, southern Johor will become a major city that could be comparable to the Klang Valley in the longer run. It was reported that the proposed three LRT lines, and respective terminal stations may be located at Ikea Tebrau, Iskandar Puteri area (either Legoland or Forest City) and Senai. In addition, the HSR may have a station at either Iskandar Puteri or Forest City. Regardless of the exact location, we think the Tuas Link area will see more growth opportunities given the concentration of the new transport system whereas the area in the Johor central region is already relatively more saturated. UEMS' 2,334-acre land in Gerbang Nusajaya is now more valuable. Assuming MYR30 psf, this land is worth MYR3bn. The company still has 5,200 acres of land (some via JV) in other parts of Johor, including 2,500 acres in Kulai.

• **HSR – the next major re-rating catalyst.** The HSR project is expected to further boost sentiment on the property sector as a whole because it should spur demand for properties in Iskandar Malaysia and KL city centre, as well as areas surrounding the HSR stations along the alignment.

HSR will be a major catalyst to increase southbound human traffic, not only from the population between Malaysia and Singapore, but also international travellers due to the potential connectivity between KLIA and Changi airport. Note that Johor will see the longest HSR alignment as more than half of the track will go through the state. UEMS is the prime beneficiary as the last HSR station in Malaysia may be located at Iskandar Puteri (which was the location under the previous proposal).

• **Foreign shareholding is still low.** Despite the run-up in share price, UEMS' foreign shareholding is still at <6% (as at Dec 2023), compared to its peak of 22% in Apr 2013.

Our new TP is based on a 25% discount to RNAV (from 45%) as well as 2% ESG discount. The stock is currently trading at a 51% discount to RNAV. Note that it used to trade at a 40-50% premium to RNAV at the peak of the previous upcycle in 2013.

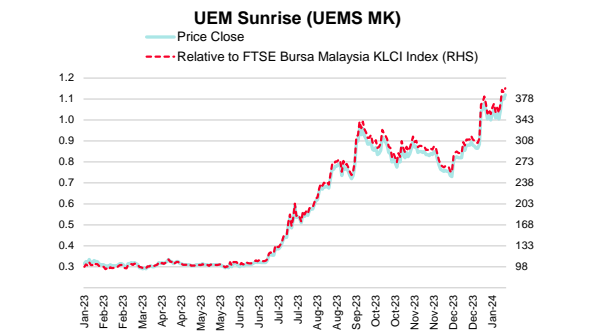
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	31.3	28.9	39.9	146.0	336.7
Relative	27.9	25.5	35.1	140.4	336.4
52-wk Price low/high (MYR)	0.24 – 1.07				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,211	1,473	1,295	1,449	1,520
Recurring net profit (MYRm)	(214)	74	71	88	92
Recurring net profit growth (%)	(22.7)	-	(4.0)	23.1	4.6
Recurring EPS (MYR)	(0.04)	0.01	0.01	0.02	0.02
Recurring P/E (x)	na	73.09	76.11	61.84	59.14
P/B (x)	0.81	0.80	0.79	0.78	0.77
Dividend Yield (%)	na	na	na	na	na
Return on average equity (%)	(3.1)	1.1	0.8	1.2	1.3
Net debt to equity (%)	49.4	47.3	49.0	47.6	48.9

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E: GOOD

UEMS is stringent on appointment of vendors based on work quality and track record. All of UEMS' projects are designed with sustainability features that promote green living. The company also practises waste management and efficient utilisation of electricity and water.

S: EXCELLENT

UEMS emphasises customer satisfaction and addresses defects effectively (89.8% of defects lodged was settled within 30 days, an improvement from 78.4% in 2018). The company is also involved in various charity events to help provide educational support and address social issues.

G: GOOD

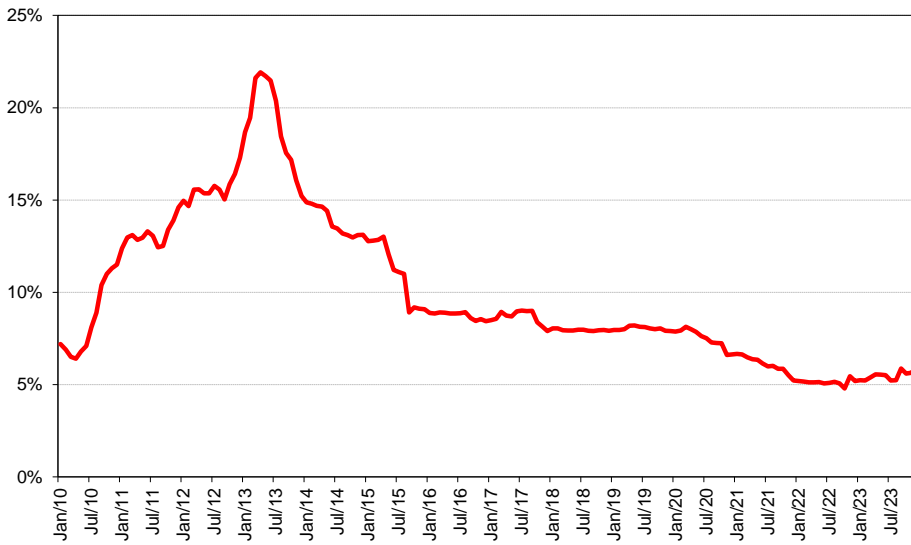
58% of UEMS' board members are independent. UEMS has an in-house investor relations team and holds investor meetings regularly.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	(0.04)	0.01	0.01	0.02	0.02
Property	EPS	(0.04)	0.01	0.01	0.02	0.02
UEM Sunrise	BVPS	1.32	1.34	1.35	1.37	1.39
UEMS MK	Return on average equity (%)	(3.1)	1.1	0.8	1.2	1.3
Buy	Return on average assets (%)	(1.6)	0.6	0.4	0.6	0.7
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
25% discount to RNAV	Recurring P/E (x)	na	73.09	76.11	61.84	59.14
Key drivers	P/B (x)	0.8	0.8	0.8	0.8	0.8
New property sales, substantial increase in foreign direct investments in Iskandar, mega infrastructure projects	EV/EBITDA (x)	na	21.70	28.50	22.08	22.64
Key risks	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Unexpected turn in market conditions	Total turnover	1,211	1,473	1,295	1,449	1,520
Company Profile	Gross profit	220	431	402	472	464
UEM Sunrise (previously known as UEM Land) is a company under Khazanah Nasional. It is the developer undertaking developments in Nusajaya Iskandar	EBITDA	(22)	296	232	298	298
	Depreciation and amortisation	(56)	(53)	(53)	(53)	(53)
	Operating profit	(78)	243	179	245	245
	Net interest	(145)	(143)	(161)	(158)	(147)
	Pre-tax profit	(210)	128	85	118	128
	Taxation	2	(51)	(28)	(34)	(36)
	Reported net profit	(209)	75	56	83	92
	Recurring net profit	(214)	74	71	88	92
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	112	(184)	96	(162)	(96)
	Cash flow from operations	74	45	267	74	150
	Capex	0	0	(308)	0	(173)
	Cash flow from investing activities	64	294	(308)	107	(173)
	Cash flow from financing activities	94	64	(22)	(21)	(20)
	Cash at beginning of period	1,086	853	1,020	949	750
	Net change in cash	232	404	(63)	159	(43)
	Ending balance cash	1,318	1,257	957	1,109	707
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	858	1,065	994	795	543
	Tangible fixed assets	5,512	5,239	5,494	5,334	5,454
	Intangible assets	621	621	621	621	621
	Total investments	2,996	2,921	2,921	2,921	2,921
	Total other assets	749	888	955	986	996
	Total assets	12,978	13,095	13,099	12,996	12,974
	Short-term debt	1,000	1,955	1,905	1,855	1,805
	Total long-term debt	3,213	2,361	2,495	2,290	2,223
	Total liabilities	6,183	6,221	6,153	5,962	5,847
	Shareholders' equity	6,692	6,769	6,840	6,928	7,019
	Minority interests	103	104	105	106	107
	Total equity	6,795	6,874	6,945	7,034	7,126
	Total liabilities & equity	12,978	13,095	13,099	12,996	12,974
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	6.5	21.6	(12.1)	11.9	4.9
	Recurring net profit growth (%)	(22.7)	0.0	(4.0)	23.1	4.6
	Recurrent EPS growth (%)	(26.7)	0.0	(4.0)	23.1	4.6
	Gross margin (%)	18.1	29.3	31.0	32.6	30.5
	Recurring net profit margin (%)	(17.7)	5.0	5.5	6.0	6.0

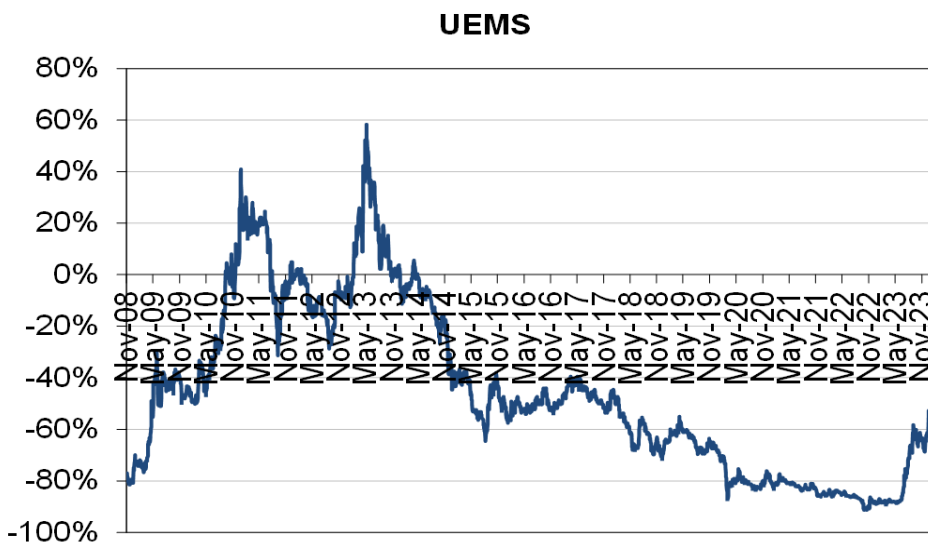
Source: Company data, RHB

Figure 1: Historical foreign shareholding for UEMS



Source: Company data

Figure 2: Historical discount to RNAV for UEMS



Source: Bloomberg, Company data, RHB

Figure 3: RNAV estimate

Projects	Location	Remaining land (acres)	Remaining GDV (MYR m)	Stake	NPV @ 10%	
Ongoing projects						
East Ledang	Iskandar Puteri	98.1	1,683.7	100%	140.8	
Nusa Idaman	Iskandar Puteri	19.1	223.4	100%	21.3	
Nusa Bayu	Iskandar Puteri	36.5	447.4	100%	113.3	
Estuari	Iskandar Puteri	210.6	3,850.6	100%	214.0	
Aspira Lakehomes, Gerbang Nusajaya	Iskandar Puteri	13.6	263.6	100%	21.9	
Almas, Puteri Harbour	Iskandar Puteri	0.0	1,385.5	100%	103.6	
Mall of Medini	Iskandar Puteri	26.2	2,097.0	55%	32.0	
Horizon Hills	Iskandar Puteri	318.6	1,563.7	50%	68.3	
Emerald Bay	Iskandar Puteri	90.3	3,246.6	40%	96.3	
Nusajaya Tech Park	Iskandar Puteri	381.9	3,158.0	40%	85.2	
The Maris, Desaru	Desaru	198.7	1,905.0	51%	20.8	
Serene Heights	Selangor	192.9	3,010.7	100%	148.8	
Radia Bukit Jelutong	Selangor	7.5	1,038.9	50%	20.2	
Residensi Astrea	KL	0.0	324.6	100%	22.2	
Solaris Parq	KL	14.1	1,656.2	100%	151.1	
KAIA Heights, Equine Park	Selangor	14.3	655.0	100%	31.9	
Perth land	Australia	1.2	1,350.0	100%	79.6	
Pipeline projects						
Gerbang Nusajaya	Iskandar Puteri	2,251.6	28,319.8	100%	1,007.8	
Gerbang Nusantara	Iskandar Puteri	103.1	501.9	100%	30.6	
Serassa Greens (I5)	Iskandar Puteri	66.1	389.2	100%	4.7	
Oasis	Iskandar Puteri	34.6	248.7	100%	5.5	
Artisan Hills, Kajang	Selangor	65.0	1,485.9	100%	65.5	
Angkasa Raya	KL	1.6	1,903.6	100%	95.9	
MK 31	KL	12.4	742.0	100%	45.8	
Taman Pertama, Cheras	KL	11.5	1,108.0	100%	29.9	
Dutch Lady land in PJ	KL	9.9	1,290.0	100%	46.7	
Kelana Jaya land	KL	9.1	1,100.0	100%	27.8	
Kiara Bay	KL	72.7	16,705.2	50%	345.2	
Durban	South Africa			100%	19.0	
Catalyst development						
Puteri Harbour	Iskandar Puteri	96.3	461.4	100%	15.9	
Afiat Healthpark	Iskandar Puteri	28.2	49.1	100%	2.1	
Sireh Park	Iskandar Puteri	343.0	298.8	100%	9.1	
Undeveloped landbank						
<i>Nusajaya</i>	Land efficiency		Remaining land (acres)	Market value (MYR psf)	Stake	Net surplus
Pocket lands / others	0.70	312.4	100	100%	714.4	
<i>Outside Nusajaya</i>						
Klang Valley (Segambut / Mont' Kiara, Klang etc)	0.70	25.8	300	100%	177.0	
Total NPV and net surplus					4,014.3	
Unbilled sales					227.0	
NTA					6,796.9	
Total RNAV					11,038.1	
Share base					5,058.5	
RNAV/share					2.18	
Discount to RNAV					25%	
Intrinsic value					1.64	
ESG discount					2%	
Target price (MYR)					1.60	

Source: RHB

Emissions And ESG

Trend analysis

In FY22, Scope 1 emissions: Increased to 4,475 tonnes of CO₂ equivalents (FY21: 146 tonnes of CO₂ equivalents) and Scope 2 dropped to 2,103tn (FY21: 2,146 tonnes of CO₂ equivalents).

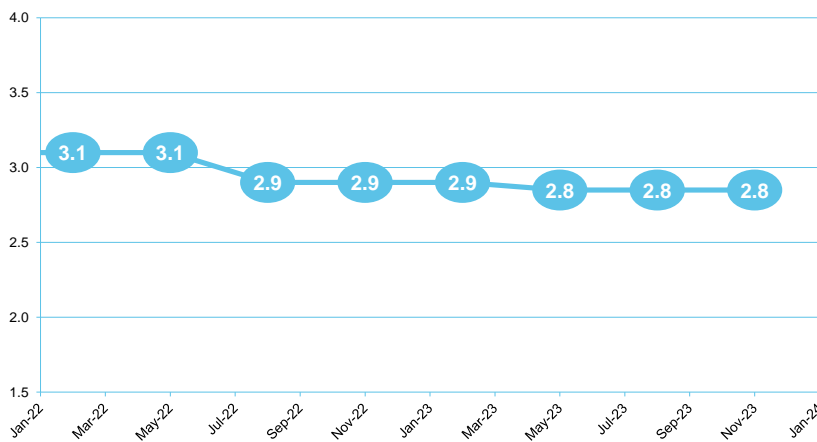
Emissions (tCO ₂ e)	Dec-20	Dec-21	Dec-22
Scope 1	na	146	4,475
Scope 2	na	2,146	2,103
Scope 3	na	na	381
Total emissions	na	2,292	6,959

Source: Company data, RHB

Latest ESG-Related Developments

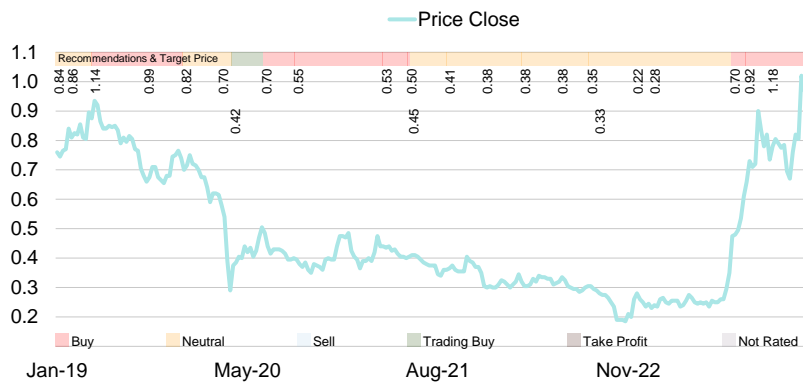
- The company received 95.48% and 93.88% Safety and Health Assessment System in Construction (SHASSIC) scores for The Minh and Residensi AVA projects in the central region (SHASSIC is a certification score by the Construction Industry Development Board (CIDB)).

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-15	Buy	1.18	0.80
2023-10-16	Buy	1.18	0.80
2023-08-20	Buy	0.92	0.62
2023-07-16	Buy	0.70	0.36
2023-05-18	Neutral	0.28	0.26
2023-01-04	Neutral	0.28	0.25
2022-11-23	Neutral	0.22	0.21
2022-08-24	Neutral	0.33	0.30
2022-08-04	Neutral	0.35	0.31
2022-05-25	Neutral	0.38	0.33
2022-02-23	Neutral	0.38	0.36
2021-11-24	Neutral	0.38	0.35
2021-08-25	Neutral	0.41	0.37
2021-05-30	Neutral	0.45	0.42
2021-05-25	Buy	0.50	0.41

Source: RHB, Bloomberg

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