

UMLand (BUY ↔, EPS ↔)

INDUSTRY: OVERWEIGHT

NEWSBREAK

August 23, 2011

Price Target: RM2.87 (↔)

Share price: RM1.39

Small land acquisition in Pasir Gudang

News	<ul style="list-style-type: none"> UMLand has announced the acquisition of 8.89 acres of freehold land from TCB Realty Sdn Bhd for RM18.4m. The land is located within the commercial centre of their flagship Bandar Seri Alam township in Pasir Gudang. It plans to develop a commercial retail complex with gross development cost of RM90m, to complement the existing amenities in the township. UMLand plans to keep the mall for recurring rental income. Key details such as NLA and tenant mix have yet to be determined at this point in time. The group has disclosed that this is a related party transaction, as the vendor, TCB Realty Sdn Bhd, is a substantial shareholder in UMLand with a 7.4% stake.
Financial impact	<ul style="list-style-type: none"> Assuming a two-year construction period, the earliest possible financial impact can only be in end-FY13. Therefore we make no change to our overall RNAV and earnings forecasts.
Pros / Cons	<ul style="list-style-type: none"> We are positive on this move; even without factoring in the stream of recurring rental income from the mall, we believe this will help add value and stimulate sales for their flagship Bandar Seri Alam, which has more than 1,000 acres of balance land with close to RM3bn of potential future GDV. Land cost is RM50psf, which appears reasonable given Sunway City paid RM48 psf for their Plentong land last year. This works out to be ~20% of GDC, well within the cost range of any development.
Risks	<ul style="list-style-type: none"> Execution risk for Jalan Mayang project; earnings volatility due to very few active projects; relatively lacking in free float and liquidity.
Forecasts	<ul style="list-style-type: none"> No change.
Rating	<p>BUY (↔)</p> <ul style="list-style-type: none"> Positives: 76% discount to RNAV; strong upside to earnings as Jalan Mayang and Pulau Jaya have not been factored in; consistent dividend payout, even in loss-making years; major beneficiary of Iskandar Malaysia story; net gearing still below 0.1x. Negatives: Potential earnings volatility and lack of liquidity (the bonus issue is intended to address the liquidity issue).
Valuation	<ul style="list-style-type: none"> Trading at 76% discount to RNAV and single-digit P/E, providing investors with an opportunity to accumulate before earnings re-rating takes place. Target price unchanged at RM2.87 (based on 50% discount to RNAV). BUY

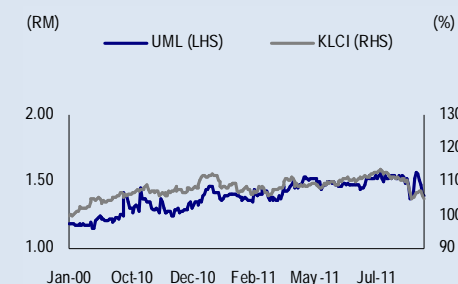
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KLCI	1472.16
Expected share price return	106%
Expected dividend return	5%
Expected total return	111%

Share price



Information

Bloomberg Ticker	UML MK
Bursa Code	4561
Market cap (RMm)	452
3-mth avg volume ('000)	39

Price Performance	1M	3M	12M
Absolute %	-12.7	-8.6	12.1
Relative %	-7.2	-5.0	6.8

Major shareholders

Wawasan Perangsang Mewah Sdn Bhd	23.69%
CapitalLand Residential Malaysia Pte Ltd	19.93%
Chee Tat Holdings (S) Pte Ltd	7.39%
Tradewinds Resources Sdn Bhd	7.39%
Khong Guan Flour Milling Limited	4.72%

Summary Earnings Table

FYE 31 Dec (RM m)	2010A	2011E	2012E	2013E
Revenue	316.9	312.8	483.6	504.5
Reported net profit	51.6	52.1	67.6	79.4
Norm. net profit	51.6	52.1	67.6	79.4
Norm. EPS (sen)	21.4	21.6	28.0	32.9
EPS growth (%)	-6.3	1.0	29.8	17.5
Norm. PER (x)	6.5	6.4	5.0	4.2
FD PER (x)	6.5	6.4	5.0	4.2
EV/ EBITDA (x)	5.4	5.2	4.1	3.6
Net DPS (sen)	7.4	7.0	8.0	9.0
Dividend yield (%)	5.3	5.0	5.8	6.5
FCF yield (%)	12.9	13.1	17.7	21.2
BVPS (RM)	3.6	3.8	4.0	4.2
P/B (x)	0.4	0.4	0.3	0.3

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Figure #1 RNAV table

Township developments	Stake	Acres	Book value (RM m)	Book value RM psf	Market value RM psf	Market value (RM m)	Surplus (RM m)
Bandar Seri Alam, Johor	100%	1,313.0	422.9	7.39	12.00	686.3	263.4
Bandar Seri Putra, Bangi	70%	216.0	148.5	15.78	15.78	148.5	-
Seri Austin, Johor	100%	315.0	113.1	8.25	12.00	164.7	51.5
Other landbank		1.5	28.9	445.27	445.27	28.9	-
Niche developments	Stake		GDV (RM m)				NPV (Rm m)
Suasana Bukit Ceylon	100%		315				58.7
Waterfront @ Puteri Harbour	50%		188				8.6
Matex	100%		305				54.4
Total surplus							436.6
Shareholder fund (RMm)							950.0
Total RNAV							1,386.6
Shares outstanding (m)							241.7
RNAV per share (RM)							5.74
Discount to RNAV							50%
Target price							2.87

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Financial Projections

Income statement

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Revenue	208.5	316.9	312.8	483.6	504.5
Operating cost	-136.6	-234.3	-238.8	-394.1	-398.8
EBITDA	71.9	82.6	74.0	89.5	105.8
Depreciation	-1.5	-1.7	-1.1	-1.1	-1.1
Other operating income	41.6	18.7	18.5	20.0	25.0
Advertising and marketi	-3.3	-12.1	-12.1	-25.0	-15.0
Employee benefits expe	-18.0	-20.8	-15.0	-25.0	-25.0
Finance costs	-8.6	-7.1	-7.1	-9.8	-9.8
Pretax profit	62.9	74.3	69.7	91.4	106.6
Taxation	-5.4	-16.6	-15.6	-20.4	-23.8
Minorities	-2.4	-6.2	-2.0	-3.4	-3.4
Net profit	55.0	51.6	52.1	67.6	79.4
Basic shares (m)	241.3	241.3	241.3	241.3	241.3
Basic EPS (sen)	22.8	21.4	21.6	28.0	32.9

Balance sheet

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
PPE	280.4	286.4	292.4	298.5	303.5
Investments in jointly co	20.5	31.0	31.0	31.0	31.0
Development land	194.7	172.1	172.1	172.1	172.1
Non-current assets	571.0	586.3	593.8	601.2	607.7
Development costs	343.2	350.7	346.1	535.1	558.2
Inventories	48.2	37.5	37.1	57.3	59.8
Trade & other receivabl	169.0	132.5	130.8	202.1	210.9
Tax recoverable	2.8	0.5	0.5	0.7	0.8
Cash	62.9	72.0	122.0	152.0	152.0
Total assets	1,197.1	1,179.4	1,230.1	1,548.4	1,589.3
Shr Holder funds	857.8	878.5	913.7	962.0	1,019.7
Minority interests	66.9	55.5	57.5	60.9	64.2
Total Equity	924.8	934.0	971.2	1,022.9	1,084.0
Long-term borrowings	81.8	67.5	67.5	67.5	67.5
Trade payables	58.7	71.9	71.0	109.7	114.5
Short-term borrowings	105.0	62.9	62.9	112.9	112.9

Assumption metrics

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Revenue	208.5	316.9	312.8	483.6	504.5
Gross margin	34.8	37.7	32.3	29.0	28.2
PBT margin	30.2	23.5	22.3	18.9	21.1
Net margin	26.4	16.3	16.6	14.0	15.7
Segment revenues					
Townships			120.0	206.0	246.0
Niche developments			78.0	259.0	243.7
Segment margin (%)					
Property development			25.0	25.0	25.0
Property investment			35.0	32.3	31.6

Cashflow

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
PBT	62.9	74.3	69.7	91.4	106.6
Depreciation	1.5	1.7	1.1	1.1	1.1
Amortisation	0.0	0.0	0.0	0.0	0.0
Taxation paid	-7.4	-15.2	-15.6	-20.4	-23.8
Working cap & others	-85.0	64.9	9.7	-229.2	-16.9
Operating cashflow	-28.0	125.7	64.9	-157.1	67.0
Capex	-2.4	-7.2	-7.2	-7.2	-7.2
Investment & others	85.7	-22.0	0.0	0.0	0.0
Investing Cashflow	83.3	-29.2	-7.2	-7.2	-7.2
Issue of shares	0.0	0.0	0.0	0.0	0.0
Dividends	-28.6	-13.6	-16.9	-19.3	-21.7
Others	-82.1	-71.4	0.0	0.0	0.0
Financing cashflow	-110.7	-84.9	-16.9	-19.3	-21.7
Net cash flow	-55.4	11.6	40.9	-183.6	38.1

Valuation ratios

FYE 31 Dec (RM m)	2009A	2010A	2011E	2012E	2013E
Reported basic EPS (se	22.8	21.4	21.6	28.0	32.9
Norm. basic EPS (sen)	22.8	21.4	21.6	28.0	32.9
Norm. FD EPS (sen)	22.8	21.4	21.6	28.0	32.9
PER (x)	6.1	6.5	6.4	5.0	4.2
Net DPS (sen)	7.5	7.4	7.0	8.0	9.0
Net DY (%)	5.4	5.3	5.0	5.8	6.5
NTA/ share (sen)	383.2	387.1	402.5	423.9	449.2
P/NTA (x)	0.4	0.4	0.3	0.3	0.3
FCF/ share (sen)	21.4	17.9	18.1	24.6	29.5
FCF yield (%)	15.4	12.9	13.1	17.7	21.2
Enterprise value	526.2	449.3	401.4	424.7	428.1
EV/ EBITDA (x)	7.2	5.4	5.2	4.1	3.6
ROE (%)	6.4	5.9	5.7	7.0	7.8
Net gearing (x)	0.1	0.1	0.0	0.0	0.0
BVPS (RM)	3.6	3.6	3.8	4.0	4.2
P/B (x)	0.4	0.4	0.4	0.3	0.3

Quarterly financial summary

FYE 31 Dec (RM m)	1Q10	2Q10	3Q10	4Q10	1Q11
Revenue	76.5	63.8	88.4	88.3	82.2
Operating cost	-63.8	-52.6	-68.2	-70.9	-60.0
Operating profit	12.7	11.2	20.2	17.4	22.2
Other income	0.9	0.5	1.0	17.0	0.8
Finance costs	-2.0	-1.7	-1.6	-1.7	-1.6
Jointly controlled entitie:	0.0	0.0	0.0	0.0	0.0
Pretax profit	11.7	10.0	19.5	33.1	21.5
Net profit	8.7	4.2	12.8	26.0	14.0
Basic shares (m)	241.3	241.3	241.3	241.3	241.3
Basic EPS (sen)	3.6	1.7	5.3	10.8	5.8
DPS (sen)	0.0	0.0	2.5	5.0	0.0
FCF/ share (sen)	20.1	10.4	-1.3	10.9	10.9
Net cash/ share (sen)	-33.1	-22.7	-30.7	-24.2	-16.0

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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