

24 May 2018 | 1QFY18 Results Review

UEM Edgenta Berhad

Continued improvement across all business segments

INVESTMENT HIGHLIGHTS

- **1QFY18 normalised earnings within estimates at RM29.6m**
- **Contributions from healthcare services and PROPEL boosted revenue**
- **Revised dividend policy of up to 80% payout ratio**
- **FY18-19F earnings forecasts revised by +14.7% and +7.2% respectively**
- **Maintain BUY with revised TP of RM3.26 per share**

1QFY18 earnings within expectations. UEM Edgenta's 1QFY18 normalised earnings came in at RM29.6m which is within our full-year earnings estimates at 29.5% but below consensus' at 20%. Revenue increased by +10.5%yoy whilst normalised earnings grew by +8.3%yoy respectively. On a quarterly sequential basis, both revenue and normalised earnings declined by -31.5% and -45.3% respectively.

Higher contributions from healthcare services. The higher revenue recorded year-over-year is mostly due to improvements in terms of revenue contribution recorded across its business segments. The higher revenue year-over-year during the quarter was mainly attributable to higher revenue from new contracts in the commercial healthcare services sector in Taiwan and Singapore which saw a +RM10m (+4.6% vs 1QFY17) revenue increase led by AIFS.

Infrastructure services supported by additional works. Meanwhile its infrastructure services under Projek Penyelenggaraan Lebuhraya (PROPEL) also recorded better revenue in 1QFY18 against 1QFY17 of +RM19.9m or an increase by 15.3% mainly driven by additional work secured for highway maintenance serves. In addition, the contribution from its consultancy division steadily increased by +13.3% mainly due to the Design and Project Management Work in Sabah and Project Delivery Consultancy Work in Sarawak.

Revised dividend policy of up to 80% payout. The management has recently announced that UEM Edgenta has revised its dividend policy of at least 50% and up to 80% payout ratio (from up to 70% previously) and dividends will be paid out on a semi-annual basis. We believe this is achievable as UEM Edgenta is currently in a net cash position and has been consistently been paying out >50% for the past three years. Our dividend assumption remains at 70% payout at this juncture.

Maintain BUY

Revised Target Price: RM3.26
(Previously RM3.09)

| RETURN STATS | |
|------------------------------|---------------|
| Price (23 May 2018) | RM2.02 |
| Target Price | RM3.26 |
| Expected Share Price Return | +61.4% |
| Expected Dividend Yield | +6.0% |
| Expected Total Return | +67.4% |

| STOCK INFO | |
|------------------------|-------------------------|
| KLCI | 1,804.25 |
| Bursa / Bloomberg | 1368 / UEME MK |
| Board / Sector | Main / Trading Services |
| Syariah Compliant | Yes |
| Issued shares (mil) | 831.62 |
| Market cap. (RM'm) | 1,679.88 |
| Price over NA | 1.06 |
| 52-wk price Range | RM1.97-2.93 |
| Beta (against KLCI) | 1.08 |
| 3-mth Avg Daily Vol | 0.31m |
| 3-mth Avg Daily Value | RM0.77m |
| Major Shareholders (%) | |
| UEM Group Berhad | 69.14 |
| Lembaga Tabung Haji | 6.13 |
| Oversea Chinese Bank | 2.89 |
| Public Ittikal | 2.05 |

Earnings forecasts. We are revising our FY18-19F earnings forecasts upward by +14.7% and +7.2% respectively as we are expecting improved contribution coming from both its healthcare services segment as well as its infrastructure segment due to the new contracts secured in 1QFY18 and in 4QFY17.


Recommendation. Post earnings announcement and revisions, we are reiterating our **BUY** recommendation on UEM Edgenta with a revised SOP-based TP of **RM3.26** (previously RM3.09) as we roll forward our valuation base period to FY19. Despite the disposal of Opus International Consultants (OIC) last year, we are comforted by the fact that all its other business segments have started to contribute more positively in the absence of the volatility previously presented by OIC. We are also more positive on its infra segment under PROPEL as it continues to strive for new highway maintenance works. In addition, we are also seeing the improvement in terms of operational execution with the use of technology across the assets it currently manages which has translated into an improved revenue. Furthermore, we opine that the increasing need for more healthcare facilities around the region will bode well for UEM Edgenta's healthcare services. It will enable the company to grow the healthcare services business organically and tap into underserved niche segments via AIFS which has network across Singapore, Taiwan and Malaysia. As of 1QFY18, UEM Edgenta is also in a net cash position of RM86m with an attractive FY19F dividend yield of 6.0% to yesterday's closing price. 

Table 1: UEM Edgenta's quarterly earnings review

| FYE Dec (RM'm) | Quarterly results | | | | |
|-------------------------------|-------------------|--------------|--------------|---------|---------|
| | 1QFY17 | 4QFY17 | 1QFY18 | QoQ (%) | YoY (%) |
| Revenue | 417.1 | 672.3 | 460.8 | (31.5) | 10.5 |
| Cost of sales | (337.2) | (522.1) | (372.8) | (28.6) | 10.6 |
| Other income | 12.8 | 32.0 | 9.5 | (70.4) | (26.1) |
| Expenses | (58.1) | (97.0) | (54.6) | (43.7) | (5.9) |
| Finance costs | (7.8) | (16.8) | (7.2) | (57.0) | (8.2) |
| Share of profit of associates | 5.8 | 7.1 | 6.9 | (2.6) | 18.9 |
| Share of profit of jv | (0.1) | (0.2) | 0.0 | nm | nm |
| Profit Before Tax | 32.5 | 346.2 | 42.5 | (87.7) | 30.6 |
| Zakat | 0.0 | (1.6) | 0.0 | nm | nm |
| Taxation | (9.8) | (19.8) | (12.0) | (39.4) | 22.8 |
| Profit After Tax | 22.8 | 324.8 | 30.5 | (90.6) | 34.0 |
| Non-controlling interest | 2.8 | 0.0 | 1.0 | >100 | (66.4) |
| PATANCI | 19.9 | 324.8 | 29.6 | (90.9) | 48.3 |
| EI | 7.4 | (270.8) | 0.0 | nm | nm |
| Normalised Earnings | 27.3 | 54.1 | 29.6 | (45.3) | 8.3 |
| Basic EPS (sen) | 2.4 | 39.1 | 3.6 | (35.5) | 1.2 |
| PBT margin (%) | 7.8 | 51.5 | 9.2 | (42.3) | 1.4 |
| PAT margin (%) | 5.5 | 48.3 | 6.6 | (41.7) | 1.2 |
| PATANCI margin (%) | 4.8 | 48.3 | 6.4 | (41.9) | 1.6 |
| Tax rate (%) | 30.0 | 5.7 | 28.2 | 22.5 | (1.8) |

Source: Company, MIDFR

Table 2: SOP-based valuation

| | Valuation basis | TP(RM'm) | TP/share (RM) |
|---|-----------------------|----------------|---------------|
| Healthcare Services | DCF @ WACC of 8.75% | 710.0 | 0.85 |
| Property | DCF @ WACC of 8.75% | 30.4 | 0.04 |
| Infra | DCF @ WACC 8.75% | 1,090.1 | 1.31 |
| Consultancy | 15x FY18 earnings | 107.0 | 0.13 |
| Add: 40% associate stake in Sabah and Sarawak | DCF @ WACC of 8.75.0% | 197.0 | 0.24 |
| Add/(less): FY19 Net cash/(debt) | | 580.3 | 0.70 |
| SOP | | 2,714.8 | 3.26 |

Source: MIDFR

Table 3: WACC parameters

| Parameters | |
|-----------------------------|--------------|
| Risk free rate | 4.0% |
| Market Risk Premium | 6.0% |
| Beta (Adjusted 2-year beta) | 1.00 |
| Cost of Equity | 10.0% |
| Cost of debt | 5.0% |
| Tax rate | 25.0% |
| WACC | 8.75% |

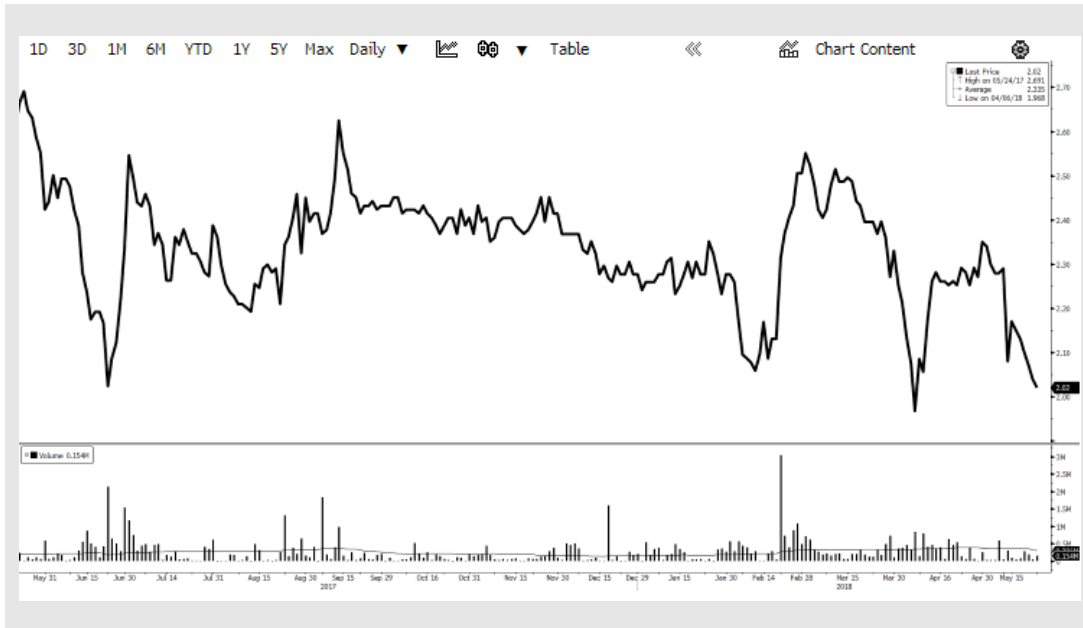
Source: MIDFR

INVESTMENT STATISTICS

| FYE Dec (RM'm) | FY2015 | FY2016 | FY2017 | FY2018F | FY2019F |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 3,123.0 | 2,931.0 | 2,120.8 | 2,170.9 | 2,285.9 |
| Cost of sales | (2,101.3) | (1,959.4) | (1,718.8) | (1,654.9) | (1,705.3) |
| Gross profit | 1,021.8 | 971.6 | 402.0 | 515.9 | 580.6 |
| Finance costs | (16.6) | (22.1) | (48.5) | - | - |
| Profit Before tax | 305.4 | 113.8 | 172.9 | 212.8 | 266.1 |
| Income tax expense | (95.9) | (65.7) | (46.2) | (53.2) | (66.5) |
| Profit After Tax | 209.5 | 46.6 | 434.8 | 114.9 | 143.7 |
| Normalised Earnings | 209.5 | 190.9 | 125.1 | 114.9 | 143.7 |
| PBT Margin (%) | 9.8 | 3.9 | 8.2 | 9.8 | 11.6 |
| Net Profit Margin (%) | 6.7 | 1.6 | 20.5 | 5.3 | 6.3 |
| Diluted EPS (sen) | 23.5 | 9.6 | 15.1 | 13.8 | 17.3 |
| Diluted EPS Growth (%) | 6.6 | -59.0 | 57.1 | (8.6) | 25.0 |
| PER (x) | 8.6 | 21.0 | 13.4 | 14.6 | 11.7 |
| Dividend Per Share (sen) | 15.0 | 7.0 | 31.0 | 11.1 | 12.1 |
| Dividend yield (%) | 7.4 | 3.5 | 15.3 | 5.5 | 6.0 |
| Tax rate (%) | 31.4 | 57.7 | 26.7 | 25.0 | 25.0 |

Source: Company, Forecasts by MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

| | |
|--------------|--|
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <10% over the next 12 months. |
| TRADING SELL | Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |

SECTOR RECOMMENDATIONS

| | |
|----------|--|
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |