midf RESEARCH

30 August 2018 | 2QFY18 Results Review

UEM Edgenta Berhad

***Maintain* BUY**

***Unchanged* Target Price: RM3.26**

Continued improvement across all business segments

INVESTMENT HIGHLIGHTS

- **1HFY18 normalised earnings of RM63.0m within estimate**
- **Contributions from HS, RES and PROPEL boosted revenue**
- **Interim dividend of 6.0sen declared**
- **Maintain BUY with an unchanged TP of RM3.26 per share**

1HFY18 earnings within expectations. UEM Edgenta Bhd's (Edgenta) 2QFY18 normalised earnings came in at RM33.4m. This led to 1HFY18 normalised earnings of RM63.0m which came in within our full-year FY18 earnings estimates at 54.8% but below consensus' at 42.5%. 2QFY18 revenue increased by +7.4%yoy whilst corresponding normalised earnings grew at a faster pace of +35.6%yoy. On a quarterly sequential basis, both revenue and normalised earnings climbed by +18.5%qoq and +13.0%qoq respectively.

Higher contributions from healthcare services. Healthcare services (HS) segment revenue and PBT grew by+3.0%yoy and +4.0%yoy respectively. This was mainly attributable to higher revenue from new contracts in the commercial healthcare services sector in Taiwan and Singapore which saw a +RM13.2m revenue increase led by AIFS.

Infrastructure services supported by additional works. Meanwhile, segment revenue and PBT of its infrastructure services under Projek Penyelenggaraan Lebuhraya (PROPEL) also improved by +13.1%yoy and +35.4%yoy respectively, mainly driven by higher civil and pavement works done for expressways.

Real estate services boosted by new projects. The real estate services (RES) segment revenue and PBT climbed by +31.9%yoy and +72.3%yoy driven by new contracts secured for facilities and township management projects as well as contribution from the new energy performance contracting projects.

Interim dividend of 6.0sen declared. An interim dividend of 6.0sen was declared during the quarter-under-review. This represents a dividend payout ratio of 79% for the 1HFY18 and translates into an annualised dividend yield of 5.3%. Note that Edgenta has recently revised its dividend payout ratio commitment to between 50% and 80% (from previous 70%) of net earnings.

Earnings forecasts. We are maintaining our FY18-19F earnings forecasts at this juncture pending an analyst briefing which is scheduled to be held on the 4th of September 2018.

RETURN STATS	
Price (29th August 2018)	RM2.28
Target Price	RM3.26
Expected Share Price Return	+43.0%
Expected Dividend Yield	+5.3%
Expected Total Return	**+48.3%**

STOCK INFO	
KLCI	1,820.64
Bursa / Bloomberg	1368 / UEME MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	831.62
Market cap. (RM'm)	1,896.1
Price over NA	1.73
52-wk price Range	RM1.86-2.69
Beta (against KLCI)	0.86
3-mth Avg Daily Vol	0.08m
3-mth Avg Daily Value	RM0.17m
Major Shareholders (%)	
UEM Group Berhad	69.14
Lembaga Tabung Haji	6.13
Oversea Chinese Bank	2.89
Public Ittikal	2.05

Recommendation. Post earnings announcement, we are reiterating our **BUY** recommendation on UEM Edgenta with an unchanged SOP-based TP of **RM3.26** per share. We remain optimistic on Edgenta's growth prospect going forward to be led by AIFS as well as PROPEL where it can leverage on its proven track record in providing expert facilities management services in these segments. We opine that Edgenta will continue to tap on underserved areas in both the healthcare services and facilities management services. These are driven by the increasing number of hospitals in the region as well as increasing awareness in facilities management automation that will eventually lead to cost savings and creating environmental-friendly condition for its clients – which what we believe is the direction going forward.

Share price weakness presents a buying opportunity. Edgenta's share price has shown weak performance since the beginning of this year. It has been further exacerbated by the outcome of the recent GE14 – which we believe is unjustified. Hence, we view this represents as an opportunity to accumulate the stock given that fundamentals remain resilient and growth prospects across all of its business segments remain strong proven by a commendable 1HFY18 earnings performance and years of proven track record. Furthermore, Edgenta also presents an attractive FY19F dividend yield of 5.3% to yesterday's closing price.

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)	9.7	23.7	15.1	16.5	13.2
Dividend Per Share (sen)	15.0	7.0	31.0	11.1	12.1
Dividend yield (%)	6.6	3.1	13.6	4.8	5.3
Tax rate (%)	31.4	57.7	26.7	25.0	25.0

Source: Company, MIDFR

DAILY PRICE CHART

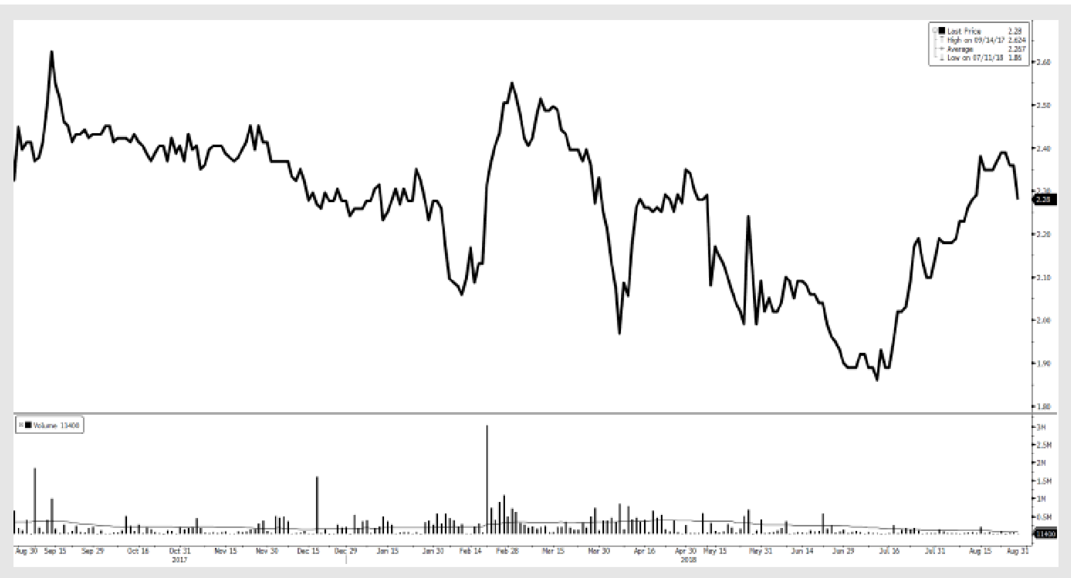

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Table 1: UEM Edgenta's quarterly earnings review

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	1HFY17	1HFY18	YoY (%)
Revenue	**508.3**	**460.8**	**546.1**	18.5	7.4	**925.3**	**1,006.9**	8.8
Cost of sales	(421.7)	(372.8)	(442.5)	18.7	4.9	(758.9)	(815.3)	7.4
Other income	11.0	9.5	11.6	23.2	6.2	23.8	21.1	(11.2)
Expenses	(57.8)	(54.6)	(65.1)	19.1	12.7	(115.8)	(119.7)	3.4
Finance costs	(10.5)	(7.2)	(7.1)	(1.7)	(32.6)	(18.4)	(14.3)	(22.2)
Share of profit of associates	3.4	6.9	4.6	(34.1)	34.1	9.3	11.5	24.5
Share of profit of jv	0.2	0.0	0.0	nm	nm	0.1	0.0	nm
Profit Before Tax	**32.8**	**42.5**	**47.7**	12.3	45.3	**65.4**	**90.2**	38.0
Zakat	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Taxation	(8.2)	(12.0)	(13.1)	9.1	60.4	(17.9)	(25.1)	39.9
Profit After Tax	**24.7**	**30.5**	**34.6**	13.5	40.3	**47.4**	**65.1**	37.3
Non-controlling interest	3.3	1.0	1.2	28.7	(63.3)	6.2	2.2	(64.7)
PATANCI	**24.6**	**29.6**	**33.4**	13.0	35.6	**47.4**	**63.0**	27.2
EI	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Normalised Earnings	**24.6**	**29.6**	**33.4**	13.0	35.6	**47.4**	**63.0**	32.7
Basic EPS (sen)	3.0	3.6	4.0	0.5	1.1	5.7	7.6	1.9
PBT margin (%)	6.5	9.2	8.7	(0.5)	2.3	7.1	9.0	1.9
PAT margin (%)	4.9	6.6	6.3	(0.3)	1.5	5.1	6.5	1.3
PATANCI margin (%)	4.8	6.4	6.1	(0.3)	1.3	5.1	6.3	1.1
Tax rate (%)	24.9	28.2	27.4	(0.8)	2.6	27.4	27.8	0.4

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.%	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

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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 *rise* 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 *fall* 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.