

30 November 2018 | 3QFY18 Results Review

UEM Edgenta Berhad

Soft 3QFY18 earnings performance

INVESTMENT HIGHLIGHTS

- **9MFY18 normalised earnings of RM80.5m within estimates**
- **Contributions from HS and RES boosted revenue**
- **Maintain BUY with an unchanged TP of RM3.26 per share**

9MFY18 earnings within expectations. UEM Edgenta Bhd's (Edgenta) 3QFY18 normalised earnings came in at RM17.6m. This led to 9MFY18 normalised earnings of RM80.5m which came in within our full-year FY18 earnings estimates at 70.1% but below consensus' at 54.4%. 3QFY18 revenue was flat, growing only by +1.0%yoy whilst corresponding normalised earnings dropped by -23.4%yoy. On a quarterly sequential basis, both revenue and normalised earnings slumped by -3.3%qoq and -47.4%qoq respectively.

Higher contributions from healthcare services. Healthcare services (HS) segment revenue grew by +10.0%yoy which was mainly attributable to higher revenue contributions from commercial healthcare services sector in Taiwan and Singapore, led by AIFS, which saw a +RM20.5m revenue increase. Additionally, the increase was also due to more works done for healthcare-concession business in Malaysia. However, despite the higher revenue, HS segment's PBT was down by -9.0%yoy due to weaker margins from stiff competition and increasing operating costs.

Infrastructure services supported by additional works. Meanwhile, segment revenue and PBT of its infrastructure services under Projek Penyelenggaraan Lebuhraya (PROPEL) was flat at -1.5%yoy and -0.1%yoy respectively, mainly driven by less volume of work done for civil and pavement works for expressways.

Real estate services boosted by new projects. The real estate services (RES) segment revenue and PBT increased by +4.7%yoy driven by new contracts secured for facilities and township management projects as well as contribution from the new energy performance contracting projects. Meanwhile, PBT for the segment was down by -70.1%yoy despite the increase in revenue.


Earnings forecasts. We are maintaining our FY18-19F earnings forecasts at this juncture.

Maintain BUY

Unchanged Target Price: RM3.26

RETURN STATS	
Price (29 November 2018)	RM2.60
Target Price	RM3.26
Expected Share Price Return	+25.4%
Expected Dividend Yield	+4.7%
Expected Total Return	+30.1%

STOCK INFO	
KLCI	1,696.34
Bursa / Bloomberg	1368 / UEME MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	831.62
Market cap. (RM'm)	2,162.22
Price over NA	1.49
52-wk price Range	RM1.86-2.88
Beta (against KLCI)	0.84
3-mth Avg Daily Vol	0.33m
3-mth Avg Daily Value	RM0.87m
Major Shareholders (%)	
UEM Group Berhad	69.14
Lembaga Tabung Haji	5.93
Oversea Chinese Bank	2.89
Public Ittikal	2.05

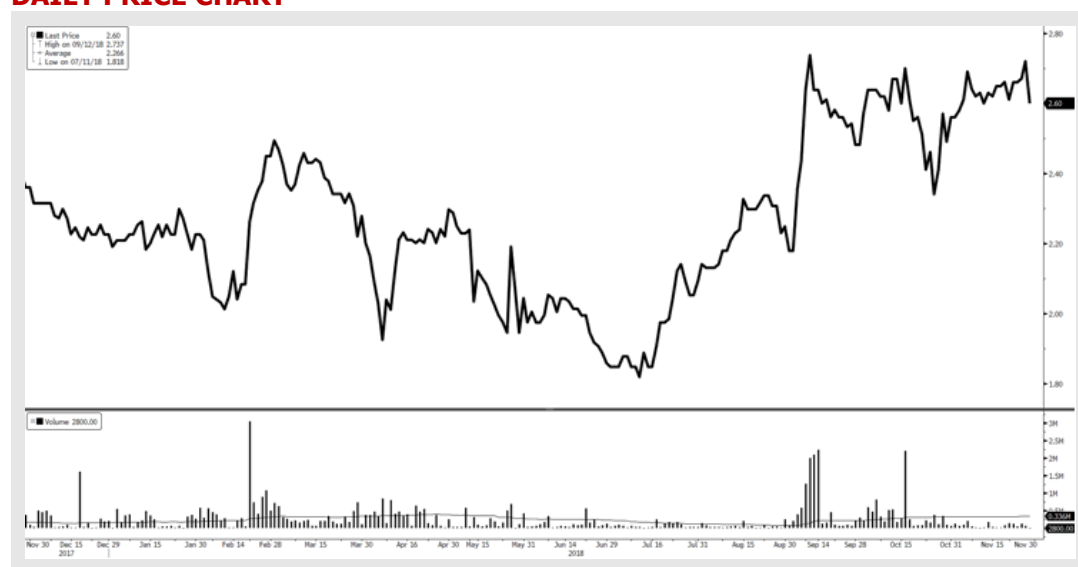
Recommendation. Post earnings announcement, we are reiterating our **BUY** recommendation on UEM Edgenta with an unchanged SOP-based TP of **RM3.26** per share. We remain optimistic on Edgenta's growth prospect going forward to be led by AIFS as well as PROPEL, leveraging on their proven track record 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, 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. 

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)	11.1	27.0	17.2	18.8	15.0
Dividend Per Share (sen)	15.0	7.0	31.0	11.1	12.1
Dividend yield (%)	5.8	2.7	11.9	4.3	4.7
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		
	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
Revenue	523.1	546.1	528.3	(3.3)	1.0	1,448.5	1,535.3	6.0
Cost of sales	(437.8)	(442.5)	(448.9)	1.5	2.5	(1,196.7)	(1,264.2)	5.6
Other income	14.4	11.6	9.8	(15.9)	(32.1)	38.2	30.9	(19.1)
Expenses	(57.5)	(65.1)	(60.4)	(7.3)	4.9	(173.4)	(180.1)	3.9
Finance costs	(13.4)	(7.1)	(7.4)	4.9	(44.6)	(31.8)	(21.7)	(31.6)
Share of profit of associates	3.3	4.6	3.7	(19.8)	12.2	12.5	15.2	21.3
Share of profit of jv	0.1	0.0	0.0	nm	nm	0.2	0.0	nm
Profit Before Tax	32.1	47.7	25.1	(47.4)	(21.9)	97.5	115.3	18.3
Zakat	0.0	0.0	0.0	nm	nm	(0.1)	0.0	0.0
Taxation	(8.4)	(13.1)	(7.1)	(45.5)	(15.1)	(26.4)	(32.2)	22.3
Profit After Tax	23.7	34.6	17.9	(48.2)	(24.3)	71.1	83.1	16.9
Non-controlling interest	10.4	1.2	0.4	(68.0)	(96.2)	16.6	2.6	(84.5)
PATANCI	22.9	33.4	17.6	(47.4)	(23.4)	70.0	80.5	15.0
EI	0.0	0.0	0.0	nm	nm	0.0	0.0	nm
Normalised Earnings	22.9	33.4	17.6	(47.4)	(23.4)	70.0	80.5	15.0
Basic EPS (sen)	4.7	4.0	2.1	(1.9)	(2.5)	8.4	9.7	1.3
PBT margin (%)	6.1	8.7	4.7	(4.0)	(1.4)	6.7	7.5	0.8
PAT margin (%)	4.5	6.3	3.4	(2.9)	(1.1)	4.9	5.4	0.5
PATANCI margin (%)	4.4	6.1	3.3	(2.8)	(1.1)	4.8	5.2	0.4
Tax rate (%)	26.2	27.4	28.5	1.0	2.3	27.0	28.0	0.9

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 <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.