

21 February 2018 | 4QFY17 Results Review

UEM Edgenta Berhad

Improved revenue across all business segments

INVESTMENT HIGHLIGHTS

- **4QFY17 normalised earnings within estimates at RM54.1m**
- **Contributions from healthcare services and PROPEL boosted revenue**
- **Second interim dividend of 5sen and special dividend of 18sen declared**
- **FY18F earnings forecasts maintained**
- **Maintain BUY with an unchanged TP of RM3.09 per share**

4QFY17 earnings within expectations. UEM Edgenta's 4QFY17 normalised earnings – excluding a one-off gain from the disposal of Opus International Consultants (OIC) of RM270.8m, came in at RM54.1m. This brings its FY17 earnings to RM125.1m which is within our full-year earnings estimates at 99.4% but below consensus' at 85%. Revenue (excluding OIC portion) grew by +31.1%yoy whilst normalised earnings grew by >100%yoy respectively. On a quarterly sequential basis, both revenue and normalised earnings climbed by +28.5% and >100% respectively.

Higher contributions from healthcare services and PROPEL boosted revenue. The higher revenue recorded both year-over-year and quarter-over-quarter was 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 contribution from its healthcare service division which recorded an increase in revenue by +RM451.5m (+98% vs FY16) led by AIFS. Meanwhile its infrastructure services under Projek Penyelenggaraan Lebuhraya (PROPEL) also recorded better revenue in FY17 against FY16 of +RM80.6m or an increase by 10.3% mainly driven by higher civil and pavement works carried out on expressways and contribution from projects in Indonesia. In addition, the contribution from its consultancy division has also steadily increased by +10.9% mainly due to the Design and Project Management Work in Sabah and Project Delivery Consultancy Work in Sarawak.

Second interim dividend of 5sen and special dividend of 18sen declared. For the quarter under review, management has declared a second interim dividend of 5sen. Additionally, a special dividend of 18sen was also declared post-disposal of OIC. This brings the total dividend declared to-date to 31sen or 13.2% yield to yesterday's closing price. Excluding the special dividend, the total dividend declared for FY17 amounts to 13sen or 5.5% yield to yesterday's closing price.

Maintain BUY

Unchanged Target Price: RM3.09

RETURN STATS	
Price (20 February 2018)	RM2.34
Target Price	RM3.09
Expected Share Price Return	+32.1%
Expected Dividend Yield	+4.1%
Expected Total Return	+36.2%

STOCK INFO	
KLCI	1,855.99
Bursa / Bloomberg	1368 / UEME MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	831.62
Market cap. (RM'm)	1,946
Price over NA	1.44
52-wk price Range	RM2.25-3.36
Beta (against KLCI)	0.57
3-mth Avg Daily Vol	0.21m
3-mth Avg Daily Value	RM0.54m
Major Shareholders (%)	
UEM Group Berhad	69.14
Lembaga Tabung Haji	5.58
Oversea Chinese Bank	2.89
Public Ittikal	2.05

Earnings forecasts. We are maintaining our FY18F earnings forecasts for now pending its analyst briefing that will be held next week.

Recommendation. Post earnings announcement, we are reiterating our **BUY** recommendation on UEM Edgenta with an unchanged SOP-based TP of **RM3.09**. Despite Opus International Consultant (OIC) has ceased to be a part of Edgenta from FY18 onwards, we opine that the prospects for most of Edgenta's business segments are brighter with less volatility in its earnings. In addition, we note that new acquisitions such as AIFS and KFM are starting to contribute more significantly to the group's revenue. We are also more positive on its asset consultancy business in Malaysia post-OIC and we opine that higher contribution will come in gradually as it remains focused on delivery of major road and infrastructure projects in both Peninsular and East Malaysia. Furthermore, we opine that the increasing need for more healthcare facilities around the region will bode well for Edgenta's healthcare services. It will enable Edgenta to grow the healthcare services business organically and tap into underserved niche segments via AIFS which has network across Singapore, Taiwan and Malaysia.

Table 1: UEM Edgenta's quarterly earnings review

FYE Dec (RM'm)	Quarterly results					Cumulative results		
	4QFY16	3QFY17	4QFY17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)
Revenue	512.9	523.1	672.3	28.5	31.1	1,579.1	2,120.8	34.3
Cost of sales	(401.2)	(437.8)	(522.1)	19.2	30.1	(1,239.8)	(1,718.8)	38.6
Other income	12.9	14.4	32.0	121.3	148.5	38.2	70.1	83.6
Expenses	(68.0)	(57.5)	(97.0)	68.5	42.5	(199.3)	(270.3)	35.6
Finance costs	(4.3)	(13.4)	(16.8)	25.0	289.1	(11.7)	(48.5)	nm
Share of profit of associates	4.7	3.3	7.1	117.6	52.9	15.3	19.7	28.4
Share of profit of jv	(0.1)	0.1	(0.2)	nm	nm	(0.3)	0.0	(100.0)
Profit Before Tax	56.8	32.1	346.2	nm	nm	181.5	482.6	165.9
Zakat	(1.5)	0.0	(1.6)	nm	0.0	(1.5)	(1.6)	0.0
Taxation	(8.1)	(8.4)	(19.8)	135.2	143.1	(40.0)	(46.2)	15.4
Profit After Tax	47.2	23.7	324.8	nm	nm	140.0	434.8	210.6
Non-controlling interest	(19.1)	10.4	0.0	nm	nm	33.5	16.6	(50.5)
PATANCI	28.0	13.3	324.8	nm	nm	46.6	434.8	nm
EI	(31.0)	25.4	(270.8)	nm	nm	0.0	(309.6)	nm
Normalised Earnings	(2.7)	38.7	54.1	39.6	nm	46.6	125.1	168.7
Basic EPS (sen)	3.4	4.7	39.1	34.4	35.7	9.7	52.3	42.6
PBT margin (%)	11.1	6.1	51.5	45.4	40.4	11.5	22.8	11.3
PAT margin (%)	9.2	4.5	48.3	43.8	39.1	8.9	20.5	11.6
PATANCI margin (%)	5.5	2.5	48.3	45.8	42.8	2.9	20.5	17.6
Tax rate (%)	14.3	26.2	5.7	(20.5)	(8.6)	22.0	9.6	(12.5)

Source: Company, MIDFR

Table 2: SOP-based valuation

	Valuation basis	TP(RM'm)	TP/share (RM)
Concession IFM	DCF @ WACC of 8.75%	499.6	0.60
Property	DCF @ WACC of 8.75%	25.7	0.03
PROPEL	DCF @ WACC 8.75%	1,269.4	1.53
Opus	15x FY18 earnings	80.9	0.10
Add: 40% associate stake in Sabah and Sarawak	DCF @ WACC of 8.75%	146.8	0.18
Add/(less): FY18 Net cash/(debt)		550.7	0.66
SOP		2,573.2	3.09

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%

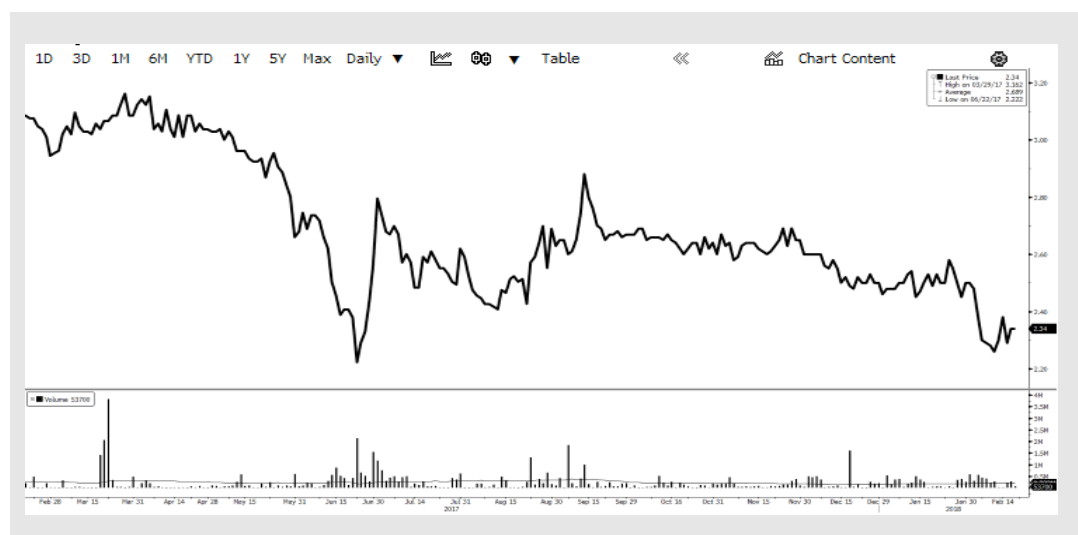
Source: MIDFR

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY2015	FY2016	FY2017	FY2018F	FY2019F
Revenue	3,123.0	2,931.0	2,120.8	1,909.0	2,116.6
Cost of sales	(2,101.3)	(1,959.4)	(1,718.8)	(1,459.4)	(1,579.5)
Gross profit	1,021.8	971.6	402.0	449.6	537.1
Finance costs	(16.6)	(22.1)	(48.5)	-	-
Profit Before tax	305.4	113.8	172.9	185.6	248.4
Income tax expense	(95.9)	(65.7)	(46.2)	(46.4)	(62.1)
Profit After Tax	209.5	46.6	434.8	100.2	134.1
Normalised Earnings	209.5	190.9	125.1	100.2	134.1
PBT Margin (%)	9.8	3.9	8.2	9.7	11.7
Net Profit Margin (%)	6.7	1.6	20.5	5.2	6.3
Diluted EPS (sen)	23.5	9.6	15.1	12.1	16.1
Diluted EPS Growth (%)	6.6	-59.0	57.1	(20.3)	33.8
PER (x)	10.0	24.3	15.5	19.4	14.5
Dividend Per Share (sen)	15.0	7.0	31.0	9.6	11.3
Dividend yield (%)	6.4	3.0	13.2	4.1	4.8
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.