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05 September 2018 | Briefing Note

UEM Edgenta Berhad

Future earnings growth prospects remain intact

***Maintain* BUY**

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

INVESTMENT HIGHLIGHTS

- **Higher contribution expected from healthcare services**
- **Infrastructure services margins to further improve**
- **Brighter prospects for real estate services**
- **Current value of work-in-hand amounting to RM13.5b**
- **Maintain BUY with an unchanged TP of RM3.26 per share**

Higher contribution from healthcare services. Healthcare services (HS) segment revenue contribution is expected to increase with the new contracts secured both in Taiwan and Singapore. UEM Edgenta Bhd (Edgenta) has recently secured and renewed some of its existing hospital services contract such as Sengkang General Hospital in Singapore as well as 1,800-bed Tri-Service General Hospital and Far Eastern Memorial Hospital in Taiwan.

Infrastructure services profit margins set to improve further. Management revealed that it has finally converted its input-based contract (IBC) with PLUS Malaysia Bhd (PLUS) to a performance-based contract (PBC) as at 1st August 2018. This entails an improvement in maintenance deliverables which would translates into cost savings for both Edgenta and PLUS. While the first phase of PBC has begun last month, the full adoption of PBC will begin in January 2019.

Bright prospects for real estate services. The company has recently secured several new contracts for facilities management, township management and energy performance contracting services for CIMB buildings, TRX, Medini Iskandar and German-Malaysian Institute. Despite the segment's contribution to Edgenta's topline and bottomline is only approximately 10% at this juncture, we opine that this segment has a big growth potential given the increasing emphasis on environmental issues such as energy savings and reducing carbon emissions. In addition, the growing demand for technologically-driven solutions will also drive this segment going forward.

Existing value of work-in-hand at RM13.5b. Edgenta's current work-in-hand value is estimated at approximately RM13.5b as of 30 June 2018. The breakdown consists of 29% from the Healthcare services, 67% from the infrastructure services while the remaining 4% stem from consultancy.

RETURN STATS	
Price (4th September 2018)	RM2.23
Target Price	RM3.26
Expected Share Price Return	+46.2%
Expected Dividend Yield	+5.4%
Expected Total Return	**+51.6%**

STOCK INFO	
KLCI	1,812.76
Bursa / Bloomberg	1368 / UEME MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	831.62
Market cap. (RM'm)	1,854.5
Price over NA	1.28
52-wk price Range	RM1.86-2.69
Beta (against KLCI)	0.85
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

FY18-19F earnings maintained. We are making no changes to our FY18-19F earnings estimates at this juncture. We are expecting higher contribution from the healthcare services segment and the benefits from the implementation of PBC to positively impact the group's bottomline.

Reiterate BUY. 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. For the healthcare services we opine that aside from securing new and renewing existing contracts, growth opportunities will come from cross-selling between its commercial and concession healthcare services. Additionally, we foresee the restructuring of cluster hospitals by Singapore's Ministry of Health will present valuable opportunities for Edgenta to secure new wins leveraging on its expertise in healthcare services. As for the facilities management, increasing awareness in environment preservation and technologically-driven solutions will fuel the demand for this segment which will eventually lead to cost savings and creating environmentally-friendly condition for its clients.

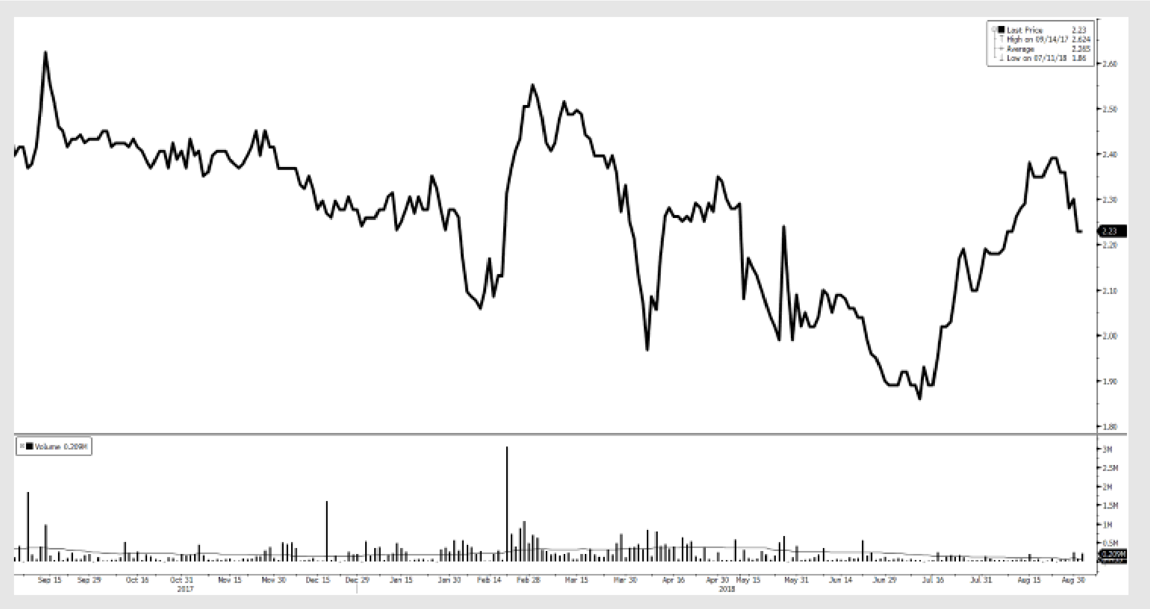
Share price weakness presents a buying opportunity. Edgenta's share price performance YTD has been persistently weak. It has been further exacerbated by the outcome of the recent GE14 - which we believe is unjustified given that all its concession contracts remain intact. Hence, we view this presents 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's balance sheet remains robust with a negligible net gearing and an attractive FY19F dividend yield of 5.4% to yesterday's closing price. It is also worth noting that, 90% of Edgenta's revenue and profits come from resilient sectors such as healthcare and infrastructure with 80% of it recurring in nature due to the concessions - which signals stability and provides clear earnings visibility.

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**
Net 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	16.2	12.9
Dividend Per Share (sen)	15.0	7.0	31.0	11.1	12.1
Dividend yield (%)	6.6	3.1	13.6	5.0	5.4
Tax rate (%)	31.4	57.7	26.7	25.0	25.0

Source: Company, 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 *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.