

# UEM Edgenta Berhad

(1368 | UEME MK) Industrial Products & Services | Industrial Products

**Maintain BUY**

## Margin compression a bane on earnings

**Revised Target Price: RM3.23**

(Previously RM3.22)

### KEY INVESTMENT HIGHLIGHTS

- **UEM Edgenta's 1QFY20 earnings dipped by -83.5%yoy to RM11.2m**
- **Malaysian hospital operations registered lower revenue attributable to higher operating costs resulting in margin compression**
- **2QFY20 to be further impacted by implementation of MCO due to Covid19**
- **FY20-21F earnings estimates revised by -50.4% and -24.4%**
- **Maintain BUY with a revised TP of RM3.23 per share**

**UEME's 1QFY20 earnings missed expectation at RM11.2m.** UEM Edgenta Berhad's (Edgenta) 1QFY20 reported net profit came in at RM11.2 which missed our and consensus' FY20 expectations at 6.9% and 10% respectively. Comparing against 1QFY19, revenue fell by -22.5%yoy on lower contribution from its Malaysian healthcare support (HS) segment. Consequently, earnings also dipped by -83.5%yoy, attributable to the margin compression experienced by its concession healthcare division. Meanwhile on a quarterly basis, revenue contracted by -29.5%qoq whilst earnings dipped by -82.8%qoq respectively. This was primarily attributable to lower revenue recognised across all its business segments.

**Healthcare Support Services.** The segment's revenue increased marginally by +1.7%yoy driven by higher work orders executed during the quarter in both Singapore and Taiwan. However, this was negated by the lower contribution from the Malaysian operations. Meanwhile, PBT dipped by -74.6yoy primarily attributable to increase in general costs. This was further exacerbated by the intense competition on the commercial healthcare support division especially from the Singapore cluster hospitals arising from the recent re-clustering exercise. This had also resulted in PBT margin contracting to 3.2% during the quarter vs 12.7% in 1QFY19 owing to compressed margin from the commercial division.

**Property and Facility Solutions.** Segment revenue declined by -11.3%yoy to RM33.4m (from RM37.7m in 1QFY19) attributable to the recent cessation of its township management project JV in Johor with UEM Sunrise. That said, PBT for the division grew marginally by +5.0%yoy which was primarily driven by better margin from its on-going projects. Consequently, PBT margin for the division improved to 23.0% vs 19.4% in 1QFY19 during the quarter.

**Asset Consultancy.** The segment's revenue was lower by -24.3%yoy during the quarter driven primarily due to lesser works done on projects in East Malaysia. Consequently, the segment PBT also declined by -8.7%yoy due to the lower revenue recognised during the quarter. That said, its PBT margin improved during the quarter to 4.4% from 3.6% in 1QFY19.

### RETURN STATISTICS

Price @ 21 <sup>st</sup> May 2020 (RM)	2.57
Expected share price return (%)	+25.7
Expected dividend yield (%)	+4.8
<b>Expected total return (%)</b>	<b>+30.5</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.8	-4.1
3 months	13.2	6.7
12 months	-9.2	0.3

### KEY STATISTICS

FBM KLCI	1452.11
Syariah compliant	Yes
Issue shares (m)	831.62
Estimated free float (%)	17.65
Market Capitalisation (RM'm)	2137.27
52-wk price range	RM1.88 - RM3.52
Beta vs FBM KLCI (x)	0.81
Monthly velocity (%)	0.00
Monthly volatility (%)	14.25
3-mth average daily volume (m)	0.24
3-mth average daily value (RM'm)	0.59
Top Shareholders (%)	
UEM Group	69.14
Urusharta Jamaah	5.81
Lembaga Tabung Haji	5.58

### Analyst(s)


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**Infrastructure Services.** Segment revenue declined marginally by -2.8%yoy or RM4.8m during the quarter. It was attributable to lower work order executed during the quarter for the routine maintenance and traffic management of both expressways and rail projects. As a result, its PBT also declined by -28.9%yoy due to the increased operating cost during the quarter. Its PBT margin dipped to 8.5% in 1QFY20 from 11.6% in 1QFY19.

**Work-In-Hand remains relatively unchanged.** Edgenta's current work-in-hand as of March 2020 remains relatively unchanged at RM13.2b. Out of the RM13.2b, 59.5% of its work-in-hand is attributable to its infra services division, whilst 33.1% is from healthcare support. The balance of 3.79% and 3.6% are attributable to its asset consultancy as well as the PFS division respectively.

**Earnings impact.** We are revising our FY20-21F earnings estimates downwards by -50.4% and -24.4% respectively to RM81.7m and RM128.9m as we input the higher operating costs and lower revenue from concession and slower revenue recognition following business closures due to Covid19. We opine that Edgenta's earnings will be further impacted in 2QFY20 as a result of the abovementioned factors.

**Maintain BUY with a revised TP of RM3.23.** Following our earnings revision and after rolling forward our valuation base year to FY21, we are maintaining our **BUY** recommendation on Edgenta with a slightly revised SOP-based target price of **RM3.23**.

We continue to remain positive on Edgenta's long term prospect as the company operates in a recession-proof business segment. We opine that the drop-in earnings during the quarter is temporary in nature due to the implementation of the movement control order by the Malaysian government which started back in March and we believe its financials will gradually improve as the Covid19 pandemic measures are slowly eased in the future. Notwithstanding the margin compression, all the business segments have performed commendably despite the unprecedented situation that is currently taking place. Furthermore, its fundamental remains intact with a net cash position and attractive FY21F dividend yield of 4.8%. 

## INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2017A	2018A	2019A	2020E	2021F
<b>Revenue</b>	<b>2,120.8</b>	<b>2,182.6</b>	<b>2,411.2</b>	<b>2,362.2</b>	<b>2,454.3</b>
Cost of sales	(1,718.8)	(1,777.1)	(1,944.4)	(1,911.6)	(1,909.0)
<b>Gross profit</b>	<b>402.0</b>	<b>405.5</b>	<b>466.8</b>	<b>450.6</b>	<b>545.3</b>
Finance costs	(48.5)	(28.4)	(28.0)	-	-
<b>Profit Before tax</b>	<b>172.9</b>	<b>198.2</b>	<b>245.0</b>	<b>151.3</b>	<b>238.8</b>
Income tax expense	(46.2)	(43.2)	(58.8)	(37.8)	(59.7)
<b>Profit After Tax</b>	<b>434.8</b>	<b>152.2</b>	<b>188.0</b>	<b>81.7</b>	<b>128.9</b>
<b>Normalised Earnings</b>	<b>125.1</b>	<b>148.2</b>	<b>149.1</b>	<b>81.7</b>	<b>128.9</b>
PBT Margin (%)	8.2	9.1	10.2	6.4	9.7
Net Profit Margin (%)	20.5	7.0	7.8	3.5	5.3
Diluted EPS (sen)	15.1	13.8	18.5	9.8	15.5
Diluted EPS Growth (%)	57.1	(8.6)	34.1	(47.0)	57.8
PER (x)	17.0	18.6	13.9	26.2	16.6
Dividend Per Share (sen)	10.0	14.0	14.0	7.9	12.4
Dividend yield (%)	3.9	5.4	5.4	3.1	4.8
Tax rate (%)	26.7	21.8	24.0	25.0	25.0

Source: Company, MIDFR

## UEM EDGENTA BERHAD: 1QFY20 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results				
	1QFY19	4QFY19	1QFY20	QoQ (%)	YoY (%)
<b>Revenue</b>	<b>647.4</b>	<b>712.3</b>	<b>501.9</b>	(29.5)	(22.5)
Cost of sales	(512.9)	(548.8)	(431.8)	(21.3)	(15.8)
Other income	24.0	41.6	9.2	(77.8)	(61.5)
Expenses	(70.1)	(76.2)	(56.8)	(25.4)	(19.0)
Finance costs	(6.7)	(8.2)	(6.0)	(27.2)	(10.7)
Share of profit of associates	1.3	5.6	3.8	(31.6)	187.1
Share of profit of jv	0.0	0.0	0.0	nm	nm
<b>Profit Before Tax</b>	<b>82.9</b>	<b>126.3</b>	<b>20.3</b>	(83.9)	(75.5)
Zakat	(10.9)	(3.1)	0.0	nm	nm
Taxation	(2.9)	(20.6)	(8.2)	(60.2)	186.7
<b>Profit After Tax</b>	<b>69.1</b>	<b>102.6</b>	<b>12.1</b>	(88.2)	(82.4)
Non-controlling interest	1.4	5.2	1.0	(81.0)	(28.0)
<b>PATANCI</b>	<b>67.7</b>	<b>97.5</b>	<b>11.2</b>	(88.6)	(83.5)
EI	0.0	32.7	0.0	nm	nm
<b>Normalised Earnings</b>	<b>67.7</b>	<b>64.8</b>	<b>11.2</b>	(82.8)	(83.5)
Basic EPS (sen)	8.1	7.8	1.3	(6.4)	(6.8)
PBT margin (%)	12.8	17.7	4.0	(13.7)	(8.8)
PAT margin (%)	10.7	14.4	2.4	(12.0)	(8.3)
PATANCI margin (%)	10.5	13.7	2.2	(11.5)	(8.2)
Tax rate (%)	3.4	16.3	40.2	24.0	36.8

Source: Company, MIDFR

**Table 1: SOP-based valuation**

	Valuation basis	TP(RM'm)	TP/share (RM)
Healthcare Support	DCF @ WACC of 8.75%	680.5	0.82
Property & Facilities Solutions	DCF @ WACC of 8.75%	10.1	0.01
Infrastructure Services	DCF @ WACC 8.75%	1,005.8	1.21
Asset Consultancy	15x FY20 earnings	102.2	0.12
Add: 40% associate stake in Sabah and Sarawak	DCF @ WACC of 8.75.%	205.3	0.25
Add/(less): FY21 Net cash/(debt)		681.6	0.82
<b>SOP</b>		<b>2,685.5</b>	<b>3.23</b>

Source: MIDFR

**Table 2: 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%
<b>WACC</b>	<b>8.75%</b>

Source: MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.