UEM Edgenta Berhad

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

***Upgrade to* BUY**

(Previously Neutral)

Earnings supported by better IS revenue recognition

***Unchanged* Target Price: RM3.22**

KEY INVESTMENT HIGHLIGHTS

- **UEM Edgenta's 4QFY19 normalised earnings declined marginally by -4.3%yoy to RM64.8m**
- **Earnings supported by strong revenue contribution from healthcare support and infrastructure services**
- **Margins remains stable cushioned by strong healthcare concession division**
- **Current work-in-hand relatively unchanged at RM13.2b**
- **FY20F earnings estimate maintained**
- **Upgrade to BUY with an unchanged TP of RM3.22 per share**

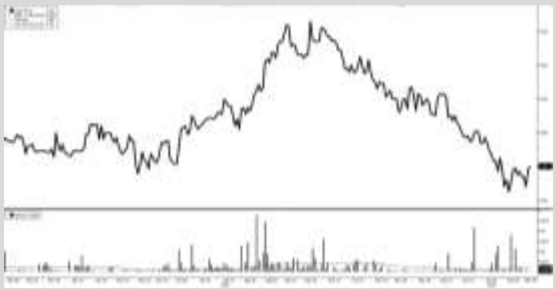
UEME's 4QFY19 normalised earnings met expectation at RM64.8m. UEM Edgenta Berhad's (Edgenta) 4QFY19 reported net profit came in at RM102.6m. However, after excluding a one-off profit from its legacy Abu Dhabi project worth RM32.7m, its normalised earnings came in at RM64.8m. This brings its FY19 cumulative earnings to RM149.1m which is within our and consensus expectations at 97% and 98% respectively. Comparing against 4QFY18, revenue was higher by +10.0% premised on higher contribution from its healthcare support (HS) segment. However, earnings were marginally lower by -4.3%yoy, attributable to the margin compression experienced by its commercial healthcare division. Meanwhile on a quarterly sequential basis, revenue grew by +21.2%qoq whilst earnings surged by +275.0%qoq respectively. This was primarily attributable to improved revenue contribution from across its business segment during the quarter.

Healthcare Support Services. The segment's revenue increased by +12.2%yoy driven by new contracts secured from across the region throughout the year. Meanwhile, PBT was lower by -44.8yoy 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. This had also resulted in PBT margin contracting to 6.0% during the quarter vs 12.2% in 4QFY18 owing to compressed margin from the commercial division.

Property and Facility Solutions. Segment revenue was rather flat at RM55.0m when compared against 4QFY18 driven by the new contracts secured in 1HFY19. However, this was offset by lower revenue from facilities and township management projects ended during the year namely the JV with UEM Sunrise on the township management project located in Johor. Additionally, margin for the division surged to 29.5% vs 3.7% in 4QFY18 during the quarter due to a one-off gain from a legacy project in Abu Dhabi.

RETURN STATISTICS	
Price @ 26th February 2020 (RM)	2.60
Expected share price return (%)	+23.8
Expected dividend yield (%)	+6.0
Expected total return (%)	**+29.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-5.11	-0.18
3 months	-13.62	-8.19
12 months	-10.34	3.07

KEY STATISTICS	
FBM KLCI	1,551.79
Syariah compliant	Yes
Issue shares (m)	831.624
Estimated free float (%)	17.71
Market Capitalisation (RM'm)	2,162.2
52-wk price range	2.42 – 3.52
Beta vs FBM KLCI (x)	0.63
Monthly velocity (%)	11.02
Monthly volatility (%)	14.25
3-mth average daily volume (m)	0.19
3-mth average daily value (RM'm)	0.52
Top Shareholders (%)	
UEM Group	69.14
Urusharta Jamaah	5.81
Lembaga Tabung Haji	5.58

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Infrastructure Services. Segment revenue grew modestly by +5.0%yoy or RM14.2m during the quarter which is attributable to higher number of works done for expressways in Malaysia and Indonesia by the segment. Subsequently, its PBT surged by >100.0%yoy due to the improved margin from the works undertaken during the quarter. Its PBT margin improved to 24.9% in 4QFY19 from 12.4% in 4QFY18.

Asset Consultancy. The segment's revenue grew by +42.9%yoy driven primarily by works done on projects in East Malaysia. However, the segment remains unprofitable during the quarter due to lower margins from its current works.

Work-In-Hand remains relatively unchanged. Edgenta's current work-in-hand as of December 2019 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 made no changes to our FY20F earnings estimates as we opine that Edgenta is on track to meet our earnings projection. We have also introduced our FY21F number in this report.

Upgrade to BUY with an unchanged TP of RM3.22. We are upgrading our recommendation on Edgenta to a **BUY** (from Neutral previously) with an unchanged SOP-based target price of **RM3.22**. This is premised on stable performance of each business segment and the improved performance from the infrastructure services. While we continue to anticipate margin compression in its commercial healthcare support division as well as the lackluster performance from its asset consultancy divisions to weigh on earnings growth going forward, we do believe that the improving performance of its healthcare concession as well as the IS divisions will cushion the impact on earnings from the three divisions as evident in the commendable margins reported by these two divisions.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm unless otherwise stated)	2017A	2018A	2019A	2020E	2021F
Revenue	**2,120.8**	**2,182.6**	**2,411.2**	**2,362.2**	**2,454.3**
Cost of sales	(1,718.8)	(1,777.1)	(1,944.4)	(1,762.5)	(1,831.2)
Gross profit	**402.0**	**405.5**	**466.8**	**599.7**	**623.1**
Finance costs	(48.5)	(28.4)	(28.0)	-	-
Profit Before tax	**172.9**	**198.2**	**245.0**	**300.4**	**315.8**
Income tax expense	(46.2)	(43.2)	(58.8)	(75.1)	(79.0)
Profit After Tax	**434.8**	**152.2**	**188.0**	**162.2**	**170.6**
Normalised Earnings	**125.1**	**148.2**	**149.1**	**162.2**	**170.6**
PBT Margin (%)	8.2	9.1	10.2	12.7	12.9
Net Profit Margin (%)	20.5	7.0	7.8	6.9	6.9
Diluted EPS (sen)	15.1	13.8	18.5	19.5	20.5
Diluted EPS Growth (%)	57.1	(8.6)	34.1	5.3	5.1
PER (x)	17.2	18.8	14.0	13.3	12.7
Dividend Per Share (sen)	10.0	14.0	14.0	15.6	16.4
Dividend yield (%)	3.8	5.4	5.4	6.0	6.3
Tax rate (%)	26.7	21.8	24.0	25.0	25.0

Source: Company, MIDFR

UEM EDGENTA BERHAD: 4QFY19 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly results					Cumulative results		
	4QFY18	**3QFY19**	**4QFY19**	**QoQ (%)**	**YoY (%)**	**FY18**	**FY19**	**YoY (%)**
Revenue	**647.4**	**587.6**	**712.3**	21.2	10.0	**2,182.6**	**2,411.2**	10.5
Cost of sales	(512.9)	(497.3)	(548.8)	10.4	7.0	(1,777.1)	(1,944.4)	9.4
Other income	24.0	9.8	41.6	323.3	73.4	54.9	66.5	21.2
Expenses	(70.1)	(73.9)	(76.2)	3.0	8.6	(250.2)	(281.9)	12.7
Finance costs	(6.7)	(6.5)	(8.2)	26.9	22.6	(28.4)	(28.0)	(1.7)
Share of profit of associates	1.3	6.2	5.6	(9.3)	319.6	16.5	21.5	30.2
Share of profit of jv	0.0	0.0	0.0	nm	#DIV/0!	0.0	0.0	nm
Profit Before Tax	**82.9**	**25.9**	**126.3**	387.4	52.3	**198.2**	**245.0**	23.6
Zakat	(10.9)	0.0	(3.1)	nm	(72.0)	(10.9)	(3.1)	0.0
Taxation	(2.9)	(8.6)	(20.6)	138.3	621.2	(35.1)	(53.8)	53.4
Profit After Tax	**69.1**	**17.3**	**102.6**	494.1	48.6	**152.2**	**188.0**	23.6
Non-controlling interest	1.4	0.0	5.2	257,450.0	278.2	3.9	6.3	59.2
PATANCI	**67.7**	**17.3**	**97.5**	464.3	43.9	**148.2**	**181.8**	22.6
EI	0.0	0.0	32.7	nm	nm	0.0	32.7	nm
Normalised Earnings	**67.7**	**17.3**	**64.8**	275.0	(4.3)	**148.2**	**149.1**	0.6
Basic EPS (sen)	8.1	2.1	7.8	5.7	(0.3)	17.8	17.9	0.1
PBT margin (%)	12.8	4.4	17.7	13.3	4.9	9.1	10.2	1.1
PAT margin (%)	10.7	2.9	14.4	11.5	3.7	7.0	7.8	0.8
PATANCI margin (%)	10.5	2.9	13.7	10.7	3.2	6.8	7.5	0.7
Tax rate (%)	3.4	33.3	16.3	(17.0)	12.8	17.7	22.0	4.3

Source: Company, 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.