

3 March 2021

Industrials | Engineering & Construction

UEM Edgenta (UEME MK)

Buy (from Neutral)

Stepping Up Its Tech Pivot; U/G BUY

- **U/G BUY from Neutral, higher MYR2.05 TP from MYR1.85, 22% upside, c.5% FY21F yield.** We left UEM Edgenta's post-results briefing feeling encouraged on its 2021 earnings recovery prospects. While it is too early to quantify the full potential of its tech-enabled growth strategy, we are positive on management's proactive approach to navigating the COVID-19 situation.

• FY20 analyst briefing key takeaways:

- Results review.** Aside from margin compression on higher direct costs (employee wage hikes, incremental pandemic-related expenses) and the undertaking of lower-margin contracts last year, FY20 core net profit fell 67.5% YoY, mainly on 20-40% YoY lower revenue across its property & facility solutions (PFS), infrastructure services (IS), and asset consultancy (AC) divisions – as less works were done during the pandemic and MCO phases. For 4Q20, the sharp PBT QoQ improvement in its healthcare support (HS) division was partly due to payment in arrears for its Singapore hospitals' additional costs incurred.
 - MYR12.2bn orderbook at end-2020.** This comes on the back of MYR1.4bn in new contracts secured last year, with >MYR1bn comprising HS contracts (mostly commercial), while selected infrastructure projects include Sarawak-based work packages for the Pan Borneo Highway (MYR76m) and state road maintenance (MYR53.2m). HS and IS contracts still make up the bulk of the work in hand (30% and 62%).
 - Edgenta of the Future 2025.** The new management has unveiled its 2025 roadmap, with a view of shaping the group into a tech-centric and healthcare-focused solutions provider. This is centred upon its use of technology to drive operational efficiencies (c.MYR100m opex savings over five years), enhancing its value proposition via digitalisation, expansion of solutions offerings (eg COVID-19 management), and a business footprint into other high-growth regions and market areas.
 - Dividends and capex.** Although dividend payments were withheld in FY20 due to prudent cash preservation, in anticipation of business uncertainties/opportunities in the new year, management has reiterated its commitment to resume its dividend policy of 50-80% of PATAMI going forward. FY21-22F capex is guided to track FY19 levels of <MYR90m.
- **BUY, higher TP** after rolling forward our SOP valuation base to FY22F (implied PE of 11x or -1SD to 5-year mean), albeit trimming FY21F earnings by 7%. Risk-reward is attractive, given improved visibility on its earnings recovery, with COVID-19 vaccinations underway, while the resumption of dividends is set to offer 5-8% yields. Downside risks: Cutback in new contract awards, cancellation of highway works concessions, and higher-than-expected operating costs.

Target Price (Return): MYR2.05 (22.0%)
Price: MYR1.68
Market Cap: USD344m
Avg Daily Turnover (MYR/USD) 0.93m/0.23m

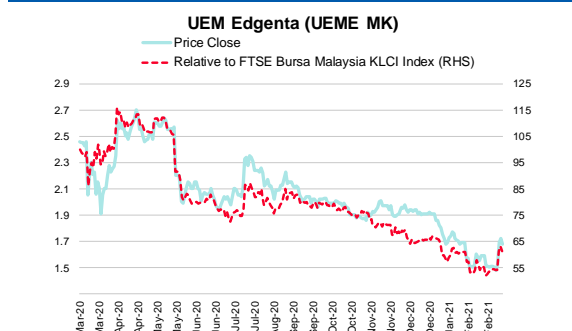
Analyst

Lester Siew, CFA
+603 9280 2181
lester.siew@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.1)	12.0	(12.1)	(20.8)	(31.7)
Relative	(8.6)	12.7	(10.3)	(22.9)	(38.7)
52-wk Price low/high (MYR)				1.48 – 2.70	



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: Excellent

UEME's facilities management solutions undertake green building initiatives for its portfolio projects, resulting in energy savings of 20-30% on average and reduced carbon emissions

S: Good

Strong community engagement and active CSR participation. Key areas to improve include its past record of workplace injury incidents

G: Good

Balanced board composition (60:40 independent/non-independent directors as well as male to female ratio). Regular engagements held with the media and investing community

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (MYRm)	2,411	2,041	2,247	2,686	2,675
Recurring net profit (MYRm)	149	48	93	157	170
Recurring net profit growth (%)	(4.2)	(67.5)	92.0	68.7	8.5
Recurring EPS (MYR)	0.18	0.06	0.11	0.19	0.20
DPS (MYR)	0.14	-	0.09	0.14	0.15
Recurring P/E (x)	9.37	28.84	15.02	8.90	8.20
P/B (x)	0.89	0.93	0.92	0.90	0.87
Dividend Yield (%)	8.3	na	5.3	8.4	9.1
Return on average equity (%)	11.8	0.9	6.2	10.2	10.8
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Malaysia	Recurring EPS	0.18	0.06	0.11	0.19	0.20
Industrials	EPS	0.22	0.02	0.11	0.19	0.20
UEM Edgenta	DPS	0.14	-	0.09	0.14	0.15
UEME MK	BVPS	1.89	1.80	1.83	1.87	1.93
Buy	Return on average equity (%)	11.8	0.9	6.2	10.2	10.8
	Return on average assets (%)	6.3	0.5	3.2	5.5	5.9
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
We apply SOP valuation on UEM Edgenta with a WACC of 9.1% and LTg of 1.0%, alongside PER multiples on associates/JVs plus a 30% holding company discount.	Recurring P/E (x)	9.37	28.84	15.02	8.90	8.20
	P/B (x)	0.9	0.9	0.9	0.9	0.9
	Dividend Yield (%)	8.3	-	5.3	8.4	9.1
	EV/EBITDA (x)	4.08	8.37	4.97	3.53	3.22
Key drivers	Income statement (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Regional growth in the integrated facilities management or IFM market;	Total turnover	2,411	2,041	2,247	2,686	2,675
ii. Increase in government budget allocations for healthcare services.	Gross profit	434	274	384	457	479
	EBITDA	301	133	221	303	320
	Depreciation and amortisation	(83)	(79)	(87)	(87)	(87)
	Operating profit	219	55	135	216	233
	Net interest	(28)	(23)	(26)	(23)	(23)
	Pre-tax profit	245	46	131	215	233
	Taxation	(57)	(31)	(31)	(52)	(56)
	Reported net profit	182	13	93	157	170
	Recurring net profit	149	48	93	157	170
Key risks	Cash flow (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Cutbacks in construction activities;	Change in working capital	174	143	(4)	(4)	(4)
ii. Margin compressions;	Cash flow from operations	231	221	208	269	283
iii. Loss of recurring income from non-renewal of facility management contracts.	Capex	(68)	(56)	(88)	(88)	(88)
	Cash flow from investing activities	(27)	10	(88)	(88)	(88)
	Dividends paid	(116)	0	(74)	(118)	(128)
	Cash flow from financing activities	(129)	(115)	(150)	(191)	(151)
	Cash at beginning of period	495	559	676	646	637
	Net change in cash	75	115	(30)	(9)	44
	Ending balance cash	559	674	646	637	681
Company Profile	Balance sheet (MYRm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
UEM Edgenta is the leading asset management and infrastructure solutions company in Malaysia. Its expertise in these fields covers consultancy services and solutions across healthcare, infrastructure and property & facility.	Total cash and equivalents	621	688	658	649	693
	Tangible fixed assets	216	197	198	199	200
	Intangible assets	734	719	719	719	719
	Total investments	77	85	85	85	85
	Total other assets	202	210	210	210	210
	Total assets	2,913	2,873	2,855	2,859	2,916
	Short-term debt	154	164	164	164	164
	Total long-term debt	366	318	268	218	218
	Total liabilities	1,328	1,363	1,321	1,278	1,286
	Shareholders' equity	1,572	1,501	1,520	1,559	1,601
	Minority interests	12	9	15	22	28
	Total equity	1,584	1,509	1,535	1,580	1,630
	Total liabilities & equity	2,913	2,873	2,855	2,859	2,916
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	10.5	(15.4)	10.1	19.5	(0.4)
	Recurring net profit growth (%)	(4.2)	(67.5)	92.0	68.7	8.5
	Recurrent EPS growth (%)	(4.2)	(67.5)	92.0	68.7	8.5
	Gross margin (%)	18.0	13.4	17.1	17.0	17.9
	Recurring net profit margin (%)	6.2	2.4	4.1	5.8	6.4
	Dividend payout ratio (%)	64.0	0.0	80.0	75.0	75.0

Source: Company data, RHB

Figure 1: SOP valuation

FYE Dec	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F
EBIT	216	233	241	245	249	252	245	248	251	254
EBIT*(1-tax rate)	164	177	183	186	189	191	187	189	191	193
Add: D&A / Non-cash items	87	87	87	87	87	88	88	88	89	90
Less: WC investments (WC Inv)	-4	-4	-4	-5	-5	-5	-5	-5	-5	-6
Less: Fixed investments (FC Inv)	-88	-88	-89	-89	-90	-91	-93	-94	-97	-99
FCFF	159	172	177	179	182	183	177	178	178	178
Disc. FCFF	146	144	136	127	118	109	96	89	81	75
Terminal value at T=10	2,223									
PV of terminal value	932									
Total investments	12									
NPV of FCFF	1,120									
Net cash/(debt)	215									
Less: NCI	-15									
Add: Associates										
- Healthcare support	124									
- PFS & AM	36									
Equity value	2,424									
Equity value per share – 30% discount	2.05									
Implied FY22F P/E	10.9									
Rf	2.9%									
Beta	1.00									
Risk premium	7.5%									
Rm	10.4%									
TG (%)	1.0%									
CoE	10.4%									
CoD	5.0%									
WACC	9.1%									

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-11-26	Neutral	1.85	1.90
2020-07-10	Buy	2.75	2.04
2020-05-22	Neutral	2.70	2.20
2020-02-27	Buy	3.60	2.55
2019-11-25	Buy	3.74	3.00
2019-08-28	Buy	3.70	3.29
2019-04-09	Buy	3.40	2.79
2018-10-05	Buy	3.22	2.70

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531