

COMPANY UPDATE

UEM Edgenta (UEME MK)

Regional Expansion To Ensure Sustainable Growth Ahead

Recent partnerships in Dubai and Sarawak enhance UEME's outlook for future growth. UEME's earnings are expected to rebound in 2022, led by its healthcare and infrastructure divisions, which are the prime beneficiaries of the economic reopening. This will support its dividend payout ratio of 50-80% (yields: 4-6%) for 2022-24. Fundamentals remain intact for growth, supported by healthy orderbook of RM10.8b (revenue cover: 4.9x). Maintain BUY. Target price: RM2.09.

WHAT'S NEW

- Continued regional expansion...** Recently, UEM Edgenta (UEME) (via EdgentaNXT) executed a memorandum of business exploration in Dubai with two fintech companies, Byte Blanket FZE and Disrupt-X DMCC to strengthen its digital ecosystem. This signifies its strategic venture to identify technological collaborations in supporting sustainable smart cities in the Middle East. This is in addition to other collaborations that it has entered into in the region, including its partnership with ASMA last year. It has identified a few projects in the bid pipeline worth >RM3b with local partners including projects such as Al Ansar Hospital and SABIC Behavioral Care Specialist. For the pilot project with a leading healthcare cluster in Mekkah, UEME is progressing into commercial discussion.
- ...for further diversification.** This development is in line with our expectation, where we believe UEME will continue to enter into partnerships and collaborations to expand its footprint globally, reducing its reliance on the existing core markets (Malaysia, Singapore and Taiwan). With its successful track record in transforming buildings like KLCC into a smart building, we believe it has a positive prospect in this space. However, the potential earnings contribution may only be translated, the earliest in 1-2 years' time since it is still at the exploration stage (similar timeline as its Saudi ventures).
- Spreading wings in Borneo.** UEME has also entered into a JV with Sarawak state-owned body, Sarawak Economic Development Corp (SEDC) to strengthen the delivery of mega infrastructure projects in Sarawak via project management and engineering design consultancy services, at least for the next five years. We believe this will strengthen UEME' relationship with the state, which will help it to capture new contracts this year backed by the state's budget of >RM4b worth of infra projects. UEME plans to strengthen its foothold in Borneo, having secured major projects such as Pan Borneo Highway, Kuching Urban Transportation System and Second Trunk Road. Sarawak contributed around RM400m to total orderbook and is expected to offer >RM700m in the coming 2-3 years.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	2,041	2,293	2,371	2,515	2,640
EBITDA	126	153	251	285	294
Operating profit	55	72	147	182	191
Net profit (rep./act.)	13	46	103	138	142
Net profit (adj.)	33	46	103	138	142
EPS (sen)	1.6	5.6	12.4	16.6	17.1
PE (x)	97.6	28.3	12.8	9.5	9.3
P/B (x)	0.9	0.9	0.9	0.8	0.8
EV/EBITDA (x)	8.9	8.8	4.5	4.2	4.1
Dividend yield (%)	-	1.9	4.7	6.3	6.7
Net margin (%)	1.6	2.2	4.3	5.5	5.8
Net debt/(cash) to equity (%)	(11.5)	(13.3)	(10.6)	(6.3)	(4.4)
Interest cover (x)	2.3	2.6	8.3	14.8	17.3
ROE (%)	2.2	-	6.6	8.6	9.4
Consensus net profit (RM m)	-	-	105	143	147
UOBKH/Consensus (x)	-	-	0.98	0.96	0.97

Source: UEM Edgenta Berhad, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.61
Target Price	RM2.09
Upside	+29.8%

COMPANY DESCRIPTION

Region's largest asset management and infrastructure solutions provider with expertise in healthcare support, infrastructure services, property & facility solutions and asset consultancy

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	UEME MK
Shares issued (m):	831.6
Market cap (RMm):	1,330.6
Market cap (US\$m):	315.2
3-mth avg daily t'over (US\$m):	0.1

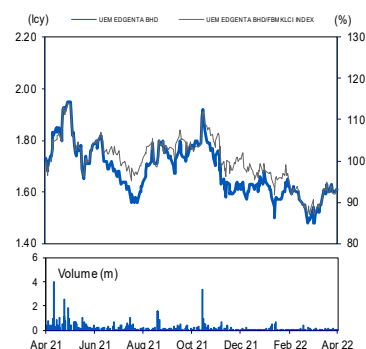
Price Performance (%)

52-week high/low	RM1.98/RM1.48			
1mth	3mth	6mth	1yr	YTD
7.4	(3.6)	(8.0)	(6.4)	(1.2)

Major Shareholders

	%
UEM Group Bhd	69.1
Urusharta Jamaah Sdn Bhd	5.8
CIMB Group Holdings Bhd	3.2
FY22 NAV/Share (RM)	1.88
FY22 Net Cash/Share (RM)	0.20

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Prospects remain intact...** UEME is expected to post strong earnings growth in 2022 (>100% yoy), supported by its healthy orderbook of RM10.8b (earnings visibility: 3-5 years) that is driven by the healthcare and infrastructure divisions (90%). It plans to boost orderbook by RM1b-2b/year while diversifying away its heavy reliance on concession business as >50% of the RM1b new job wins in 2021 came from the commercial business. As the local market is getting more saturated, UEME is also looking to further expand its global presence to diversify its business and obtain better margins, especially from Saudi, Singapore and Dubai. Note that >70% of the new job wins in 2021 were from overseas (Singapore, Taiwan, Dubai) while the remaining 30% came from Malaysia, including MOH's hybrid ICU and vaccination centres.
- ...supported by robust orderbook.** We believe UEME will win more contracts this year as many maintenance jobs in 2021 have been deferred to 2022. Malaysia, Taiwan and Singapore remain as its strong foothold (>90% of orderbook) while further growth will come from the Middle East. For Singapore, UEME aims to widen its footprint by obtaining an ME-15 licence to bid for more hard services contracts, expanding its business from hospitals into commercial buildings. Hard services like biomedical and facilities engineering maintenance services contribute >50% of the healthcare concession's earnings and provide higher margin (double digits) vs soft services like portering and janitorial that only offer single-digit margins. Hence, UEME is looking to acquire a company there (given its low gearing ratio of 0.29x) in order to achieve this goal in 2022.
- Healthcare remains the main contributor.** The healthcare division represented about 78% and 68% of UEME's 2021 earnings and new job wins respectively. Its revenue and profit rebounded qoq in 4Q21 by 19% and 3%, driven by its commercial contracts secured in Singapore and Taiwan, coupled with higher billable jobs and new COVID-19-related businesses in Malaysia. We expect the earnings will continue to improve supported by higher work orders in Malaysia, Singapore and Taiwan while hospital contract costs will also gradually ease given that hospitalisation rate in Malaysia has been declining over 80% since the peak in Aug 21. Being a part of the Penang-Singapore VTL programme, UEME has also recently secured a contract providing on-arrival RT-PCR test at Penang International Airport. This will translate positively to its earnings in the upcoming quarters.
- Infrastructure to boost earnings for recovery.** Recently, the division has also secured some additional work for its existing projects (LPT2 and SUKE). Earnings are expected to grow around 50% this year, supported by higher traffic volume in Malaysia and Indonesia amid the border reopening, which will increase its work for all non-critical civil and pavement work orders. This has been gradually reflected since 4Q21 where the infrastructure profit before tax rebounded >100% qoq. This division represents around 60% of UEME's total orderbook. Moving forward, the resumption of infrastructure projects such as the Pan Borneo Highway would also support the divisions' outlook going forward.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Maintain BUY with an unchanged target price of RM2.09**, which implies 17x 2022F PE (five-year mean PE). Its robust orderbook of RM10.8b will support its 2021-24 net profit CAGR of around 50%. This is further supported by attractive yields of about 5% with healthy dividend payout of 50-80%, backed by strong net cash position of RM167.8m and gross gearing ratio of 0.29x.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

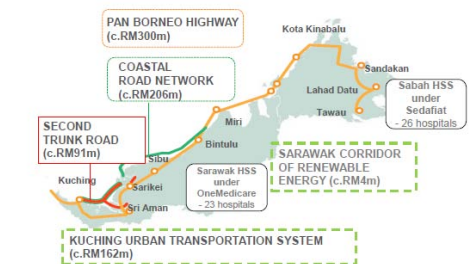
<ul style="list-style-type: none"> Environmental <ul style="list-style-type: none"> Secured Gold ratings in Leadership in Energy and Environmental Design for hospitals, recycling 12 tonnes of waste p.a., and reducing carbon emissions. Social <ul style="list-style-type: none"> Contributed a cloud-based healthcare information system to MOH Governance <ul style="list-style-type: none"> Scored 93.71% for ASEAN Corporate Governance Scorecard by Minority Shareholder Watchdog Group
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ORDERBOOK SEGMENTAL BREAKDOWN

Divisions	RMm	%
Healthcare	3,013	27.8
Concession	1,800	16.6
Commercial	1,212	11.2
Infrastructure	7,100	65.6
PFS	448	4.1
Consultancy	264	2.4
Total	10,826	100.0

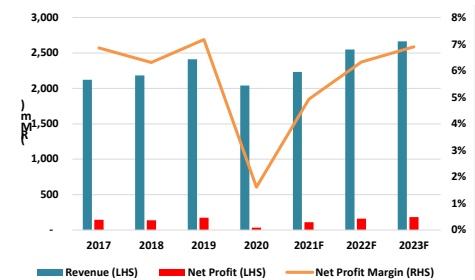
Source: UEME

PAN MALAYSIA BUSINESS STRATEGY



Source: UEME

GROWTH AND MARGIN OUTLOOK



Source: UEME, UOB Kay Hian

2021 REVENUE AND NEW CONTRACTS BREAKDOWN

	International vs Malaysia	Healthcare vs Others
FY2021 Revenue	40% international 60% Malaysia	76% healthcare 24% others
FY2021 New Contracts	54% international 46% Malaysia	68% healthcare 32% others

Source: UEME

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	2,293	2,371	2,515	2,640
EBITDA	153	251	285	294
Deprec. & amort.	(81)	(74)	(77)	(77)
EBIT	72	147	182	191
Associate contributions	-	-	-	-
Net interest income/(expense)	(21)	(18)	(12)	(12)
Pre-tax profit	79	149	191	197
Tax	(34)	(40)	(46)	(46)
Minorities	-	-	-	-
Net profit	46	103	138	142
Net profit (adj.)	46	103	138	142

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	1,207	1,234	1,270	1,308
Other LT assets	88	88	89	92
Cash/ST investment	584	448	283	291
Other current assets	788	886	1,089	1,122
Total assets	2,848	2,793	2,825	2,910
ST debt	114	64	14	14
Other current liabilities	745	696	738	760
LT debt	268	218	168	173
Other LT liabilities	107	139	156	161
Shareholders' equity	1,527	1,564	1,615	1,663
Minority interest	10	14	19	20
Total liabilities & equity	2,848	2,793	2,825	2,910

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	27	85	93	98
Pre-tax profit	79	149	191	197
Tax	(34)	(40)	(46)	(46)
Deprec. & amort.	81	74	77	77
Working capital changes	117	147	161	161
Other operating cashflows	0	1	2	2
Investing	(76)	(60)	(75)	(75)
Capex (growth)	(42)	(50)	(60)	(60)
Capex (maintenance)	0	0	0	0
Investments	0	0	0	0
Others	0	0	0	0
Financing	(59)	(162)	(183)	(183)
Dividend payments	(24)	(62)	(83)	(83)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(126)	(100)	(100)	(100)
Others/interest paid	0	1	2	2
Net cash inflow (outflow)	(109)	(137)	(165)	(160)
Beginning cash & cash equivalent	638	584	448	283
Changes due to forex impact	7	0	0	0
Ending cash & cash equivalent	536	448	283	123

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	5.8	10.6	11.3	11.6
Pre-tax margin	2.3	6.3	7.6	7.8
Net margin	1.6	4.3	5.5	5.7
ROA	1.2	3.7	4.9	5.0
ROE	2.3	6.6	8.6	8.9
Growth				
Turnover	4.8	10.9	6.1	6.3
EBITDA	(1.9)	102.9	13.5	13.9
Pre-tax profit	5.4	207.3	28.2	29.0
Net profit	5.1	197.6	34.0	35.0
Net profit (adj.)	5.1	197.6	34.0	35.0
EPS	157.2	197.6	34.0	35.0
Leverage				
Debt to total capital	14	10	6	6.2
Debt to equity	25.0	18.0	11.3	11.6
Net debt/(cash) to equity	(13.3)	(10.6)	(6.3)	(6.5)
Interest cover (x)	2.6	8.3	14.8	15.2