UOBKayHian

Malaysia Daily

Friday, 22 November 2019

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KEY HIGHLIGHTS

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,592.19	(9.0)	(0.6)
Bursa Emas	11,308.78	(57.7)	(0.5)
Ind Product	150.89	(1.3)	(0.9)
Finance	15,566.04	(76.0)	(0.5)
Consumer	654.48	(3.5)	(0.5)
Construction	209.51	(0.8)	(0.4)
Properties	782.61	(5.1)	(0.7)
Plantations	7,141.15	58.1	0.8

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	21-Nov-19	% chg
Volume (m units)	2,927	0.8
Value (RMm)	2,155	8.9

By Investor type	(%)	ppt chg
Foreign investors	25.3	2.6
Local retail	26.4	(1.1)
Local institution	48.3	(1.4)

TOP VOLUME / GAINERS / LOSERS

	Price (RM)	Chg (%)	Volume ('000)
Top Volume			
Bumi Armada	0.52	(5.5)	157,105
MY EG Services	1.21	3.4	63,739
SapuraEnergy	0.29	(3.4)	51,220
Velesto Energy	0.39	1.3	26,879
FELDA	1.26	0.8	14,550
Top Gainers			
Ta Ann Holdings	2.98	12.0	1,016
Jaya Tiasa Holdings	0.60	4.3	3,073
MY EG Services	1.21	3.4	63,739
Dayang Enterprise	2.12	3.4	12,709
AirAsia X	0.16	3.2	7,511
Top Losers			
Bumi Armada	0.52	(5.5)	157,105
Media Prima	0.28	(5.2)	1,166
Boustead Holdings	0.98	(3.9)	586
Parkson Holdings	0.25	(3.8)	365
SapuraEnergy	0.29	(3.4)	51,220

OTHER STATISTICS

	21-Nov-19	chg	% chg
RM/US$	4.17	0.00	0.1
CPO 3rd mth future (RM/mt)	2,667	(18.0)	(0.7)

Top volume, gainers and losers are based on FBM100 component stocks

COMPANY RESULTS

ATA IMS (AIB MK)

1HFY20: Within Expectations; Expecting A Stronger 2HFY20

Results are in line, driven by a sequentially stronger 2QFY20 which was well anticipated. We expect a stronger 2HFY20 on better cost management, stronger seasonality and the commencement of production for a new product in Dec 19. Besides riding on the key customer's aggressive expansion, the group is also in discussions with MNC customers on trade-diversion related orders to diversify its earnings. Maintain BUY with a higher target price of RM1.90.

2QFY20 RESULTS

Year to 31 Mar (RMm)	1QFY20	2QFY20	qoq % chg	yoy % chg	1HFY20	yoy % chg
Revenue	836.1	931.9	11.5	34.7	1768.0	39.4
EBITDA	41.9	50.1	19.5	15.9	92.0	2.8
EBIT	34.8	42.3	21.7	14.5	77.1	-0.6
PBT	32.6	40.6	24.5	15.5	73.3	-1.4
Tax	-8.1	-9.6	18.9	23.2	-17.7	8.2
Core net profit	24.6	31.0	26.4	13.3	55.6	-4.0
Margins (%)			ppt			ppt
EBITDA	5.0	5.4	0.4	(0.9)	5.2	(1.9)
EBIT	4.2	4.5	0.4	(0.8)	4.4	(1.8)
PBT	3.9	4.4	0.5	(0.7)	4.1	(1.7)
Core Net Margin	2.9	3.3	0.4	(0.6)	3.1	(1.4)

Source: ATA IMS, UOB Kay Hian

RESULTS

- **Within expectations.** ATA IMS reported 2QFY20 net profit of RM31.0m (+26% qoq, +13% yoy), bringing 1HFY20 net profit to RM55.6m (-4% yoy) which accounts for 44% and 45% of our and consensus full-year estimates respectively. We deemed the results to be in line as we expect stronger 2HFY20 hoh earnings stemming from better operational efficiency on better cost management, stronger seasonality and the commencement of production for a new product in Dec 19. No dividend was declared.

- **1HFY20 sales rose 39% yoy,** driven by higher sales volume from the commencement of additional assembly lines (from 8 to 14 for its key customer) and higher seasonal ramp-up in 2QFY20. That said, EBIT dropped 1% yoy on more material contents alongside higher start-up cost of new assembly lines. Sales improved 12% qoq on higher seasonal ramp-up from both new and existing products. While EBIT improved 22% qoq on better operational efficiency, core net profit jumped by 26% qoq on a lower effective tax rate of 23.6% (-1.1ppt qoq).

KEY FINANCIALS

Year to 31 Mar (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	2,307	2,909	3,293	3,691	4,077
EBITDA	145	187	200	225	254
Operating profit	131	162	173	195	220
Net profit (rep./act.)	94	113	124	142	161
Net profit (adj.)	94	113	124	142	161
EPS (sen)	9.0	9.8	10.8	12.4	14.1
PE (x)	18.9	17.2	15.7	13.7	12.0
P/B (x)	4.2	3.1	3.2	2.8	2.4
EV/EBITDA (x)	14.7	11.4	10.7	9.5	8.4
Dividend yield (%)	0.0	0.0	2.2	2.6	2.9
Net margin (%)	4.1	3.9	3.8	3.8	4.0
Net debt/(cash) to equity (%)	0.9	14.5	11.5	4.2	(3.5)
Interest cover (x)	44.1	20.3	20.1	29.4	32.3
ROE (%)	29.8	21.5	20.0	21.7	21.5
Consensus net profit	-	-	125	147	168
UOBKH/Consensus (x)	-	-	0.99	0.96	0.96

Source: ATA IMS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.69
Target Price	RM1.90
Upside	+12.4%
(Previous TP	*RM1.70)*

COMPANY DESCRIPTION

Principally involved in the manufacturing and sale of plastic molded products and components.

STOCK DATA

GICS sector	Materials
Bloomberg ticker:	AIB MK
Shares issued (m):	1,204.4
Market cap (RMm):	2,035.4
Market cap (US$m):	488.1
3-mth avg daily t'over (US$m):	0.1

Price Performance (%)

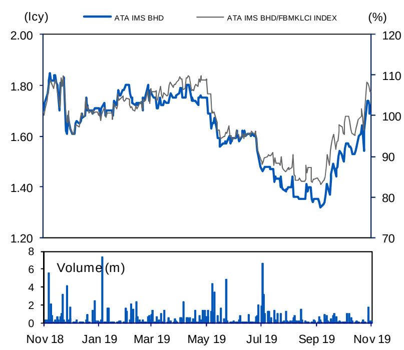
52-week high/low RM1.85/RM1.32

1mth	3mth	6mth	1yr	YTD
10.5	21.6	(3.4)	(2.3)	2.4

Major Shareholders	%
Oregon Tech Sdn Bhd	33.7
Fong Chiu Wan	26.1
Oversea-Chinese Banking Corp Ltd	8.7

FY20 NAV/Share (RM)	0.53
FY20 Net Debt/Share (RM)	0.06

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Still the preferred partner for its European customer; eyeing jobs related to trade diversion to drive growth further.** ATA IMS is still the prime beneficiary of its European customer's aggressive expansion plans, which would anchor a mid-teens top-line growth in FY20. While this growth quantum is almost certain based on latest visibility, the group is not resting on its laurels with new customer diversification as its top priority. Meanwhile, the preference is towards different product offerings (beyond household appliances) with leading-edge technology, to ride on the opportunities on trade diversion related orders from the US-China trade war. For illustration purpose, assuming a RM200m contract is secured and will see full contribution in FY21 on a net margin of 3.9%, the earnings accretion would be 5%, or a 10.0 sen increase to our target price based on 15.0x FY21F PE.
- **Still aggressively up-scaling operations to anchor growth.** On top of the existing 26 facilities with close to 1m sf of production space, ATAIMS is still looking to add another one more facility by 1Q20 to cater for new products' ramp-up. Capacity-wise, the earmarked capex of RM55m in FY20 is sufficient for 50 new plastic injection machines (bringing the total to >550) and an additional two final assembly lines (to 14) to cater for at least two new products for FY20. While management is keeping its lips sealed on the new product's specifications (new line expected to commence by Dec 19), we believe the focus should be personal care products with enhanced functions. All in all, this will anchor a 2-year core net profit CAGR of 12% for FY19-21.
- **Enhancing capabilities vertically to yield better profitability.** ATAIMS is looking to add another two additional lines at the sub-component level for: a) the production of wire harnesses, and b) in-house brush bar assembly. The move to enhance manufacturing capabilities vertically not only improves ATA IMS's strike rate in clinching additional orders but also yields higher profitability. Based on our sensitivity analysis, every 0.5ppt enhancement to the group's net margin in FY21 would raise net profit by 13%. Meanwhile for PCBA and battery packs, another six Surface-Mount Technology lines have been set up, to 14 lines now. ATAIMS remains committed to consolidating these services into the group level in two years' time with a goal of being self-sufficient.
- **Higher level of automation to reduce operating costs.** In view of higher product complexity that ATA IMS has recently undertaken, the group is embarking on higher automation to enhance efficiency and improve quality to defend its turf. On the increasingly higher variable-cost pressure, while any imminent minimum wage hike could be the main margin dampener (given its some 10,000 headcount), we understand the group is actively engaging its key customer to absorb the additional labour cost in 2020, as it did in the past.

EARNINGS REVISION/RISK

- Post model updates, we tweaked our FY20-21 earnings estimates by -3%/-1% for house-keeping purposes.
- Key risks include: a) single customer concentration risk, given its largest customer accounts for >90% of FY19-21F total sales, and b) new production lines not coming on-stream in time.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of RM1.90,** based on a rolled-over 15.0x FY21F PE, which is the group's 1-year mean forward PE.

SHARE PRICE CATALYST

- Securing meaningful contracts from existing or new customers

KEY ASSUMPTION

Year to 31 Mar	2020F	2021F	2022F
Sales	3,293	3,691	4,077
- Box-built	2,800	3,198	3,562
- Filters	386	383	402
- Denko	107	110	113
GP	263	302	338
- Box-built	199	233	267
- Filters	56	59	62
- Denko	9	9	9
EBIT margin (%)	5.2	5.3	5.4
Tax rate (%)	24.0	24.0	24.0

Source: UOB Kay Hian

ASSUMPTION WITH PCBA INJECTED INTO THE GROUP

Assuming PCBA operation being injected into the group in FY21, and 0.5ppt net margin enhancement (assuming no interest costs from acquisition expansion)

Incremental PE multiple (PE multiple paid for PCBA business injection minus forward PE of ATAIMS)	Market Cap enhancement / % enhancement based on current market cap
1x	RM18.5m / 1%
2x	RM37.0m / 2%
3x	RM55.4m / 3%
4x	RM73.9m / 4%
5x	RM92.4m / 5%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (RMm)	2019	2020F	2021F	2022F
Net turnover	2,909	3,293	3,691	4,077
EBITDA	187	200	225	254
Deprec. & amort.	25	27	30	34
EBIT	162	173	195	220
Net interest income/(expense)	(9)	(10)	(8)	(8)
Pre-tax profit	152	163	187	212
Tax	(40)	(39)	(45)	(51)
Net profit	113	124	142	161
Net profit (adj.)	113	124	142	161

BALANCE SHEET

Year to 31 Mar (RMm)	2019	2020F	2021F	2022F
Fixed assets	297	320	339	356
Other LT assets	76	76	76	76
Cash/ST investment	271	292	332	390
Other current assets	1,013	1,105	1,233	1,357
Total assets	1,657	1,793	1,981	2,179
ST debt	260	260	260	260
Other current liabilities	650	809	905	998
LT debt	102	102	102	102
Other LT liabilities	14	14	14	14
Shareholders' equity	630	608	700	805
Total liabilities & equity	1,656	1,793	1,981	2,179

CASH FLOW

Year to 31 Mar (RMm)	2019	2020F	2021F	2022F
Operating	(44)	227	148	172
Pre-tax profit	152	163	187	212
Tax	(27)	(39)	(45)	(51)
Deprec. & amort.	25	27	30	34
Working capital changes	(202)	67	(32)	(31)
Other operating cashflows	7	10	8	8
Investing	(20)	(47)	(45)	(45)
Capex (growth)	(23)	(50)	(50)	(50)
Investments	0	0	0	0
Proceeds from sale of assets	0	n.a.	n.a.	n.a.
Others	3	3	5	5
Financing	179	(160)	(62)	(69)
Dividend payments	0	(43)	(50)	(57)
Issue of shares	96	(103)	0	0
Proceeds from borrowings	(2)	0	0	0
Loan repayment	n.a.	n.a.	n.a.	n.a.
Others/interest paid	86	(13)	(13)	(13)
Net cash inflow (outflow)	115	21	41	57
Beginning cash & cash equivalent	155	271	292	332
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	271	292	332	390

KEY METRICS

Year to 31 Mar (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	6.4	6.1	6.1	6.2
Pre-tax margin	5.2	4.9	5.1	5.2
Net margin	3.9	3.8	3.8	4.0
ROA	8.2	7.2	7.5	7.8
ROE	21.5	20.0	21.7	21.5
Growth				
Turnover	26.1	13.2	12.1	10.5
EBITDA	29.0	6.7	12.6	12.9
Pre-tax profit	19.4	6.6	14.9	13.7
Net profit	20.1	9.4	14.9	13.7
Net profit (adj.)	20.1	9.4	14.9	13.7
EPS	9.7	9.4	14.9	13.7
Leverage				
Debt to total capital	36.5	37.3	34.1	31.0
Debt to equity	57.4	59.6	51.7	45.0
Net debt/(cash) to equity	14.5	11.5	4.2	(3.5)
Interest cover (x)	20.3	20.1	29.4	32.3

COMPANY RESULTS

Kossan Rubber (KRI MK)

3Q19: Below Expectations; Unexpected Labour Hiccup

3Q19 earnings came in below expectations due to labour shortages, coinciding with the commissioning of Plant 18. We believe the worst is over now that sufficient labour has been procured while industry conditions have bottomed out with easing competitive pricing pressures emerging. Kossan has largely retained its expansion timeline and gradual commissioning of additional capacity. Maintain BUY with lower target price of RM4.70 (from RM4.88).

3Q19 RESULTS

Year to 31 Dec (RMm)	3Q19	qoq % chg	yoy % chg	9M19	yoy % chg
Revenue	531	(3.5)	(7.4)	1,643	5.7
EBITDA	88	(10.1)	(7.8)	288	16.6
EBIT	66	(12.9)	(14.3)	220	14.6
Finance costs	(3)	(47.2)	(50.9)	(13)	(7.1)
Pre-Tax Profit	63	(10.3)	(11.4)	208	16.3
Tax	(13)	(5.0)	(19.8)	(41)	23.2
Core Profit	50	(9.3)	(2.6)	162	16.4
Margin	%	qoq ppt chg	yoy ppt chg	%	yoy ppt chg
EBITDA Margin (%)	16.5	(1.2)	(0.1)	17.5	1.6
EBIT Margin (%)	12.3	(1.3)	(1.0)	13.4	1.0
Net Margin (%)	9.3	(0.6)	0.5	10.0	0.8
Core Margin (%)	9.3	(0.6)	0.5	9.9	0.9

Source: Kossan Rubber , UOB Kay Hian

RESULTS

- **Below expectations as labour shortage hits.** Kossan's 3Q19 core profit of RM50m was down 9.3% qoq (-2.6% yoy). This is below our and consensus expectations, with earnings making up 65% and 68% of our and consensus' full-year estimates respectively. The negative deviation arose from labour shortage which coincided with production capacity coming on-stream, but this has since been fully resolved. No dividends were declared during the quarter.

- **Total revenue declined 5% qoq in 3Q19.** Glove division sales softened 2.5% qoq (-7.4% yoy), against volume contraction of 1-3% qoq) and negative ASP revision of -1% to -2% qoq due to lower cost (lower nitrile and latex prices). Forex impact was muted with the US dollar largely unchanged against the ringgit, +0.4% qoq. Technical rubber products (TRP) grew 9.1% while cleanroom glove revenue contracted 36.8%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	1,957	2,144	2,295	2,597	2,857
EBITDA	310	346	441	504	561
Operating profit	237	269	311	358	398
Net profit (rep./act.)	184	201	227	265	297
Net profit (adj.)	184	201	227	265	297
EPS (sen)	14.4	15.7	17.8	20.7	23.3
PE (x)	29.1	26.7	23.6	20.3	18.0
P/B (x)	4.6	4.1	3.8	3.5	3.2
EV/EBITDA (x)	18.6	16.6	13.0	11.4	10.2
Dividend yield (%)	1.5	1.9	2.1	2.5	2.8
Net margin (%)	9.4	9.4	9.9	10.2	10.4
Net debt/(cash) to equity (%)	12.8	24.1	25.3	23.9	20.6
Interest cover (x)	27.3	17.7	25.0	29.9	35.0
ROE (%)	16.5	16.2	16.7	18.1	18.5
Consensus net profit	-	-	238	271	295
UOBKH/Consensus (x)	-	-	0.95	0.98	1.01

Source: Kossan Rubber , Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM4.19
Target Price	RM4.70
Upside	+12.1%
(Previous TP	*RM4.88)*

COMPANY DESCRIPTION

Diversified rubber products manufacturer.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	KRI MK
Shares issued (m):	1,278.9
Market cap (RMm):	5,358.7
Market cap (US$m):	1,285.1
3-mth avg daily t'over (US$m):	1.2

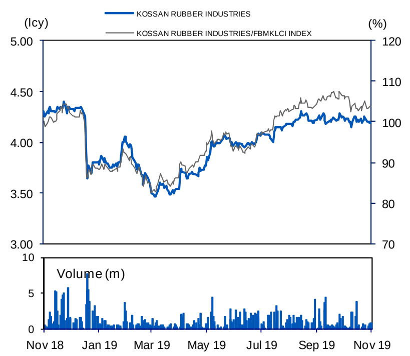
Price Performance (%)

52-week high/low RM4.40/RM3.46

1mth	3mth	6mth	1yr	YTD
(1.2)	0.2	11.1	(3.0)	(3.5)

Major Shareholders	%
Kossan Holdings Sdn Bhd	51.8
Kumpulan Wang Persaraan	6.6
Asian Small Coys Portfolio	4.9
FY19 NAV/Share (RM)	1.09
FY19 Net Debt/Share (RM)	0.28

PRICE CHART



Source: Bloomberg

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- **Margins declined on temporary setbacks.** Glove manufacturing pre-tax margin declined 1.4ppt qoq to 11.6% in 3Q19. This is amid lower ASPs, which were in part due to lower raw material costs (nitrile -1 to -2% and latex -7 to -9% qoq). Apart from that, higher gas cost (+5.4% qoq) would only be passed on in the subsequent quarter. The unfortunate labour shortage coincided with more stringent European Union (EU) requirements on overtime which weighed on output. To compound matters, Plant 18 had been commissioned. Absence of sufficient labour against the backdrop of incoming capacity further weighed on glove manufacturing margins. Management has since fully resolved Kossan's labour issues with the procurement of labour on a larger scale with more ample lead time.

- **Glove drags on overall earnings.** As for the TRP and cleanroom divisions, PBTs grew 9.6% and 31% qoq due to firmer deliveries and a low-base effect respectively. Softer qoq contributions from the glove manufacturing more than offset the two secondary segments and dragged overall PAT down by 9.3% qoq.

STOCK IMPACT

- **Plants 19, the final jigsaw for now.** Plant 18 (2.5b pieces p.a. or +9.4% yoy) has been fully commissioned in November and is expected to anchor FY20 earnings. Meanwhile, the targeted commissioning timeline for Plant 19 (3b pieces p.a.) is due for 1Q20, and represents a slight delay in anticipated commissioning for 4Q19. The completion of Plant 19 would further supplement annual glove production capacity to 32b pieces p.a.. We do not expect any capacity delays related to construction. Teething issues associated with Plant 16, which represented a step technological change in production operations, has since been resolved, as evidenced by Plant 17's smooth installation (full commission in end-18). Hence, should there be any capacity delays, it is likely tied to demand-supply dynamics instead of teething construction issues. However, we think the worst is over as reflected by stable lead time and ASPs.

- **Short lull in between near-term capacity addition and Bidor development?** In between Plant 19 and the Bidor development, Kossan has no dedicated capacity expansion plans. The company may opt to pursue optimising existing older plants for better efficiency gains. FY21 may represent a short lull in terms of capacity additions, seeing as efficiency gains are likely to be marginal. However, this period allows for management's efforts to be redirected to the launch of Bidor in 2022. Over the medium term, its Bidor facility will boost Kossan's manufacturing ability by another 34b gloves.

EARNINGS REVISION/RISK

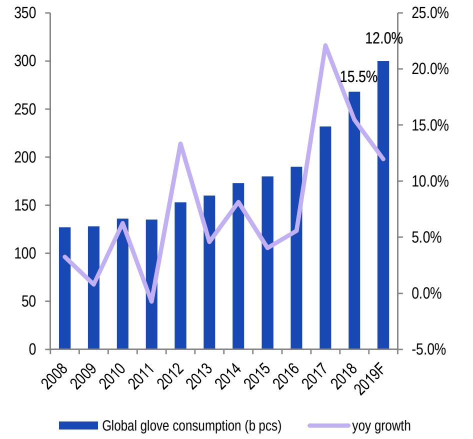
- We cut our earnings forecast by 9/4/3% for 2019/2020/2021F to account for the temporary hiccup caused by the labour shortage as well as marginally softer volume growth. Key downside risks include: a) demand-supply imbalance, b) delay in expansion plans, c) the US dollar depreciating markedly against the ringgit, and d) sudden spike in costs.

VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of RM4.70**, from RM4.88 as we lower our earnings. Our target price is based on 23x 2020F EPS, in line with the sector PE mean. Kossan offers a superior 3-year earnings CAGR (2018-21) of 15% vs Hartalega (7%) and Top Glove (8%). Over time, we envision the faster growth against consistent execution to reinvigorate Kossan's valuations. The potential rerating should narrow its discount to its FBMKLCI traded peers, Top Glove and Hartalega, whom we think should be trading at 25x and 29x respectively.

- **Discount to peers.** We believe the discount is warranted, given the company's: a) interests in other rubber-related businesses (conglomerate discount), b) smaller size and the remote possibility of being included in the FBMKLCI, and c) position as the second most susceptible company to rising competition in the nitrile glove segment since some 75% of its production revolves around this product.

GLOBAL DEMAND FOR RUBBER GLOVES (12% FOR 2019F)



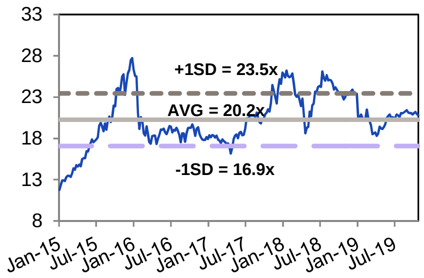
Source: Malaysian Rubber Glove Manufacturers Association

CAPACITY EXPANSION PLANS

Factory	Product Mix	Capacity p.a (bil pcs)	Targeted Commissioning
Capacity as at end 2018		26.5	
Plant 18	Nitrile	2.5	2Q19
Plant 19	Nitrile	3.0	4Q19
Total capacity		32.0	

Source: Kossan

5-YEAR FORWARD PE BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Net turnover	2,144	2,295	2,597	2,857
EBITDA	346	441	504	561
Deprec. & amort.	77	130	146	163
EBIT	269	311	358	398
Total other non-operating income	0	0	0	0
Associate contributions	0	0	0	0
Net interest income/(expense)	(19)	(18)	(17)	(16)
Pre-tax profit	249	293	341	382
Tax	(44)	(62)	(72)	(80)
Minorities	(5)	(5)	(5)	(5)
Net profit	201	227	265	297
Net profit (adj.)	201	227	265	297

BALANCE SHEET

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Fixed assets	1,266	1,446	1,626	1,806
Other LT assets	13	40	48	52
Cash/ST investment	143	87	55	54
Other current assets	695	740	769	845
Total assets	2,117	2,313	2,497	2,758
ST debt	196	176	156	136
Other current liabilities	223	353	420	547
LT debt	264	264	264	264
Other LT liabilities	90	90	90	90
Shareholders' equity	1,317	1,398	1,530	1,679
Minority interest	27	32	36	41
Total liabilities & equity	2,117	2,313	2,497	2,758

CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Operating	136	317	370	418
Pre-tax profit	249	293	341	382
Tax	(147)	(62)	(72)	(80)
Deprec. & amort.	77	130	146	163
Associates	0	0	0	0
Working capital changes	(63)	(63)	(63)	(63)
Other operating cashflows	19	18	17	16
Investing	(315)	(239)	(249)	(249)
Capex (growth)	(315)	(180)	(180)	(180)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	(59)	(69)	(69)
Financing	112	(134)	(152)	(169)
Dividend payments	0	(114)	(132)	(149)
Issue of shares	0	0	0	0
Proceeds from borrowings	113	0	0	0
Loan repayment	(1)	(20)	(20)	(20)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	(67)	(56)	(32)	0
Beginning cash & cash equivalent	210	143	87	55
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	143	87	55	54

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	16.1	19.2	19.4	19.6
Pre-tax margin	11.6	12.8	13.1	13.4
Net margin	9.4	9.9	10.2	10.4
ROA	10.1	10.2	11.0	11.3
ROE	16.2	16.7	18.1	18.5
Growth				
Turnover	9.5	7.1	13.2	10.0
EBITDA	11.7	27.5	14.3	11.3
Pre-tax profit	8.6	17.6	16.2	12.2
Net profit	9.2	13.1	16.6	12.4
Net profit (adj.)	9.2	13.1	16.6	12.4
EPS	9.2	13.1	16.6	12.4
Leverage				
Debt to total capital	25.5	23.6	21.2	18.9
Debt to equity	35.0	31.5	27.5	23.9
Net debt/(cash) to equity	24.1	25.3	23.9	20.6
Interest cover (x)	17.7	25.0	29.9	35.0

UOBKayHian

COMPANY RESULTS

Sunway Bhd (SWB MK)

9M19: Core Net Profit Up 20% yoy

Sunway's core net profit grew 20% yoy in 1H19, thanks to its core property development & investment and healthcare businesses, which contributed about 80% to bottom line. The healthcare business continued to show yoy growth momentum. Meanwhile, we expect earnings momentum to sustain in the coming quarters, underpinned by its property development & investment contribution, but dragged by its construction arm. Maintain BUY and target price of RM2.11.

9M19 RESULTS

Year to 31 Dec (RMm)	3Q19	2Q19	qoq % chg	yoy % chg	9M19	yoy % chg
Revenue	1,226.5	1,077.2	13.9	(13.4)	3,427.3	(13.4)
Construction	315.6	293.5	7.5	(32.2)	955.2	(29.7)
Property Development	126.2	113.6	11.1	(35.2)	327.7	(21.2)
Investment Property	209.7	176.1	19.1	0.2	582.5	(1.6)
Pre-tax profit	223.3	253.2	(11.8)	17.0	653.8	10.2
- Construction	33.1	47.4	(30.1)	(17.6)	124.2	(6.3)
- Property Development	59.0	37.3	58.3	32.3	129.1	5.7
- Investment Property	67.0	122.3	(45.3)	27.3	246.7	15.1
Net profit	183.4	246.5	(25.6)	26.6	566.3	22.0
Core net profit	183.4	165.2	11.0	26.6	485.0	19.7
Margins (%)			qoq ppt chg	yoy ppt chg		yoy ppt chg
Pre-tax - Construction	10.5	16.2	(5.7)	1.9	13.0	3.3
Pre-tax - Property Development	46.7	32.8	13.9	23.8	39.4	10.0

Source: Sunway, UOB Kay Hian

RESULTS

- **Slightly above expectations.** Sunway Bhd (Sunway) reported 3Q19 core net profit of RM183m (+11% qoq, +27% yoy) on revenue of RM1.3b (+14% qoq, -13% yoy). Excluding one-offs, revaluation gains of RM44m and disposal gains of RM38m, 9M19 core net profit came in at 78% of our full-year estimate. Core net profit and blended margins grew on: a) a stellar healthcare performance; b) higher net interest income; and c) lower tax expense. 9M19 earnings were partially offset by the weak trading & manufacturing and quarry segments due to sluggish demand and lower ASP, as well as a weak construction segment.

KEY FINANCIALS

Year to 31 Dec (RMm)	2017	2018	2019F	2020F	2021F
Net turnover	5,239	5,410	5,516	5,766	5,190
EBITDA	630	470	858	923	992
Operating profit	491	327	715	772	833
Net profit (rep./act.)	621	659	622	678	740
Net profit (adj.)	548	591	622	678	740
EPS (sen)	10.7	11.5	11.3	12.3	13.4
PE (x)	16.6	15.4	15.7	14.4	13.2
P/B (x)	1.0	1.0	1.0	0.9	0.9
EV/EBITDA (x)	20.9	27.9	15.3	14.2	13.2
Dividend yield (%)	2.7	2.7	2.8	3.1	3.4
Net margin (%)	11.9	12.2	11.3	11.8	14.3
Net debt/(cash) to equity (%)	47.6	47.6	41.8	35.9	29.9
Interest cover (x)	n.a.	n.a.	7.7	9.3	11.4
ROE (%)	7.6	7.8	7.2	7.5	7.8
Consensus net profit	-	-	622	682	755
UOBKH/Consensus (x)	-	-	1.00	0.99	0.98

Source: Sunway , Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.77
Target Price	RM2.11
Upside	+18.8%

COMPANY DESCRIPTION

A leading construction company and property developer in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SWB MK
Shares issued (m):	4,908.4
Market cap (RMm):	8,737.0
Market cap (US$m):	2,097.7
3-mth avg daily t'over (US$m):	1.4

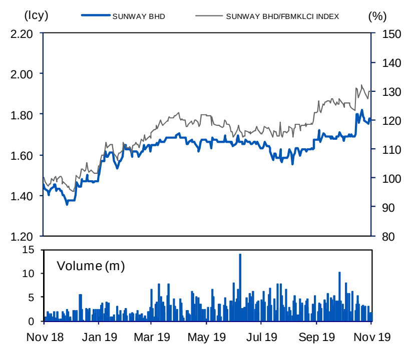
Price Performance (%)

52-week high/low RM1.82/RM1.35

1mth	3mth	6mth	1yr	YTD
4.1	12.4	6.4	22.7	23.5

Major Shareholders	%
Sungei Way Corp Sdn Bhd	51.6
Skim Amanah Saham Bumiputera	5.7
Sharp Ventures Sdn Bhd	4.0
FY19 NAV/Share (RM)	1.80
FY19 Net Debt/Share (RM)	0.75

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Property development.** The property arm reported 9M19 PBT of RM129m (+6%) on higher progressive profits recognised and a 3ppt yoy rise in operating margin to 26%. But revenue dropped due to lower billings from domestic property projects as well as a high base in 2018 on the completion of Sunway GEOSense project in 9M18. We expect billings to gradually pick up in the coming quarters on strong unbilled sales of RM2.1b (effective stake).
- **Healthcare: Higher patient occupancy.** More new beds and higher outpatient treatments contributed to bottom line but this was partly dragged by start-up cost of RM6.8m from the opening of Sunway Velocity Medical Centre in 3Q19. The segment reported a strong 9M19 operating profit of RM45m (+32% yoy) but EBIT margin was flat at 10.8% (+0.4ppt yoy).
- **Construction.** 9M19 core net profit declined 6% yoy due to completion of the Parcel F project in 1Q19, lower billings recognition from the LRT3 project due to cost optimisation for station works and precast deliveries yielding lower margins.
- **Hospitality: Subdued.** Despite reporting higher PBT of RM247m (+15%) in 9M19 due to one-off disposal gains, the hospitality and theme park segment reported lower revenue on lower occupancy and visitor arrivals. The segment also reported lower share of fair value gains of RM44m (2Q18: RM59m) from the revaluation of Sunway REIT's properties.

STOCK IMPACT

- **Property development: Sturdy property sales.** The company remains upbeat to secure RM1b sales in 2019, driven by new property launches worth RM1.2b, while expecting stronger sales in the coming quarters. Ytd, its property sales stood at RM720m which came from just new property launches in 2019 with GDV of RM850m. Sunway plans to launch its remaining two properties - Sunway Lenang Heights (GDV: RM130m) and Sunway Avila Tower B (RM230m) - in Nov 19 and Dec 19 respectively.
- **Healthcare: The unpolished gem.** The healthcare arm is expected to grow sturdily in the coming quarters, driven by its Sunway Medical Center (SMC) and Sunway Velocity Medical Center (SVMC) operations. We understand SMC is on track to securing net profit of RM80m in 2019 (2018: RM60m), thanks to more new beds and higher outpatient treatments. SVMC, which opened in Sep 19, may see operating losses in the short term, and is expected to return to the black in 12-18 months' time. We expect the two medical centres and upcoming hospitals such as Seberang Perai (end-20), Kota Damansara (2022) and Ipoh (2023) would further grow Sunway's long-term profits. Sunway hopes to unlock value via a listing of its healthcare business to fetch up to RM4.5b in IPO proceeds based on annual profits of RM150m pegged to 30x PE.
- **Strong diversified outstanding orderbook.** SunCon's outstanding orderbook backlog of RM5.6b provides earnings visibility for Sunway's construction arm for the next 3-4 years. Ytd, the company has secured new contracts worth RM1.7b from various construction and precast contracts. SunCon expects to secure new orders of RM2b in 2020, underpinned by internal and external construction works.

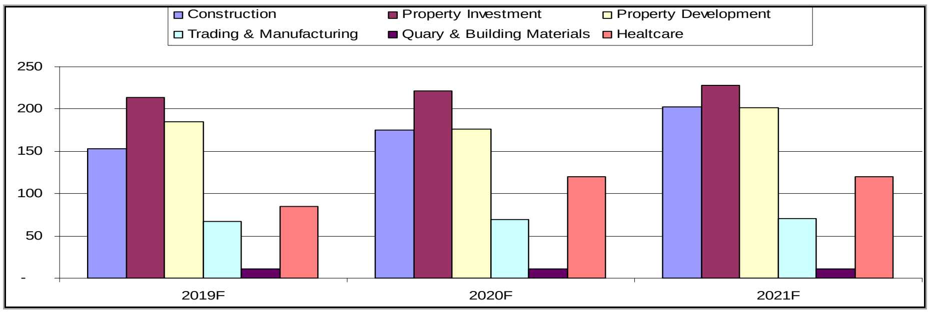
EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM2.11,** based on a 15% discount to our SOTP valuation of RM2.49/share (post dilution), and implies 17.3x 2020F fully-diluted PE. Our target price factors in the potential value of its healthcare division that could be worth RM2.5b (RM2b previously, rolling forward to 2020 healthcare earnings) based on a conservative PE of 25x and net profit of RM100m (representing RM0.51/share).

SUNWAY EARNINGS FORECASTS BREAKDOWN



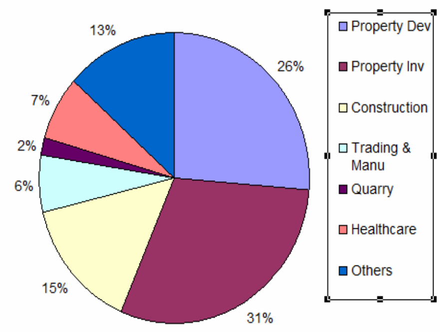
Source: Sunway, UOB Kay Hian

SOTP VALUATION

	(RMm)	Remarks
Property development	5,670.1	Property RNAV
REIT	2,288.6	Valuation based on TP of RM1.90, based on DDM
Construction	1,398.7	Valuation based on TP of RM1.99, 14x 2020F PE
Quarry & building materials	74.7	10x PE pegged to 2020 quarry profits
Trading	581.5	10x PE pegged to 2020 trading profits
Investment Properties	641.0	
Healthcare	2,500	Valuation based on 25x PE on 2020F profit of RM100m
Less: Holding co debt	(404.3)	
Total SOTP value (A)	12,894	
Share base (B)	4,918	
Warrants proceeds (C)	908.6	Conservatively assumes conversion price at RM1.44/share (expiring in Oct 24)
Total SOP value post warrants proceeds (A+C)	13,802	
Enlarged share base	5,549	
SOTP/share (RM)	2.49	
Discount	15%	
Target price (RM)	2.11	

Source: UOB Kay Hian

SUNWAY 9M19 PBT BREAKDOWN



Source: Sunway Bhd, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Net turnover	5,410	5,516	5,766	5,190
EBITDA	470	858	923	992
Deprec. & amort.	143	143	151	158
EBIT	327	715	772	833
Total other non-operating income	233	n.a.	n.a.	n.a.
Associate contributions	229	229	229	229
Net interest income/(expense)	62	(111)	(100)	(87)
Pre-tax profit	851	833	902	975
Tax	(122)	(142)	(153)	(166)
Minorities	(70)	(70)	(70)	(70)
Net profit	659	622	678	740
Net profit (adj.)	591	622	678	740

BALANCE SHEET

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Fixed assets	1,856	1,963	2,062	2,154
Other LT assets	9,509	9,509	9,509	9,509
Cash/ST investment	5,134	5,470	5,848	6,270
Other current assets	4,587	4,587	4,587	4,587
Total assets	21,086	21,529	22,006	22,520
ST debt	6,057	6,057	6,057	6,057
Other current liabilities	2,663	2,663	2,663	2,663
LT debt	3,118	3,118	3,118	3,118
Other LT liabilities	144	144	144	144
Shareholders' equity	8,485	8,858	9,265	9,708
Minority interest	620	690	760	830
Total liabilities & equity	21,086	21,529	22,006	22,520

CASH FLOW

Year to 31 Dec (RMm)	2018	2019F	2020F	2021F
Operating	794	835	899	968
Pre-tax profit	851	833	902	975
Tax	(107)	(142)	(153)	(166)
Deprec. & amort.	143	143	151	158
Associates	(16)	0	0	0
Working capital changes	(195)	0	0	0
Other operating cashflows	119	0	0	0
Investing	(912)	(250)	(250)	(250)
Capex (growth)	(690)	(250)	(250)	(250)
Investments	(16)	0	0	0
Proceeds from sale of assets	360	0	0	0
Others	(566)	0	0	0
Financing	868	(249)	(271)	(296)
Dividend payments	(393)	(249)	(271)	(296)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,144	0	0	0
Loan repayment	0	0	0	0
Others/interest paid	117	0	0	0
Net cash inflow (outflow)	750	336	378	422
Beginning cash & cash equivalent	2,237	2,975	3,311	3,689
Changes due to forex impact	2,147	2,159	2,159	2,159
Ending cash & cash equivalent	5,134	5,470	5,848	6,270

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	8.7	15.6	16.0	19.1
Pre-tax margin	15.7	15.1	15.6	18.8
Net margin	12.2	11.3	11.8	14.3
ROA	3.1	2.9	3.1	3.3
ROE	7.8	7.2	7.5	7.8
Growth				
Turnover	3.3	2.0	4.5	(10.0)
EBITDA	(25.3)	82.5	7.6	7.4
Pre-tax profit	(2.5)	(2.1)	8.2	8.2
Net profit	6.1	(5.7)	9.2	9.0
Net profit (adj.)	7.9	5.1	9.2	9.0
EPS	7.8	(2.0)	9.1	8.9
Leverage				
Debt to total capital	50.2	49.0	47.8	46.5
Debt to equity	108.1	103.6	99.0	94.5
Net debt/(cash) to equity	47.6	41.8	35.9	29.9
Interest cover (x)	n.a.	7.7	9.3	11.4

UOBKH HIGHLIGHTS

Deleum (DLUM MK/BUY/RM1.06/Target: RM1.17)

3Q19: In Line, Expecting a Strong 4Q19

Year to 31 Dec	3Q19 (RMm)	qoq % chg	yoy % chg	Ytd 2019 (RMm)	yoy % chg
Revenue	296.5	39.8	69.0	636.2	50.3
- Power & Machinery (P&M)	179.7	87.2	98.8	345.7	47.1
- Oilfield Services (OS)	37.1	(6.9)	4.9	108.7	15.7
- Integrated Corrosion Solution (ICS)	79.5	4.4	60.6	181.5	93.0
EBIT	22.6	84.3	64.8	36.5	7.9
- Power & Machinery	18.8	204.8	89.2	29.9	14.1
- Oilfield Services	0.2	(106.9)	(95.0)	1.6	(88.6)
- Integrated Corrosion Solution	3.6	(58.9)	na	5.0	(177.9)
Operating Margin	*7.6%*	*1.8%*	*-0.2%*	*5.7%*	*-2.3%*
Impairment Loss	0.0	nm	nm	nm	nm
Net finance Cost	(0.9)	7.6	23.5	(2.3)	9.5
Associates	1.7	0.7	43.2	5.7	(82.4)
PBT	23.5	76.7	64.8	39.9	121.1
Tax	(5.1)	485.0	57.4	(7.9)	(23.2)
Net Profit	13.1	51.3	43.8	24.6	24.8
Core Profit	13.9	31.8	42.6	27.1	34.8
EPS (sen)	3.3			6.2	
DPS (sen)				1.40	

Year	EPS (sen)	Revision (%)	PE (x)
2019F	10.1	-	10.5
2020F	11.2	-	9.5
2021F	12.9	-	8.3

Source: Deleum, UOB Kay Hian

RESULTS

- **Higher earnings delivery was expected.** With strong >30% growths in 3Q19 core earnings, 9M19 core profit met 67%/ 90% of our/ consensus forecasts respectively. We deem the results in line and met management's guidance for activity pick-up towards a stronger 2H19. However, earnings beat consensus estimate as 4Q is historically a strong quarter on the ramp-up of P&M work orders.
- **On a yoy basis,** P&M was the strong performer on revenue surge from both sales of equipment and retrofit works as management previously guided the material overhaul works are expected to pick up from 3Q19. Even though there was still margin compression on sales mix, P&M EBIT was still stronger than expected vs our 2019 forecast of RM46m. For OS, slickline revenue was RM33m (2Q19: RM39m, 3Q18: RM33m). Although MCM activity remained high in 3Q19 at RM60m (2Q19: RM57m, 3Q18: RM46m), the ICS profit decline was disappointing due to continuous MCM margin pressure despite improving profits from the Blasting contract..
- **On a qoq basis,** P&M profit more than doubled on higher activities even though the OS and ICS divisions failed to match management's expectations. Although OS recovered qoq from the RM3m loss in 2Q19, EBIT was still below average as the cost base is still high given there was still a portion of rented and third-party charter among the slickline units. Margin pressure from MCM had reduced the ICS earnings qoq.
- **Balance sheet.** Deleum's orderbook is RM2.5b. Cash remained at RM106m (2Q19: RM102m) against borrowings of RM64m (2Q19: RM72m). It spent RM61m capex, a ramp-up from RM35m in 2Q19, especially so given MCM's heavy working capital requirements.

EARNINGS REVISION

- **Retain 2019-21 net profit forecasts** of RM40m, RM45m and RM52m respectively. We retain our view that P&M, its most recurring segment, will have a strong 2019 given the backlog of critical overhaul works. Management previously guided for an exceptionally strong 3Q19, while 4Q may be slightly softer qoq due to a high base. Excluding 4Q18, 4Q historically delivered profits of RM13m-16m. We also believe the ICS and OS segments should see improving profitability as they gradually pass the high-cost phases.

RECOMMENDATION

- **Retain BUY and target price at RM1.17,** pegged to 10x 2020F PE and implies 5% dividend yield. Although Deleum is still highly dependent on local upstream work orders, we see visibility will improve, driven by improving outlook from its P&M segment. Unlike most of its local listed peers that recorded higher valuations due to sentiment, Deleum's laggard valuations offer a bargaining opportunity. Deleum's strict dividend policy of 50% and strong cash flow management set it apart from other O&G peers and offer downside protection for the stock.

ANALYST

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UOBKH HIGHLIGHTS

Ekovest (EKO MK/SELL/RM0.85/Target: RM0.56)

Ekovest Buys IWH Land For RM1.05b

Ekovest Bhd has proposed to buy 20 parcels of freehold development land in Johor Bahru for a total of RM1.05 billion from Iskandar Waterfront Holdings Sdn Bhd (IWH). Through this proposed acquisition, Ekovest will then enter into two SPA purchase namely a) SPA1; to acquire 17 land parcels measuring 75.3acres valued at RM869.7m (funded via ICPS conversion of RM850m and cash of RM20m) and b) SPA2; to acquire 3 land parcels measuring 15.6acres valued at RM180m (funded via RM180m cash). These two lands worth RM1.05b (RM265 psf) are currently valued at a discount of 5.3% to the aggregate market value (valuation based on comparison method by valuer named Raine+Horne) and the proposed acquisition will be funded via issuance of ICPS (issuance of 850m ICPS at an issue price of RM1/ICPS) and internal funds of RM200m. Each ICPS shall be convertible to 1 new Ekovest share, representing premium of 26.09% over the five (5)-day VWAP of Ekovest shares.

COMMENTS

- **Expect negative reaction; negatively perceived as a potential "bailout".** Recall, Ekovest shares has plummeted previously following its plan takeover IWCity at RM1.50/share as shareholders were cautious on the proposal particularly the landbank owned by IWCity are located in Johor coupled with the unattractive offer for 1-to-1 share swap (of Ekovest and IWCity shares). Investors deemed Ekovest at the losing end during the exercise as IWCity will be able to "free up" their balance sheet to the merger entity. Similarly, this recent proposal may be perceived as a potential "bail out" exercise by the market as the proposed land acquisition will potentially not benefit Ekovest in the near to medium term amid the soft property market due to severe overhang in Johor and as such, Ekovest is unlikely to be able to monetise it in the foreseeable future. In addition, market may potentially perceive the proceeds from the land disposal by IWH will be channelled for the funding of Bandar Malaysia development plan which are expected to be sealed in end 2019. Also, the transaction is highly dilutive to Ekovest's earnings in the near term, while will stress its balance sheet position from net gearing of 1.02x to 1.15x (including Duke3 borrowings). Separately, our assessment suggests the proposed land price offer (RM265/sqf) is at premium to the latest average transacted selling price of RM180/psf around similar location.
- As of 15 Nov 19, the company has a total of 2,655m share with issued capital valued at RM1,118m.
- Upon fully ICPS conversion, Ekovest no of outstanding shares will increase by 850m shares while its equity attributable to shareholder will rose to RM3,300m (from RM2,452m). Based on our estimates, upon full conversion of ICPS and land acquisition to follow through, our TP will be reduced to RM0.74/share (based on no discount to land purchase price) and RM0.70/share (based on 30% discount to land purchase price). Illustration depicted as follow:

EKOVEST TP ILLUSTRATION

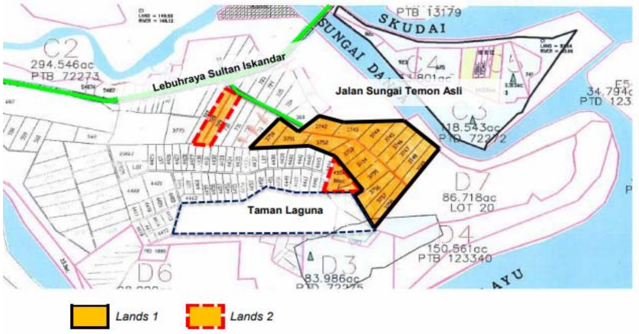
(RMm)	As of 15 Nov 19	After Proposed Acquisition & Full Conversion of ICPS	Revised TP After Proposed Acquisition & Full Conversion of ICPS
No. of Shares (A)	2,655	2,655	2,655
Share placement (B)	215	215	215
No of ICPS (C)		850	850
No of shares (post full conversion of ICPS) (D) = (A) + (B) + (C)	2,869	3,719	3,719
Target Price			
Ekovest SOTP (E), (inclusive placement proceeds valued at RM0.83/share)	4,434	4,433*	4,433*
Land acquisition (valued at purchase price) (F)		1,050	1,050
Less discount** (30%) (G)		No discount	-315
Revised Ekovest SOTP (H) = (E) + (F) + (G)	4,434	5,483	5,168
SOTP/share (RM) = (H) / (D)	1.55	1.47	1.39
Less: Discount 50%/50%/60	-0.78	-0.74	-0.83
	RM0.77	RM0.74	RM0.56

** Includes one off expense of RM1.5m*
*** Assuming further discount to proposed land purchase price*
Source: Ekovest, UOB Kay Hian

PROPOSED LAND LOCATION

(Source: Comprehensive Development Plan from the Iskandar Regional Development Authority (IRDA))

EXACT PROPOSED LAND LOCATION



(Source: Market Feasibility Report)

- **Details of land acqusition.** The proposed acquisition freehold land is strategically located in between Johor Bahru (JB) city and Iskandar Puteri and the land is accessible to 11 different major highways; couple with the potential of the future developments of public transportations surrounding the area including the Iskandar Malaysia BRT and the proposed RTS. The approved current plot ratio is 1:4, with potential GDV ranging between RM8.7b to RM11.8b.

RECOMMENDATION

- **Downgrade to SELL with lower SOTP-based target price of RM0.56 (from RM0.77),** following the negative proposed land acquisition which will be perceived negatively by investors. Our SOTP-based target price is based on higher discount to SOTP of 60% (from 50%) to SOTP of RM1.39/share and implies 8.7x FY20 PE.

ANALYST

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UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRCB MK/HOLD/RM0.75/Target: RM0.83)

3Q19: Missed Expectations; Downgrade To Hold

Year to 31 Dec	3Q19 (RMm)	2Q19 (RMm)	qoq % chg	yoy % chg	9M19 (RMm)	yoy % chg
Revenue	372.7	241.0	54.7	(43.8)	847.8	(43.4)
Construction	137.4	150.8	(8.9)	(22.5)	420.9	(25.0)
Property Development	215.0	71.2	201.8	(54.2)	371.4	(57.9)
Others	20.4	19.0	7.4	22.8	55.5	10.5
EBIT	0.0	26.9	(100.0)	(100.0)	47.6	(62.1)
Engineering & Construction	1.8	(15.2)	(111.6)	(53.8)	3.3	(92.7)
Property Development	22.8	44.0	(48.1)	(32.4)	69.8	(21.4)
Others	3.4	(1.9)	(281.9)	(54.7)	2.5	(917.4)
Associates & JV	2.7	1.3	111.5	(79.6)	5.9	(80.1)
PBT	14.3	9.8	45.4	(64.7)	32.5	(71.5)
Net Profit	2.5	11.1	(77.2)	(87.3)	17.7	(76.3)
Core Net Profit	2.5	21.1	(88.0)	(87.3)	27.7	(62.9)
EBIT Margin	%	%	qoq ppt chg	yoy ppt chg	%	ppt chg
Construction	1.3	(10.1)	11.4	(0.9)	0.8	(7.2)
Property	10.6	61.7	(51.1)	3.4	18.8	8.7
Core Net Margin	0.7	8.7	(8.1)	(2.3)	3.3	(1.7)

Year	Net Profit (RMm)	EPS (sen)	PE (x)
2019F	38.0	0.9	87.8
2020F	82.6	1.9	40.3
2021F	122.9	2.8	27.1

Source: MRCB, UOB Kay Hian

RESULTS

- **9M19: Missed expectations.** Malaysian Resources Corporation (MRCB) reported a 3Q19 core net profit of RM3m (-88% qoq, -87% yoy) on revenue of RM373m (+55% qoq, -44% yoy), with its 9M19 net profit accounting for only 55% and 47% of our and consensus full-year estimates. Key variances against our forecasts were driven by; a) slower-than-expected progress billings for its construction projects and property unbilled sales yielding lower margins b) lower-than-expected sales from its completed properties; and c) higher tax expense as some costs incurred were not tax deductible.

- **Property development: Sluggish property sales.** The property arm reported a lower 9M19 property profit (-21% yoy) owing to: a) high base in 9M18 following land disposals namely in Penang and Kia Peng with pre-tax profit at RM67m; b) slower-than-expected progress billing recognitions on unbilled sales as most of the projects are still in the early stages of construction (9M19 unbilled sales: RM1.7b); and c) no revenue was recognised from completed units pending SPA signing. Ytd, property sales came in at RM398m, including property sales that were pulled out recently worth ~RM100m. The company is hopeful about finding new replacements for the "pulled-out" units to pare down its inventory of RM450m (ie RM150m commercial units from Vivo Seputeh and RM300m from various residential units). Separately, MRCB has postponed its future launches (ie Kwasa Sentral Residence; GDV RM300m) to 1H20 amid the soft domestic property market.

- **Construction: Slower progress arising from variation orders.** 9M19 construction revenue fell to RM421m (-25% yoy) due to lower billings recognition of selected key projects such as the MRT2, SUKE, and DASH arising from variation orders from clients. Meanwhile, construction EBIT has dropped 93% yoy arising from legal proceeding costs of RM10m and higher expense for certain completed projects pending finalisation of final accounts. Also, under JV contribution, MRCB booked profits of RM1.2m in 9M19, down from RM21m in 9M18, largely due to deferment of progress billings while the project review is still ongoing and expected to be concluded with the respective work package contractors in 1H20. The LRT3 project progress is expected to pick up gradually from 1H20 onwards.

EARNINGS REVISION

- We reduce our 2019-21 net profit forecasts by 10-26% to factor in lower billings for its outstanding construction orderbook and unbilled property billings coupled with tweaking our margins assumptions, lowering property sales target to RM500m (RM700m previously) and higher tax rate for the company.

RECOMMENDATION

- **Downgrade to HOLD with lower target price of RM0.83, post earnings revision.** Our target price is based on a 15% discount to our SOTP valuation of RM0.98/share, implying 44x 2020F. PE We have factored a higher discount to our SOTP of 15% (from 10%) in light of sequentially disappointing quarterly results, coupled with the slower-than-expected mega project roll-outs that would potentially benefit MRCB. However, we continue to expect good trading opportunities from this counter should the revival of mega projects materialise as this counter is a one of the liquid proxy plays within the construction space.

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UOBKH HIGHLIGHTS

OCK Group (OCK MK/BUY/RM0.58/Target: RM0.72)

3Q19: Results In Line, Well-Positioned To Benefit From Telco Capex

Year to 31 Dec(RMm)	3Q19	qoq % chg	yoy % chg	9M19	yoy % chg	Year	EPS (sen)	Revision (%)	PE (x)
Turnover	131.1	13.1	19.4	350.4	8.5	2019F	3.5	-	16.8
EBIT	19.8	20.3	4.2	51.9	10.8	2020F	3.9	-	14.9
Pre-tax Profit	11.5	18.6	(24.0)	29.4	(10.0)	2021F	4.2	-	13.9
Tax	(2.4)	0.5	(55.6)	(6.3)	(28.7)				
Reported Net Profit	8.5	21.5	9.0	20.8	21.5				
Core Net Profit	8.5	21.5	9.0	20.8	7.6				
	(%)	+/- ppt	+/- ppt	(%)	+/- ppt				
EBIT Margin (%)	15.1	0.9	(2.2)	14.8	0.3				
EBITDA Margin (%)	29.3	1.0	5.2	20.3	5.0				
PBT Margin (%)	8.8	0.4	(5.0)	8.4	(1.7)				
Net Margin (%)	6.5	0.4	(0.6)	5.9	(0.0)				

Source: OCK, UOB Kay Hian

RESULTS

- **Earnings within expectations.** OCK reported 3Q19 core net profit of RM8.5m (+9% yoy; +22% qoq), driven by a 19% yoy and 13% qoq revenue uplift. This is partly offset by higher finance cost and higher depreciation as OCK continues to expand its tower leasing business. 9M19 core net profit of RM20.8m (+8% yoy) accounts for 69% of our full-year net profit forecast of RM30.1m. We deem the results to be in line. We expect a strong 4Q19 as it is typically the strongest quarter for OCK, with more job orders streaming in from its telco partners.
- **3Q19 revenue growth** was driven by higher telecommunications network service (TNS) revenue (+17% yoy, +16% qoq) and higher qoq contribution from Green Energy division (-1% yoy, +52% qoq). We expect TNS jobs to pick up further in 4Q19, in line with the capex roll-out of telco players

REVENUE AND EARNINGS BY SEGMENT

Year to 31 Dec (RMm)	3Q18	2Q19	3Q19	qoq % chg	yoy % chg	9M18	9M19	yoy % chg
TNS	92.0	93.1	107.9	15.9	17.3	280.0	287.8	2.8
Green Energy	9.2	6.0	9.1	50.6	(1.2)	26.4	21.7	(17.8)
Trading	3.8	4.3	1.8	(57.6)	(51.9)	6.4	11.8	84.9
M&E	4.8	12.4	12.2	(1.4)	>100	10.1	29.1	>100
Total Revenue	109.8	115.8	131.1	13.1	19.4	322.8	350.4	8.5
TNS	14.3	7.8	9.0	16.1	(37.1)	33.2	24.4	(26.6)
Green Energy	0.4	0.1	0.7	>100	80.2	2.2	1.5	(31.4)
Trading	0.8	0.5	1.1	97.3	41.3	1.5	2.8	81.3
M&E	0.1	2.3	0.6	(72.2)	>100	(0.4)	2.9	>100
Investment holding	(0.5)	(1.1)	0.0	>100	>100	(4.0)	(2.2)	(44.5)
Pre-tax Profit	15.1	9.7	11.5	18.6	(24.0)	32.6	29.4	(10.0)

Source: OCK, UOB Kay Hian

STOCK IMPACT

- No change to our earnings forecasts.
- **Potential beneficiaries of NFCP.** We believe OCK is well-positioned to benefit from the National Fiberisation and Connectivity Plan (NFCP) rollout initiatied by the regulator, MCMC. The NFCP will focus on rural fibre rollout to enable greater digital connectivity. This will drive growth in OCK's TNS segment. Importantly, we believe the additional RM210m allocated by the government during Budget 2020 for digital infrastructure in schools and high impact areas will benefit telco contractors like OCK.
- **OCK is also a beneficiary of a nationwide 5G rollout for Malaysia.** Key areas of work include: a) network densification requirements as more cell towers will need to be installed; and b) core network to be upgraded to support higher bandwidth and new 5G features (such as network slicing). Having said that, we expect meaningful 5G rollout to take off only in 2021-22.

VALUATION/RECOMMENDATION

- **Maintain BUY and SOTP-based target price of RM0.72**, or 21x 2019F PE and 10x EV/EBITDA. We like OCK's earnings quality as the group focuses on long-term recurring income from the towerco business.

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UOBKH HIGHLIGHTS

PPB Group (PEP MK/HOLD/RM18.24/Target: RM16.00)

3Q19: Results Within Expectations

3Q19 RESULTS							Earnings Forecasts		
Year to 31 Dec	3Q19 (RMm)	qoq % chg	yoy % chg	9M19 (RMm)	yoy % chg	Comments	Year	EPS (sen)	PE (x)
Revenue	1,193.8	3.6	5.0	3,503.1	4.1	Better qoq and yoy mainly attributed to stronger contribution from Wilmar and higher performance from the grains and agribusiness segment.	2019F	70.4	23
EBIT	52.5	(11.8)	5.5	188.2	1.0		2020F	93.3	17
Grains & Agribusiness	30.9	>100	>100	86.0	(11.7)	Strong performance driven by improved flour prices, partially offset by higher raw material costs.	2021F	96.6	17
Consumer Products	1.4	(50.0)	7.2	7.1	(27.1)	Lower earnings due to higher operating costs at the bakery division.			
Film exhibition & Distribution	16.6	(18.9)	(29.5)	52.4	1.4	Lower qoq and yoy as there are fewer strong titles in 3Q19.			
Environmental Engineering & Utilities (EE&U)	5.8	>100	62.0	9.2	(34.5)	Good performance with progressive recognition of profit from new projects secured.			
Property	1.6	(76.4)	(68.3)	10.6	(19.8)				
Other Operations	10.5	(36.9)	945.8	36.8	45.4				
Associate	365.7	>100	12.4	711.0	(4.0)				
PBT	421.8	>100	12.3	883.0	(4.1)				
Core Net Profit	394.2	>100	9.6	802.6	(6.0)	Within our expectations.			

Source: PPB, UOB Kay Hian

RESULTS

- **Earnings within expectations.** PPB Group (PPB) reported a core net profit of RM394m (>100% qoq, +9.6% yoy) in 3Q19. Earnings were within our expectation, where the 9M19 results contributed about 80% of our full-year consumption.
- **Good performance for 3Q19,** mainly attributed to: a) stronger contribution from Wilmar; b) good performance from grains & agribusiness segment with improved flour prices and c) progressive profit recognition from new projects secured for the environmental engineering & utilities segment. However, the consumer products earnings remain low with higher operating costs at the bakery division. The film exhibition & distribution segment had dipped slightly in the quarter as no strong titles were released.

IMPACT

- **Earnings remain stable in 4Q19.** We reckon that the grains & agribusiness segment would remain strong due to festive demand. The film exhibition & distribution segment would also continue to come in stronger with strong movie titles and the cinema count expansion. We are also expecting good results from Wilmar in 4Q19, on the back of higher utilisation rate and crushing margins from the oilseeds & grains segment and positive contributions from the sugar division as the crushing season starts in India.
- **Expansion of film exhibition & distribution segment.** PPB is targeting to open nine new cinemas in the coming four years in various locations in Malaysia. Cinema operations will continue to expand across Malaysia and Vietnam. The company is also looking for opportunities to enter the Myanmar market. This segment is expected to continue with the good performance, supported by the introduction of new cinematic technology and facilities in selected locations, opening of new cinemas and strong title releases.

EARNINGS REVISION

- **Maintain earnings forecasts.** We maintain our net profit forecasts at RM1,002m, RM1,328m and RM1,374m for 2019-21F.

RECOMMENDATION

- **Maintain HOLD with a target price of RM16.00** Our SOTP-based target price is based on 25x 2020F PE for the grains & agribusiness as well as the film exhibition & distribution segments, 15x 2019F PE for the consumer products segment, 10x 2019F PE for the environmental engineering & utilities segment, 8x 2019F PE for the property segment, and fair value for its 18.5% stake in Wilmar and 14.0% stake in Maybulk. We maintain HOLD for the potential special dividend coming from Wilmar International (WIL SP)'s China IPO and also potential strong performance from Wilmar's share price post the listing of its China operation. Our current target price for Wilmar is based on blended PE of 23x for China IPO. Entry price RM14.50.

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UOBKH HIGHLIGHTS

Tune Protect Group (TIH MK/HOLD/RM0.57/Target: RM0.63)

3Q19: Premiums Growth Remains Challenging

3Q19 RESULTS

Year to 31 Dec	3Q19 (RMm)	3Q18 (RMm)	qoq % chg	yoy % chg	9M19 (RMm)	yoy % chg	FY	EPS (sen)	PE (x)
Gross Earned Premium	115.8	134.6	0.7	(13.9)	352.2	(13.0)	2019F	8.2	8.3
Less: Reinsurance	(54.2)	(61.3)	4.4	(11.5)	(162.4)	(12.1)	2020F	8.6	8.0
Net Earned Contribution	61.6	73.3	(2.5)	(15.9)	189.8	(13.8)	2021F	9.6	7.1
Investment & other Income	16.5	9.8	16.0	68.6	39.8	74.1			
Less: Net Benefits & Claims	(25.0)	(23.4)	(0.8)	6.5	(69.4)	(12.9)			
Less: Other expenses & Commissions	(10.0)	(11.5)	(6.0)	(13.4)	(30.4)	(0.9)			
Less: Management Expenses	(28.0)	(39.6)	(14.7)	(29.3)	(85.1)	(7.2)			
Associate	0.9	2.1	(41.0)	(59.1)	3.4	(1.2)			
PBT	16.3	11.7	51.9	39.6	49.4	8.5			
Less: Tax	(1.4)	(1.6)	(262.7)	(16.0)	(2.7)	(29.1)			
Less : MI	(4.0)	(0.9)	350.5	328.1	(6.7)	108.1			
Net Profit	11.0	9.1	2.6	20.3	40.0	3.9			
Key Ratio (%):	3Q18	4Q18	1Q19	2Q19	3Q19				
Claims Ratio	32.0	28.3	29.6	39.8	40.5				
Expense Ratio	54.0	57.0	37.4	51.9	45.4				
Underwriting Margin	(1.7)	(1.0)	18.0	(8.6)	(2.1)				
Combined Ratio	101.7	101.0	82.0	108.6	102.1				

Source: Tune Protect Group, UOB Kay Hian

RESULTS

- **3Q19 in-line.** Tune Protect Group (Tune) reported 3Q19 net profit of RM11.0m (20.3% yoy, 2.6% qoq), in line with our estimate. 9M19 net profit represents 65% of our full-year estimate which we deem to be in line as 4Q is seasonally the group's strongest quarter (year-end holiday season) where it typically comprises 31-33% of full-year earnings. Strong investment income growth (+68.6% yoy) and lower management expense (-29.3% yoy) on the back of lower advertising, debtors impairment and staff cost helped to offset challenging top-line growth which saw net earned premium decline 15.9% yoy.
- **Broad-based weakness in premiums; expecting challenging environment to persist.** Gross and net premiums declined 13.9% yoy and 15.9% yoy in 3Q19 and 13.0% and 13.8% in 9M19 respectively. Both travel and non-travel gross premiums fell. Non-travel gross premiums (-16.4% yoy) was impacted by contraction in both motor and non-motor portfolios which contracted 13.1% and 18.6% yoy respectively. The decline in motor premiums was partly attributed to its on-going portfolio restructuring to manage its loss ratio. Travel gross premiums declined 19.3% yoy, due to retention rate changes and changes in AirAsia's website booking layout, which negatively impacted bookings. Management highlighted that the challenging economic environment and a regulatory landscape will continue to challenge near-term growth outlook.

EARNINGS REVISION

- No changes.

VALUATION/RECOMMENDATION

- **Maintain HOLD and target price of RM0.63 (0.88x 2019F P/B, 11.4% ROE, implied 7.8x 2019F PE).** We value the stock based on Gordon Growth valuation, assuming ROE of 11.4%, COE of 12.5% and long-term growth of 3.0%. Entry price: RM0.50

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UOBKH HIGHLIGHTS

WCT Holdings (WCTHG MK/HOLD/RM0.90 /Target: RM0.91)

9M19: Within Expectations

Year to 31 Dec	3Q19 (RMm)	2Q19 (RMm)	qoq % chg	yoy % chg	9M19 (RMm)	yoy % chg
Revenue	368.3	450.1	(18.2)	(4.5)	1,333.0	(16.4)
Construction	258.0	347.8	(25.8)	(16.0)	983.6	(20.6)
Property Development	61.9	51.7	19.8	90.1	198.9	(11.6)
Investment Property	48.4	50.6	(4.3)	4.5	150.6	14.3
COGS	(275.1)	(351.3)	(21.7)	(18.4)	(1,022.1)	(22.4)
EBIT	93.2	98.8	(5.7)	92.1	310.9	11.5
Construction	25.1	38.2	(34.3)	11.5	96.4	(20.2)
Property Development	6.2	8.0	(22.2)	(18.4)	51.1	(6.8)
Investment Property	22.9	22.6	1.3	(33.2)	72.8	3.0
Net Interest	(37.3)	(38.3)	(2.8)	1.7	(113.5)	17.0
JV & Associates	(5.5)	7.7	(171.8)	(497.1)	2.8	(235.9)
PBT	11.4	38.2	(70.1)	(64.5)	109.6	(27.0)
Taxation	0.2	(16.7)	(101.1)	(102.0)	(37.7)	(24.3)
PATAMI	13.3	22.7	(41.3)	(49.0)	76.3	(27.7)
Core PATAMI	26.0	22.7	14.6	(771.6)	58.0	56.8
Margins	%	%	+/-ppt	+/-ppt	%	+/-ppt
EBIT – Construction	9.7	11.0	(1.2)	2.4	9.8	0.1
EBIT - Property Development	10.1	15.5	(5.4)	(13.4)	25.7	1.3

Year	Net Profit (RMm)	EPS (sen)	PE (x)
2019F	76.4	4.9	18.4
2020F	88.1	5.7	15.8
2021F	108.7	7.0	12.9

Source: WCT Holdings, UOB Kay Hian

RESULTS

- **In-line.** WCT Holdings (WCT) reported a 3Q19 core net profit of RM13m (-41% qoq, "nm" yoy) and revenue of RM368m (-18% qoq, -5% yoy). Excluding one-off items and RM32.8m gains from disposals and debt impairment amounting to RM14.5m from the Sabah and Vietnam project, 9M19 core net profit of RM57m (+57% yoy from a low base) came in within expectations at 76% of our estimate but missed consensus estimate tracking at 54%. We expect earnings momentum to sustain underpinned by: a) billings recognition on its construction orderbook backlog of RM5.6b, b) lower borrowings costs as a result of ongoing asset monetisation of completed inventory and idle landbank; and c) improvement in JV earnings due to better performances from investment properties as well as reduced losses from its hotel operations.
- **Construction: Margins eased in 3Q19.** The construction division recorded a 3Q19 EBIT of RM25m (-34% qoq, +12% yoy) on revenue of RM258m (-26% qoq, -16% yoy). The qoq and yoy declines in revenue were largely due to lower billings as less work was done for selected key projects like the LRT3, while some construction works were near completion during the quarter. Separately, construction margins have eased by 1.2ppt qoq due to project delays. Meanwhile, we expect construction margins to ease and normalise in the high-single-digit levels in the coming quarters with a large chunk of its recently-awarded mega project recording lower-than-expected margins (ie building works). Ytd, no new jobs were secured for its construction arm with the exception of WCT which has received a letter of intent to build a mixed development project for RM1b from Impian Ekspresi (a related party transaction). The award of the contract is subject to further negotiations and finalisation of terms and conditions. At present, current outstanding orderbook stands at about RM5.6b (3.0x 2018 construction revenue).
- **Property: Sluggish property sales.** The property arm reported 3Q19 EBIT of RM6m (-22% qoq, -18% yoy), while margins fell by 5ppt (qoq) and 13ppt (yoy) to 10% as the recent property sales transactions yielded lower margins. We expect margins to remain at this current level as the company is actively pursuing efforts to clear its inventory at huge discounts. As of 9M19, unbilled sales stood at RM100m while ytd property sales stood at RM200m with an addition of RM135m property bookings pending SPA signing.
- **Investment property: Improved occupancy rate.** WCT's 9M19 investment property earnings grew by 3% yoy to RM73m on the back of contribution of improved occupancy at Paradigm Johor Bahru (JB) and higher rental income from Bukit Tinggi Shopping Mall, but partially offset with losses from Subang Skypark. Most of its investment properties have good occupancy rates ranging 85-100%, while Paradigm JB has an occupancy rate of 92%.

EARNINGS REVISIONS

- No changes in earnings.

RECOMMENDATION

- **Maintain HOLD with an SOTP-based target price of RM0.91** based on a 15% discount to our SOTP valuation of RM1.07/share and implying 16.1x 2020F PE (historical mean PE: 15x). Our SOTP based valuation has factored a conservative discount to property RNAV (50%), while construction arm valuation is pegged to 13x 2019F construction profits. We expect the company's performance to remain range-bound in the near term until WCT is able to significantly deleverage, including monetising its assets via REITs listing. The REITs listing exercise may be hampered at this point of time due to high-yield listing requirements put forth by investors. Entry price: RM0.80.

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TRADERS' CORNER

Source: BursaStation Professional

Tambun Indah Land (TILB MK)

Technical BUY with +9.2% potential return

Last price: RM0.76

Target price: RM0.805, RM0.83

Support: RM0.74

Stop-loss: RM0.735

BUY with a target price of RM0.83 and stop-loss at RM0.735. On yesterday's activity, the stock price managed to close above the BBI line and we expect TILB to continue on the upward movement hereafter. This bullish movement is supported by the MACD and DMI, which are currently on a bullish crossover. This is also consistent with the uptick in the RSIs, which suggests stronger buying momentum ahead. We peg our targets at RM0.805 and RM0.83 in the near term.

Expected Timeframe: 2 weeks to 2 months

Source: BursaStation Professional

BP Plastics Holdings (BPP MK)

Technical BUY with +13.1% potential return

Last price: RM1.07

Target price: RM1.16, RM1.21

Support: RM1.00

Stop-loss: RM0.995

BUY with a target price of RM1.21 and stop-loss at RM0.995. A successful closing above the BBI line on the back of higher trading volumes points to improving sentiment as BPP looks set to resume the upward move. This is supported by the positive readings from the MACD which suggest the overall bullish bias is intact. Moving forward, we expect BPP will continue the bullish movement towards our targets at RM1.16 and RM1.21 in the near term.

Expected Timeframe: 2 weeks to 2 months.

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