UOBKayHian

Malaysia Daily

Thursday, 27 February 2020

PLEASE CLICK ON THE PAGE NUMBER TO MOVE TO THE RELEVANT PAGE.

KEY HIGHLIGHTS

KEY INDICES

	Index	pt chg	% chg
FBMKLCI	1,495.19	(5.7)	(0.4)
Bursa Emas	10,670.03	(65.5)	(0.6)
Ind Product	138.84	(4.6)	(3.2)
Finance	14,376.10	(23.8)	(0.2)
Consumer	613.79	(4.7)	(0.8)
Construction	193.73	(2.5)	(1.3)
Properties	749.73	(1.4)	(0.2)
Plantations	6,971.31	31.8	0.5

BURSA MALAYSIA TRADING & PARTICIPATION

Malaysia Turnover	26-Feb-20	% chg
Volume (m units)	3,867	23.7
Value (RMm)	3,072	11.4

By Investor type	(%)	ppt chg
Foreign investors	28.0	2.7
Local retail	25.8	(1.0)
Local institution	46.2	(1.7)

TOP VOLUME / GAINERS / LOSERS

Top Volume	Price (RM)	Chg (%)	Volume ('000)
SapuraEnergy	0.21	(6.7)	171,121
MY EG Services	1.18	(4.1)	60,768
Datasonic Group	1.04	(25.7)	58,853
Inari Amertron	1.57	(4.3)	38,635
Bumi Armada	0.38	(1.3)	33,559
Top Gainers			
UOA Development	1.98	3.7	160
Supermax Corp	1.70	3.0	19,551
IGB	3.20	2.9	19
MISC	7.70	2.7	9,200
Kossan Rubber	4.90	2.5	1,892
Top Losers			
Datasonic Group	1.04	(25.7)	58,853
PETRONAS Chemicals	5.85	(8.6)	20,721
Media Prima	0.18	(7.7)	3,887
SapuraEnergy	0.21	(6.7)	171,121
IJM Corp	2.04	(5.1)	4,527

OTHER STATISTICS

	26-Feb-20	chg	% chg
RM/US$	4.23	(0.01)	(0.2)
CPO 3rd mth future (RM/mt)	2,419	(19.0)	(0.8)

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

SECTOR UPDATE

Oil & Gas – Malaysia

Petronas to Ramp Up Local Capex Slightly

Petronas underspent its 2019 capex vs guidance despite a strong 4Q19 ramp-up. For 2020, it guided local capex to increase from RM25b to RM26-28b yoy, with an oil price budget of >US$55/bbl. However, we see downside risk as Petronas is not spared from the COVID-19 impact. We observed that many O&G stocks' 4Q19 earnings do not reflect the high sector sentiment, while we believe that 1Q20 may still be lackluster before a 2H20 pick-up. Maintain sector MARKET WEIGHT.

WHAT'S NEW

- **Low quarterly profits primarily on low prices.** Petronas recorded RM48b 2019 ex-impairment profit (-6% yoy), with 4Q19 profit at RM9b. The weakness mainly arises from losses recorded in Gas and New Energy (G&NE) towards 4Q19, most likely due to market pressure on LNG prices despite higher LNG sales volume. Downstream profit was weak in 4Q19 for the same reason. These were offset by improved upstream revenue on a surge in entitled production (4Q19: 6%, 2019: 4%). Although 2019 EBITDA declined, Petronas managed to record operating cash flow (OCF) growth of 5% due to better working capital.
- **Ramp up in capex towards end-19**. Petronas spent capex of RM47.8b (2018: RM46.8b), with a clear spending ramp-up in 4Q19 to RM19b. This is an equal split between local and overseas projects, but is still below 4Q18 levels. The full-year capex is also below Petronas' guidance for a >RM50b spending. Upstream capex spend was RM24b, while G&NE spend was at RM8b. This appears on track vs Petronas' annual report 2018 guidance for a total upstream capex allocation of RM32b (this was before the split of G&NE segment). However, overseas capex remains a key focus and is above Petronas' guidance for an equal local:overseas split for 2H19 capex. We had predicted this earlier, given Petronas' clear moves to diversify into overseas LNG, and oil projects in Mexico and Brazil.
- **Monsoon season had affected 4Q19 earnings for many players**. Across our rated coverage and notable non-rated service players, we noticed most O&G stocks recorded a qoq decline in profits (and with many profit disappointments) due to the monsoon season, against the positive market sentiment for a general activity pick-up. Although the 2020-22 Petronas Activity Outlook (PAO) provides further clarity that local rig count and the brownfield and maintenance activities are expected to remain in high demand, we note that the local rig count had declined qoq as O&G activities are always slow during the monsoon to the beginning of the year. Hence, we believe 1H20 earnings execution for some stocks may be behind expectations but they may enjoy a ramp-up of activity towards 2H20.

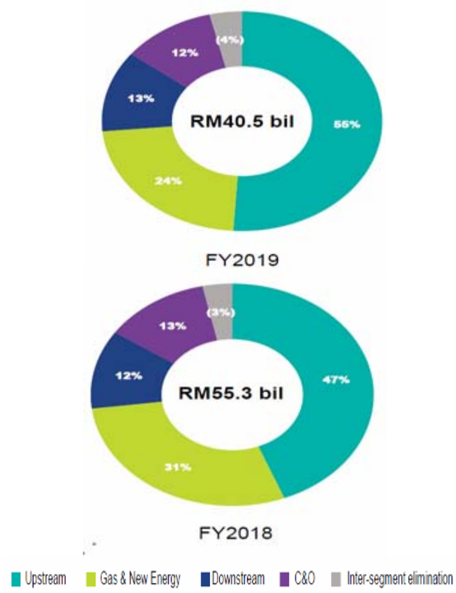
ACTION

Maintain sector MARKET WEIGHT. Given mixed messages from Petronas' capex spending, we caution that valuations may not reflect risk-reward, assuming activity levels will be volatile. For locally dependent stocks, Velesto Energy had performed well, hence we chose **Deleum (BUY/ Target: RM1.07)** as our pick for local upstream exposure. Fundamentally, we still like stocks that are internationally competitive and well diversified. We like maintenance player **Serba Dinamik (BUY/diluted Target: RM2.65)** and FPSO asset owners **MISC (BUY/ Target: RM8.75)** and **Yinson (BUY/Target: RM8.90)**.

MARKET WEIGHT

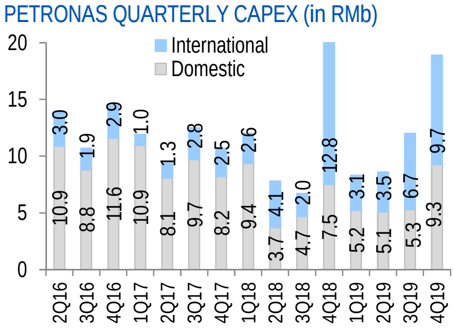
(Maintained)

PETRONAS PROFIT BY SEGMENT



Source: Petronas, UOB Kay Hian

PETRONAS QUARTERLY CAPEX (in RMb)



Source: Petronas, UOB Kay Hian

ANALYST

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PEER COMPARISON

Company	Ticker	Rec	Share Price 26 Feb 20 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2020F (x)	PE 2021F (x)	P/B 2020F (x)	P/B 2021F (x)	Interest Cover 2020F (x)	Interest Cover 2021F (x)	Net Debt to Equity 2020F (%)	Net Debt to Equity 2021F (%)	ROE 2020F (%)	ROE 2021F (%)
Bumi Armada	BAB MK	HOLD	0.38	0.40	2,203.7	7.2	7.1	0.6	0.5	2.2	2.2	216.1	199.2	8.0	7.5
Dialog Group	DLG MK	HOLD	3.36	3.60	18,944.7	36.2	33.6	5.0	4.6	13.0	8.4	35.4	38.2	15.4	14.4
Deleum	DLUM MK	BUY	0.84	1.07	335.3	8.2	7.2	0.9	0.8	18.4	16.9	n.a	n.a	11.3	12.2
MISC	MISC MK	BUY	7.70	8.75	34,370.8	17.6	16.7	1.0	1.0	9.8	10.0	27.3	30.5	5.6	5.8
MMHE	MMHE MK	HOLD	0.78	0.70	1,248.0	110.3	91.9	0.5	0.5	36.7	8.0	n.a	n.a	0.5	0.6
Petronas Dagangan	PETD MK	HOLD	21.56	22.40	21,418.9	25.8	23.0	3.5	3.4	70.1	66.9	n.a	n.a	13.7	15.1
Sapura Energy	SAPE MK	HOLD	0.21	0.25	3,355.6	(27)	255.4	0.3	0.3	1.1	1.3	80.0	81.8	n.a	0.1
Serba Dinamik	SDH MK	BUY	2.34	2.65	7,216.2	13.9	11.5	3.2	2.7	5.0	4.7	110.8	112.6	24.9	25.3
Uzma	UZMA MK	HOLD	0.81	0.78	257.6	10.6	7.2	0.5	0.5	3.3	3.5	91.3	94.6	4.9	6.8
Velesto Energy	VEB MK	HOLD	0.33	0.37	2,711.1	51.3	40.8	1.2	1.2	5.6	6.4	32.5	25.5	2.4	2.9
Yinson Holdings	YNS MK	BUY	7.10	8.90	7,597.3	25.5	22.8	4.6	4.4	4.5	4.7	80.5	84.6	8.3	9.1

Source: Respective companies, UOB Kay Hian

ESSENTIALS

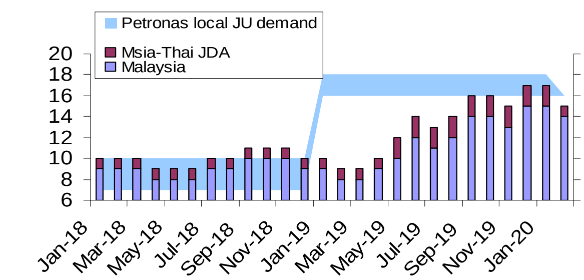
- **No capex guidance issued.** A quick comparison vs peers shows that Petronas' operating cash flow (OCF)/capex ratio has declined qoq to 1.3x, which is also in line with peer average as most O&G majors saw a weakening OCF towards 4Q19. Petronas guided that the dividend declared to the government is RM24b lower vs RM54b (including a special dividend of RM30b) paid in 2019, but consistent with the normalised yearly average of RM16-30b. For 2020, Petronas is budgeting an oil price assumption in the high US$50/bbl range, with local capex expected to see a slightly higher allocation to RM26b-28b (2019: RM25b). We noted from its 2018 Annual Report that the upstream capex spending (including G&NE) will remain consistent between RM32b-34b p.a. for the next 5 years. However, there is no breakdown between local and overseas capex guidance for the upstream and G&NE segment.
- **We see downside risk however, as Petronas is not sparred from COVID-19**. The COVID-19 had already caused a sharp downtrend on oil prices (negative for upstream income) and uncertainties on petrochemical demand (negative for downstream business). Aside, we think its G&NE (in particular, its LNG business) is at the largest risk to the COVID-19 impact given the fact that Malaysia is still one of the top largest LNG exporters in the world. About 8% of Petronas revenue in 2018 are related to sales of LNG and products to China. According to Platts, ytd (Jan-Feb 20) LNG imports to China already recorded a decline yoy. Out of this, Malaysia's volume declined from 0.83mt in the corresponding period in 2019 to only 0.55mt in ytd 2020. While it is unknown how much of the LNG sales are between spot cargoes and long-term LNG sales contracts, Platts revealed that Petronas has an existing long-term LNG contract with CNOOC for a 3.00mtpa of LNG volume. China has invoked force majeure to several LNG exporters, though there is no official newsflow suggesting a real negative impact to the Petronas Group at this juncture. Having said that, we see a possibility of Petronas scaling down its plans if its operating cash flow sees a major impact in the 1H20 horizon.
- **Local rig count declined in Feb 20**. Note that the latest PAO demands for 16 JU rigs p.a., still high but slightly below the 17-19 target as some rig programmes and contracts are being consolidated. Based on industry reports, the local jackup rig count (excluding the Malaysia-Thai JDA region) declined from 15-16 rigs in 2H19 to 14 in Feb 20. We think this is consistent with the historical trend of a low 1Q activity before the rig receives the client schedule to be mobilised for work. Based on this observation, we think 4Q19 (monsoon) and 1Q20 earnings delivery may not necessarily reflect the high activity levels expected by market sentiment, but a ramp-up towards 2H20 is possible, suggesting a good positioning for certain stocks.

PETRONAS UPSTREAM REVENUE VS REALISED PRICES

Price	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
US$/RM	4.16	3.92	3.95	4.09	4.17	4.09	4.15	4.17	4.17
Petronas upstream									
Entitled production (kboe/d)	1813	1728	1634	1514	1867	1824	1691	1502	1987
Petronas LNG sales volume (mmt)	8.81**	7.92	6.56	6.31	8.15	8.45	6.75	6.70	8.70
Petronas upstream & G&NE revenue (RMb)	36.9	37.3	37.3	37.1	44.8	40.5	45.2	42.8	47.8
(qoq % chg)									
US$/RM	-2.1	-5.8	0.8	3.5	2.0	-1.9	1.5	0.5	0.0
Entitled production (%)	8.5	-4.7	-5.4	-7.3	23.3	-2.3	-7.3	-11.2	32.3
Petronas LNG sales volume (%)	22.4	-10.1	-17.2	-3.8	29.2	3.7	-20.1	-0.7	29.9
Petronas upstream and G&NE revenue (%)	18.3	0.9	0.3	-0.4	20.6	-9.6	11.7	-5.3	11.3

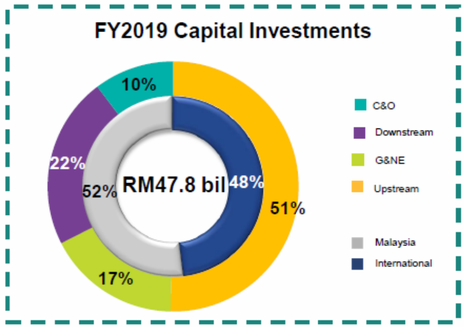
Source: Petronas, Murphy Oil

LOCAL JACKUP RIG COUNT SOFTEN SLIGHTLY IN FEB 2020



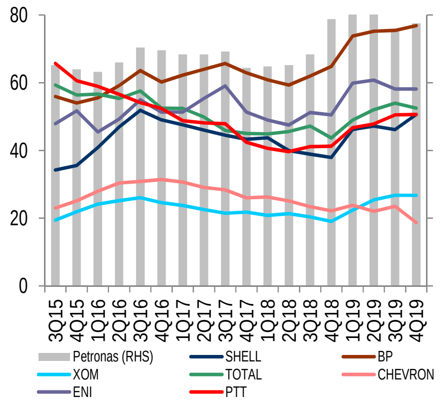
Source: Westwood Global Energy Asia Pacific Rig Reports, Petronas PAO

DETAILED BREAKDOWN OF CAPEX



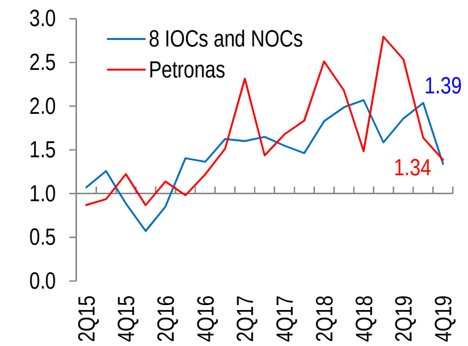
Source: Petronas , UOB Kay Hian

GROSS GEARING OF IOC AND NOC (%)



Source: Respective companies, UOB Kay Hian

OCF/ CAPEX INCURRED*, QUARTERLY



**The 8 IOCs and NOCs are Shell, ExxonMobil, BP, Eni, Total SA, Chevron, PTT and Petrobras*
Source: Respective companies, UOB Kay Hian

CHINA'S LONG TERM LNG CONTRACTS

Seller	Exporter	Buyer	Volume (mtpa)
Shell	Portfolio	CNOOC	5.00
Origin	Australia	Sinopec	4.29
NWS	Australia	CNOOC	3.70
QCLNG	Australia	CNOOC	3.60
Qatargas	Qatar	CNPC	3.40
Origin	Australia	Sinopec	3.30
Petronas	Malaysia	CNOOC	3.03
Novatek	Russia	CNPC	3.00
Shell	Qatar	CNPC	3.00
Tangguh	Indonesia	CNOOC	2.60

Source: Platts

COMPANY RESULTS

ATA IMS (AIB MK)

9MFY20: Miss Expectations; Still Solid In The Long Term

Results missed expectations due to additional expenses incurred for marketing and manpower to manage new customers' projects. The 2019-nCoV outbreak thus far has had no impact on its orders. That said, should the outbreak worsen and cause another round of disruption, we see earnings risk from the supply chain disruption. Besides riding on its key customer's aggressive expansion, the group is also deriving growth from trade diversion-related orders. Maintain BUY and lower target price to RM1.80.

3QFY20 RESULTS

Year to 31 Mar (RMm)	2QFY20	3QFY20	qoq % chg	yoy % chg	9MFY20	yoy % chg
Revenue	931.9	865.1	(7.2)	3.3	2633.0	25.1
EBITDA	50.1	40.9	(18.3)	(19.3)	132.9	(5.2)
EBIT	42.3	31.7	(25.1)	(28.2)	108.8	(10.6)
PBT	40.6	30.1	(25.9)	(27.4)	103.4	(10.7)
Tax	(9.6)	(10.0)	4.3	29.3	(27.7)	15.0
Core net profit	31.0	20.1	(35.3)	(40.5)	75.7	(17.5)
Margins (%)			ppt			ppt
EBITDA	5.4	4.7	(0.6)	(1.3)	5.0	(1.6)
EBIT	4.5	3.7	(0.9)	(1.6)	4.1	(1.6)
PBT	4.4	3.5	(0.9)	(1.5)	3.9	(1.6)
Core Net Margin	3.3	2.3	(1.0)	(1.7)	2.9	(1.5)

Source: ATA IMS, UOB Kay Hian

RESULTS

- **Below expectations.** ATA IMS reported 3QFY20 net profit of RM20.1m (-35% qoq, -41% yoy), bringing 9MFY20 net profit to RM75.7m (-18% yoy) which accounts for only 63% and 62% of our and consensus full-year estimates respectively. While revenue came in within expectations, net profit missed on: a) additional expenses incurred for marketing and b) additional manpower costs to manage new customers' project. No dividend was declared.
- **9MFY20 sales rose 25% 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 11% yoy on higher material content costs alongside higher start-up cost of new customers' projects. Sales dropped 7% qoq due to a delay in mass production to Dec 19 (from Sep 19) for the new project. With an ineffective charge out of the labour and stock-up costs, core net profit dropped by 35% qoq alongside a higher effective tax rate of 33.6% (+9.6ppt qoq on disallowed for tax purposes).

KEY FINANCIALS

Year to 31 Mar (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	2,307	2,909	3,350	3,903	4,232
EBITDA	145	187	173	218	252
Operating profit	131	162	146	188	218
Net profit (rep./act.)	94	113	100	137	160
Net profit (adj.)	94	113	100	137	160
EPS (sen)	9.0	9.8	8.7	11.9	13.9
PE (x)	17.8	16.2	18.2	13.3	11.4
P/B (x)	4.0	2.9	3.1	2.7	2.3
EV/EBITDA (x)	13.8	10.7	11.6	9.2	7.9
Dividend yield (%)	0.0	0.0	1.9	2.6	3.1
Net margin (%)	4.1	3.9	3.0	3.5	3.8
Net debt/(cash) to equity (%)	0.9	14.5	14.2	8.9	0.2
Interest cover (x)	44.1	20.3	17.4	28.5	32.0
ROE (%)	29.8	21.5	16.4	21.5	21.8
Consensus net profit	-	-	123	150	175
UOBKH/Consensus (x)	-	-	0.82	0.91	0.91

Source: ATA IMS, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM1.59
Target Price	RM1.80
Upside	+13.2%
(Previous TP	*RM2.00)*

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)	1,914.9
Market cap (US$m)	453.2
3-mth avg daily t'over (US$m)	0.3

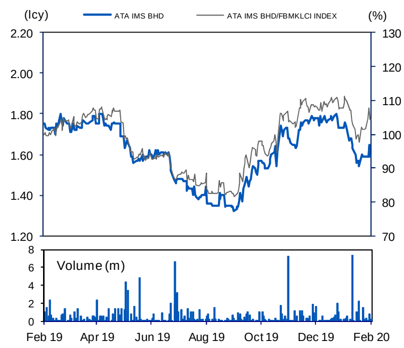
Price Performance (%)

52-week high/low RM1.80/RM1.32

1mth	3mth	6mth	1yr	YTD
(8.1)	(8.1)	13.6	(10.2)	(8.6)

Major Shareholders	%
Oregon Tech Sdn Bhd	33.7
Fong Chiu Wan	26.1
Oversea-Chinese Banking Corp Ltd	8.7
FY20 NAV/Share (RM)	0.52
FY20 Net Debt/Share (RM)	0.07

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Too early to gauge the impact from 2019-nCoV outbreak.** The coronavirus outbreak (2019-nCoV) which has caused most of China's production to shut down has raised concerns of a supply chain disruption in the EMS industry. We understand from ATA IMS' management that while there has been no change in orders from its key customer, there could be risk of a supply chain disruption should China components makers stop production for around one month. Note that a significant amount of the passive components come from China. In terms of earnings sensitivity, our analysis shows that every 5% sales delay in ATAIMS' FY20-21 revenue will reduce its FY20-21 earnings by 6-7%.
- **Visibility for new projects still intact.** There is no change to the visibility of two new projects in 2020, with a mixture of totally new and enhanced version of existing products to anchor its growth momentum in FY21. This will be supported by its 27 facilities with 14 final assembly lines. Meanwhile, plans are still intact for the group to become the turnkey manufacturer (on supply chain and engineering solutions) for five new MNC customers, namely Sagecom, Schneider Electric, Swiftlabls, Ecobee and Cricut for plastic injection moulding, IoT-related products and assembly jobs. Note that the potential collective sales in the first year could be at RM150m-200m
- **Still up-scaling operations to anchor growth.** 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 (bringing total to 14) to cater for at least two new products for FY20. All in all, we see core net profit CAGR of 10% for FY19-21. Additionally, the group also leased a new 250,000sf site in Nov 19 to cater for a new customer's projects. This site will cater for plastic injecting moulding, final assembly and warehousing related jobs. In terms of new projects, the group is still in discussions with a few prospective customers (no quantum guided). For illustration purpose, assuming a RM200m contract is secured and sees full contribution in FY21 on a net margin of 3.5%, the earnings accretion would be 5%, or a 9.0 sen increase to our target price based on 15.0x FY21F PE
- **Enhancing capabilities vertically to yield better profits.** ATAIMS has added two lines at the sub-component level for: a) the production of wire harnesses, and b) in-house brush bar assembly (already in production, and will be 100% self-sufficient by 1QFY21. The move to enhance manufacturing capabilities vertically not only improves ATAIMS' 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 12%. Meanwhile for PCBA and battery packs, another six surface-mount technology lines have been set up, bringing the total to 14 lines now and currently supplying 75% of internal demand. Note that the PCBA operation has turned profitable since 4Q19. ATAIMS remains committed to consolidating these services into the group level in two years' time with a goal of being self-sufficient

EARNINGS REVISION/RISK

- We cut our FY20 and FY21 net profit estimates by 16% and 9% respectively to account for higher material costs and distribution expenses.
- 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 lower target price of RM1.80,** based on an unchanged 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 ASSUMPTIONS

Year to 31 Mar	2020F	2021F	2022F
Sales	3,350	3,903	4,232
- Box-built	2,856	3,260	3,562
- Filters	386	383	402
- Denko	108	261	269
GP	238	296	336
- Box-built	176	222	256
- Filters	53	54	58
- Denko	9	21	22
EBIT margin (%)	4.3	4.8	5.2
Tax rate (%)	26.3	24.0	24.0

Source: UOB Kay Hian

ASSUMES 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	3,350	3,903	4,232
EBITDA	187	173	218	252
Deprec. & amort.	25	27	30	34
EBIT	162	146	188	218
Net interest income/(expense)	(9)	(10)	(8)	(8)
Pre-tax profit	152	136	180	210
Tax	(40)	(36)	(43)	(50)
Net profit	113	100	137	160
Net profit (adj.)	113	100	137	160

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	278	301	361
Other current assets	1,013	1,126	1,303	1,408
Total assets	1,657	1,800	2,020	2,201
ST debt	260	260	260	260
Other current liabilities	650	831	963	1,040
LT debt	102	102	102	102
Other LT liabilities	14	14	14	14
Shareholders' equity	630	592	681	785
Total liabilities & equity	1,656	1,800	2,020	2,201

CASH FLOW

Year to 31 Mar (RMm)	2019	2020F	2021F	2022F
Operating	(44)	205	129	173
Pre-tax profit	152	136	180	210
Tax	(27)	(36)	(43)	(50)
Deprec. & amort.	25	27	30	34
Working capital changes	(202)	68	(46)	(28)
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	(152)	(61)	(69)
Dividend payments	0	(35)	(48)	(56)
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	7	24	59
Beginning cash & cash equivalent	155	271	278	301
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	271	278	301	361

KEY METRICS

Year to 31 Mar (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	6.4	5.2	5.6	5.9
Pre-tax margin	5.2	4.1	4.6	5.0
Net margin	3.9	3.0	3.5	3.8
ROA	8.2	5.8	7.2	7.6
ROE	21.5	16.4	21.5	21.8
Growth				
Turnover	26.1	15.2	16.5	8.4
EBITDA	29.0	(7.7)	26.3	15.4
Pre-tax profit	19.4	(11.0)	32.7	16.7
Net profit	20.1	(11.4)	36.7	16.7
Net profit (adj.)	20.1	(11.4)	36.7	16.7
EPS	9.7	(11.4)	36.7	16.7
Leverage				
Debt to total capital	36.5	37.9	34.7	31.5
Debt to equity	57.4	61.1	53.1	46.1
Net debt/(cash) to equity	14.5	14.2	8.9	0.2
Interest cover (x)	20.3	17.4	28.5	32.0

COMPANY RESULTS

Cahya Mata Sarawak (CMS MK)

2019: Slightly Below Expectations

2019 results proved to be challenging for CMS as the cement and road maintenace divisions were impacted by higher costs. We expect earnings to improve in 2020 as clinker prices stabilise and demand for construction materials improves. OM Sarawak may also fare better yoy in 2020 as curtailed supply from China resulted in higher ASP for alloy products. Maintain HOLD and target price of RM2.35. Entry price: RM1.85.

2019 Results

Year to 31 Dec (RMm)	4Q19	3Q19	qoq % chg	yoy % chg	2019	yoy % chg
Revenue	456.5	467.2	(2.3)	(8.0)	1,741.0	1.7
Cement	153.1	164.3	(6.8)	3.6	601.6	8.0
Construction Materials	179.0	163.4	9.5	(13.9)	597.0	6.7
Road Maintenance	123.8	138.0	(10.2)	(15.6)	502.4	(9.3)
Property Development	27.6	30.9	(10.8)	2.2	136.3	2.9
EBIT	22.4	82.8	(73.0)	(71.4)	226.7	(23.2)
Cement	7.6	33.8	(77.6)	(61.6)	73.1	(18.9)
Construction Materials	29.1	23.6	23.2	21.8	83.7	17.4
Road Maintenance	(10.5)	18.8	(155.9)	(143.9)	42.3	(53.2)
Property Development	(6.3)	5.4	(216.4)	(231.6)	20.1	(40.7)
Associates & JV	6.5	27.5	(76.5)	6.2	58.3	(45.9)
PBT	20.2	82.6	(75.5)	(76.5)	230.5	(38.6)
Net Profit	5.4	72.8	(92.6)	(90.6)	160.3	(39.7)
Core Net Profit	11.7	63.8	(81.7)	(79.7)	151.8	(42.8)
Margins (%)					+/- ppt	+/- ppt
EBIT	4.9	17.7	(12.8)	(10.8)	13.0	(4.2)
Net Profit	1.2	15.6	(14.4)	(10.3)	9.2	(6.3)

Source: CMS, UOB Kay Hian

RESULT

- **Slightly below expectations.** Cahya Mata Sarawak (CMS) reported a lower core net profit of RM11.7m (-81.7% qoq, -79.7% yoy) in 4Q19, accounting for 93.1% of our full-year forecast. Wider-than-expected expenses at the road maintenance division led to the segment reporting a RM10.5m loss in 4Q19.
- **Cement: Margin compressed.** Operating margin eased from 16.2% in 2018 to 12.2% in 2019, largely due to higher clinker prices as there was a shortage of clinker as China clamped down on clinker production while clinker demand rose in neighbouring countries. This led to an 18.9% yoy decline in operating profit despite revenue rising 8.0% yoy.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	1,712	1,741	1,578	1,624	1,677
EBITDA	229	229	233	239	245
Operating profit	289	295	309	324	338
Net profit (rep./act.)	301	160	178	198	221
Net profit (adj.)	266	152	178	198	221
EPS (sen)	18.5	15.2	16.5	18.4	20.6
PE (x)	11.2	13.7	12.5	11.2	10.0
P/B (x)	0.9	0.8	0.8	0.8	0.8
EV/EBITDA (x)	8.9	8.9	8.7	8.5	5.3
Dividend yield (%)	3.6	2.9	3.2	3.6	0.0
Net margin (%)	13.7	11.9	12.9	13.9	13.2
Net debt/(cash) to equity (%)	(11.9)	(18.8)	(22.1)	(25.8)	(30.0)
Interest cover (x)	7.1	28.4	28.7	36.5	10.5
ROE (%)	9.6	7.2	7.5	8.0	7.4
Consensus net profit	-	-	204	218	-
UOBKH/Consensus (x)	-	-	0.87	0.91	-

Source: CMS, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM2.05
Target Price	RM2.35
Upside	+14.6%

COMPANY DESCRIPTION

Infrastructure conglomerate in Sarawak. CMS is diversifying income stream to renewable energy, banking on cheaper electricity cost.

STOCK DATA

GICS sector	Materials
Bloomberg ticker	CMS MK
Shares issued (m)	1,072.5
Market cap (RMm)	2,220.3
Market cap (US$m)	534.6
3-mth avg daily t'over (US$m)	0.6

Price Performance (%)

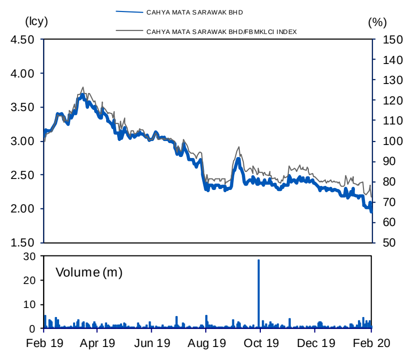
52-week high/low RM3.68/RM2.05

1mth	3mth	6mth	1yr	YTD
(9.2)	(9.2)	(22.2)	(30.8)	(8.8)

Major Shareholders	%
Majaharta Sdn Bhd	12.6
Employees Provident Fund Board	10.8
Taib Lejla	10.4

FY19 NAV/Share (RM)	2.57
FY19 Net Cash/Share (RM)	0.57

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Construction materials: Improved performance.** The division saw a 17.8% yoy rise in operating profit on a 6.7% yoy rise in revenue in 2019 on the back of higher sales of quarries products (granite, aggregates and limestone) which surged 19.6% yoy in 2019, thanks to the Pan Borneo Highway. Operating margin improved to 14.0% in 2019 from 12.7% in 2018. Separately, we understand that management is expecting sales of pre-mix products to pick up in 2020 (2019: -10.1% yoy) as these are required at the later stage of road construction. Demand for construction materials is expected to be fuelled by the coastal road network and a second trunk road in which construction is slated to commence in 1H20.
- **Road maintenance: Higher expense.** Despite revenue falling only 9.3% yoy, operating profit declined 53.2% yoy in 2019 due to higher expenses, particularly in 4Q19. CMS said the poor performance was a result of higher construction cost for the Pan Borneo Highway, higher cost for state roads' routine maintenance as well as compensation for retrenched staff. To recap, CMS initially maintained some 6,254km (or 20%) of state roads in Sarawak. However, the contract was recently renewed for a shorter length (3,301km) but for a longer period of 10 years.
- **Associates: Lower contribution.** Associates' contribution declined 45.9% yoy to RM58.3m in 2019. We opine this is mainly due to lower contribution from OM Sarawak, which was impacted by lower ASP of ferrosilicon and manganese alloy. In 4Q19, sales volumes of ferrosilicon alloy and manganese alloy at OM Sarawak declined 7.3% qoq and 11.6% qoq respectively. Over the same period, ferrosilicon alloy ASP dropped 5.4% qoq to US$1,054/tonne while manganese alloy ASP dropped by a higher 8.6% qoq to US$1,119/tonne. For 2019, sales of ferrosilicon and manganese alloy for 2019 dropped 2.6% yoy to 219,828 tonnes and 0.4% yoy to 240,280 tonnes respectively. ASPs for ferrosilicon and manganese alloy declined by a bigger 18.4% yoy to US$1,097/tonne and 12.4% yoy to US$1,225/tonne respectively. On a more positive note, we understand that for selected producers, the ferrosilicon alloy price is >US$1,300/tonne amid supply rationing by OM Sarawak due to a shortage of coking coal.

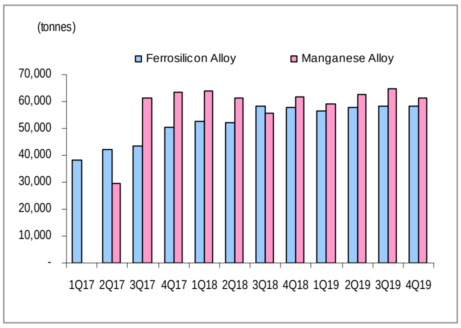
EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

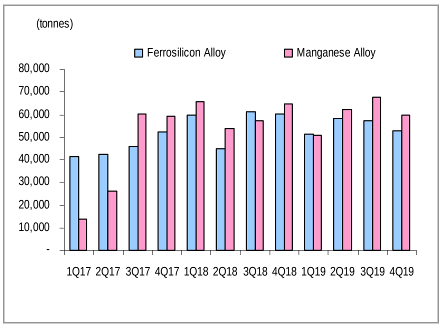
Maintain HOLD and target price of RM2.35, based on SOTP (35% holding co discount) and implies 14.2x 2020F PE. Our assessed trough valuation is RM1.55/share based on 9.4x PE, or -2SD below 5-year average mean. Entry price is RM1.85.

OM SARAWAK - PRODUCTION DATA



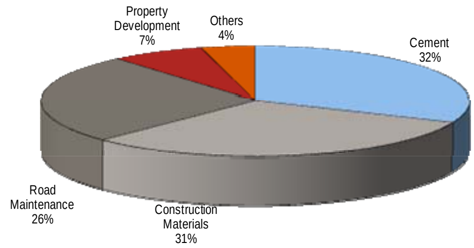
Source: OMH

OM SARAWAK - SALES



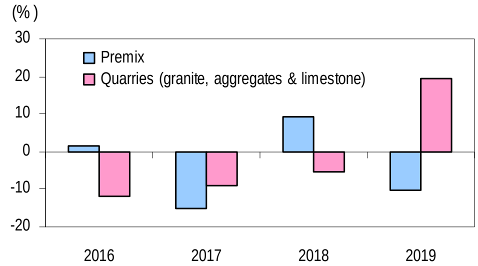
Source: OMH

SEGMENTAL REVENUE CONTRIBUTION



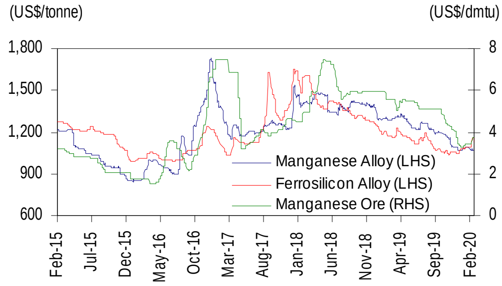
Source: CMS

YOY GROWTH IN SALES OF PREMIX AND QUARRIES



Source: CMS

ALLOYS AND ORE PRICES



Source: Bloomberg

SOTP VALUATION

	Stake	Valuation	(RMm)
Cement	100%	15x PE	697
Construction materials	51%	15x PE	437
Road maintenance	100%	DCF	349
Landbank		Market value	1,254
Listed investments			
KKB	20%	Market value	50
K&K Kenanga	25%	Market value	110
Others			
OM Sarawak	25%	DCF	18
Sacofa			488
Total RNAV			3,709
No. of shares			1,074
RNAV/share (RM)			3.65
Option value	50%	MPA	0.23
Holding co discount		35%	(1.50)
Target Price (RM)			2.35

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RM)	2019	2020F	2021F	2022F
Net turnover	1,568	1,578	1,624	1,677
EBITDA	229	233	239	245
Deprec. & amort.	(66)	(76)	(85)	(93)
EBIT	295	309	324	338
Total other non-operating income	(21)	(21)	(27)	(15)
Associate contributions	47	61	83	95
Net interest income/(expense)	(8)	(8)	(7)	(5)
Pre-tax profit	246	264	288	330
Tax	(60)	(61)	(62)	(67)
Net profit	163	178	198	231
Net profit (adj.)	163	178	198	231

BALANCE SHEET

Year to 31 Dec (RM)	2019	2020F	2021F	2022F
Fixed assets	856	982	1,099	1,206
Other LT assets	1,292	1,292	1,292	1,292
Cash/ST investment	1,116	1,226	1,358	1,518
Other current assets	738	533	775	795
Total assets	4,002	4,032	4,524	4,811
ST debt	54	54	54	54
Other current liabilities	248	146	491	614
LT debt	563	563	563	563
Other LT liabilities	97	97	97	97
Shareholders' equity	2,649	2,756	2,875	3,008
Minority interest	391	416	444	476
Total liabilities & equity	4,002	4,032	4,524	4,811

CASH FLOW

Year to 31 Dec (RM)	2019	2020F	2021F	2022F
Operating	128	147	178	212
Pre-tax profit	246	264	288	320
Tax	(60)	(61)	(62)	(67)
Deprec. & amort.	66	76	85	93
Working capital changes	5	(2)	(4)	(4)
Other operating cashflows	(129)	(129)	(129)	(129)
Investing	(265)	(265)	(265)	(264)
Capex (growth)	(200)	(200)	(200)	(199)
Capex (maintenance)	(3)	(3)	(3)	(3)
Others	(61)	(61)	(61)	(61)
Financing	334	228	219	210
Dividend payments	(65)	(71)	(79)	(89)
Proceeds from borrowings	(100)	(200)	(200)	(200)
Others/interest paid	499	499	499	499
Net cash inflow (outflow)	197	110	133	159
Beginning cash & cash equivalent	919	1,116	1,226	1,358
Changes due to forex impact	n.a.	n.a.	n.a.	1
Ending cash & cash equivalent	1,116	1,226	1,358	1,518

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	14.6	14.8	14.7	14.6
Pre-tax margin	15.7	16.8	17.8	19.7
Net margin	11.9	12.9	13.9	15.6
ROA	4.5	5.1	5.3	5.6
ROE	7.2	7.5	8.0	8.9
Growth				
Turnover	(8.4)	0.6	2.9	3.3
EBITDA	0.2	1.8	2.4	2.7
Pre-tax profit	(20.2)	7.4	9.1	14.4
Net profit	(20.6)	9.1	11.5	15.8
Net profit (adj.)	(18.2)	9.1	11.5	16.4
EPS	(18.2)	9.1	11.5	16.4
Leverage				
Debt to total capital	16.9	16.3	15.7	15.0
Debt to equity	23.3	22.4	21.4	20.5
Net debt/(cash) to equity	(18.8)	(22.1)	(25.8)	(30.0)
Interest cover (x)	28.4	28.7	36.5	52.9

COMPANY RESULTS

Hong Leong Bank (HLBK MK)

1HFY20: Solid Loans Growth And Cost Management

HLBK's 1HFY20 was above expectations, driven by lower-than-expected provisions and solid operating cost management. 2QFY20 pre-provision operating profit growth came in at a solid 12.5% yoy. Share price was recently impacted by fears that the coronavirus would impact its associate Bank of Chengdu's performance, which has held up relatively well. Maintain BUY with a lower target price of RM18.96 (1.47x FY20F P/B, 10.0% ROE) as we build in the high probability of another 25bp OPR cut in 1H20.

RESULTS

- **Marginally above estimates, driven by provision write-backs and solid opex control.** The group reported 1HFY20 core net profit of RM1,390.4m (+6.6% yoy, +1.8% qoq) after adjusting for RM90m in one-off JV disposal gains recognised in 1HFY19. Annualised 1HFY20 earnings was 6% above our estimates as provisions continued to surprise on the downside with 2QFY20 net credit cost coming in at 5bp (1HFY20: 2bp) vs our estimates of 8bp. The group also demonstrated solid opex management. That said, we continue to expect net credit cost to trend upwards in 2HFY20, assuming no repeat of 1QFY20's net write-back.
- **Commendable performance.** 2QFY20 pre-provision operating profit grew a highly commendable 12.5% yoy, on the back of above-industry loans growth (+7.3% yoy), 4bp expansion in NIM and solid opex management (+3%), leading to positive operating JAW with cost-to-income ratio improving to 42.6% in 2QFY20 from 44.7% in 2QFY19. Management indicated that staff cost will continue to be very well managed as the group reaps the fruits of its digital investments. Non-interest income expanded 11% yoy, driven largely by a 50.6% yoy growth in trading income and 19.9% increase in wealth management income, but partially offset by weaker credit card fee income (-9.3% yoy).
- **Above-industry loans growth.** The group delivered above-industry loans growth of 7.3% yoy in 1HFY20, underpinned by residential property loans growth (+9.8% yoy) and SME (+7.9% yoy) but partially offset by flattish auto and non-residential property loans growth. Management indicated that despite the challenging environment, current loans approval pipeline suggests that its current loans growth momentum is likely to sustain well into 2HFY20.
- **GIL ratio remains benign.** GIL ratio remained relatively stable at 0.84% in 2QFY20 (0.81% in 1QFY20). Management indicated that asset quality remains relatively stable despite the outbreak of the coronavirus. The group's LLC inclusive of regulatory reserve remained high at 182%. As gross credit cost remained relatively low at 12bp, coupled with the group's fairly high LLC, we tweak downwards our FY20/21 net credit cost to 5bp/7bp vs the initial 8bp/10bp.

KEY FINANCIALS

Year to 30 Jun (RMm)	2018	2019	2020F	2021F	2022F
Net interest income	2,893	2,764	2,697	2,841	2,954
Non-interest income	1,300	1,254	1,312	1,373	1,437
Net profit (rep./act.)	2,638	2,665	2,651	2,871	3,103
Net profit (adj.)	2,638	2,593	2,651	2,871	3,103
EPS (sen)	126.9	124.7	127.5	138.1	149.3
PE (x)	12.0	12.2	11.9	11.0	10.2
P/B (x)	1.3	1.2	1.2	1.1	1.1
Dividend yield (%)	3.2	3.8	3.8	4.1	4.4
Net int margin (%)	1.9	1.8	1.8	1.8	1.8
Cost/income (%)	42.6	44.3	43.9	42.3	41.2
Loan loss cover (%)	89.5	117.8	114.1	120.8	120.5
Consensus net profit	-	-	2,708	2,870	3,084
UOBKH/Consensus (x)	-	-	0.98	1.00	1.01

Source: Hong Leong Bank, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM15.18
Target Price	RM18.96
Upside	+24.9%
(Previous TP	*RM19.20)*

COMPANY DESCRIPTION

This is fourth largest bank in term of asset size focusing on retail banking with presence in China through 20%-owned Bank of Chengdu.

STOCK DATA

GICS sector	Financials
Bloomberg ticker	HLBK MK
Shares issued (m)	2,167.7
Market cap (RMm)	32,905.7
Market cap (US$m)	7,789.6
3-mth avg daily t'over (US$m)	4.6

Price Performance (%)

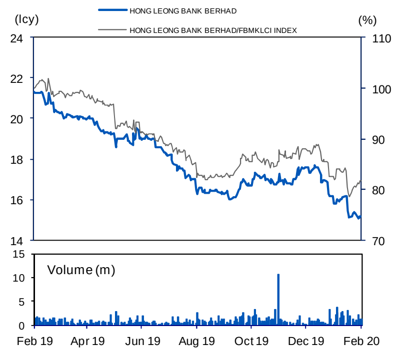
52-week high/low RM21.30/RM15.06

1mth	3mth	6mth	1yr	YTD
(5.9)	(9.9)	(10.6)	(28.7)	(12.3)

Major Shareholders	%
Hong Leong Financial Group Berhad	61.8
Employees Provident Fund Board	10.5

FY20 NAV/Share (RM)	12.90
FY20 CAR Tier-1 (%)	14.71

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Bank of Chengdu continues to deliver impressive growth, but is normalising downwards.** Its associate, Bank of Chengdu, continued to register a relatively impressive 19% yoy earnings growth, underpinned by a robust loans growth while GIL ratio continued to improve from 1.54% to 1.43%. Management indicated that operationally, businesses in Sichuan province, where Bank of Chengdu operates, have not experienced a significant disruption vs the epicenter of the coronavirus outbreak in Wuhan. We also understand that economically, Bank of Chengdu remains relatively self-sustaining. That said, management remains cautious that if the outbreak of the virus remains protracted, it could spill over to businesses in Sichuan province and therefore impact growth.

EARNINGS REVISION/RISK

- We trim our FY20 earnings by 1% as we factor in the potential for another 25bp OPR cut in 1H20 but this is partially offset by a lower net credit cost assumption of 5bp vs our initial 8bp assumption. Assuming that the next OPR cut occurs in Mar-Apr 20, coupled with the Jan 20 OPR cut, we now expect HLBank's NIM to compress by 4bp in FY20 before recovering by 3bp in FY21 (year end 30 June).

VALUATIONS AND RECOMMENDATIONS

- **Maintain BUY with lower target price of RM18.96 (1.47x 2020F P/B, 10.0% ROE) from RM19.20** post earnings revision. Share price has declined by 25% from its peak in 2019 on the back of growth concerns and potential impact of the coronavirus outbreak on its associate Bank of Chengdu, which contributes to 22% of its group earnings. However, the group has managed to display resilient growth amidst the challenging environment, while its recent GIL ratio has also been among the most resilient among its peers. Meanwhile, Bank of Chengdu's operations and asset quality remain relatively intact for now, despite the coronavirus outbreak.

KEY ASSUMPTIONS

(%)	2020F	2021F	2022F
Gross Loan Growth	5.8	6.0	6.0
ROE	10.0	10.1	10.1
Credit Cost (bp)	5.0	7.0	7.0

Source: UOB Kay Hian

1QFY20 Results

Profit & Loss (RMm)	2QFY20	2QFY19	yoy % ch	1HQFY20	yoy % chg	Remarks
Net Interest Income	728.8	706.3	3.2	1,433.1	2.0	Above industry loans growth
Islamic Banking	206.4	172.7	19.5	406.2	18.1	
Fees & Commissions	148.2	157.2	(5.7)	314.6	6.7	Impacted by lower credit card fees
Trading income	124.9	38.5	224.6	250.2	50.8	
Other income	29.3	67.5	(56.6)	48.5	(56.0)	
Total Income	1,237.5	1,142.2	8.4	2,452.6	5.8	
Operating Expenses	(527.0)	(510.9)	3.2	(1,049.3)	1.3	
PPOP	710.5	631.3	12.5	1,403.4	9.4	
Credit Costs	(20.9)	58.3	(135.9)	(12.1)	(131.4)	1HFY20 net credit cost at 2bp due to write backs and benign asset quality trend
Associate	167.3	133.6	25.2	312.2	11.3	
Core PBT	856.9	823.2	4.1	1,703.5	6.3	
Core Net profit	701.7	687.2	2.1	1,390.3	6.6	Above
EPS (sen)	32.4	31.7	2.1	64.1	6.6	
DPS (sen)	16.0	16.0	0.0	16.0	0.0	
BVPS (RM)	12.73	11.28	12.8	12.73	12.8	

Financial Ratios (%)	2QFY20	2QFY19	yoy chg (ppt)	1QFY20	qoq chg (ppt)	Remarks
NIM	2.04	1.98	0.06	2.03	0.01	Deposit downward re-pricing
Loan Growth, yoy	7.1	4.8	2.29	7.0	0.09	Driven largely by mortgages
Deposit Growth, yoy	3.2	4.7	(1.44)	3.0	0.27	
Loan/Deposit Ratio	83.4	80.2	3.27	84.1	(0.62)	
Cost/Income Ratio	42.6	44.7	(2.14)	43.0	(0.40)	
ROE	10.8	11.3	(0.49)	10.7	0.08	
NPL Ratio	0.8	0.8	0.04	0.8	0.02	
Credit Costs (bp)	5.5	(17.7	23.17	(2.6)	8.07	
Loan Loss Coverage	80.4	121.8	(41.42)	112.3	(31.91)	182% inclusive of regulatory reserves.
CET-1 CAR	13.1	12.7	0.41	12.8	0.24	

Source: HL Bank, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (RMm)	2019	2020F	2021F	2022F
Interest income	6,682	6,714	7,079	7,446
Interest expense	(3,918)	(4,017)	(4,238)	(4,491)
Net interest income	2,764	2,697	2,841	2,954
Fees & commissions	585	620	658	697
Other income	669	692	716	740
Non-interest income	1,254	1,312	1,373	1,437
Income from islamic banking	707	828	935	1,038
Total income	4,726	4,837	5,150	5,429
Staff costs	(1,148)	(1,159)	(1,194)	(1,230)
Other operating expense	(944)	(964)	(984)	(1,005)
Pre-provision profit	2,634	2,714	2,972	3,195
Loan loss provision	(12)	(73)	(123)	(129)
Other provisions	1	1	2	3
Associated companies	563	619	681	750
Pre-tax profit	3,186	3,262	3,532	3,818
Tax	(522)	(611)	(662)	(715)
Minorities	0	0	0	0
Net profit	2,665	2,651	2,871	3,103
Net profit (adj.)	2,593	2,651	2,871	3,103

BALANCE SHEET

Year to 30 Jun (RMm)	2019	2020F	2021F	2022F
Cash with central bank	4,589	4,709	5,127	5,533
Govt treasury bills & securities	35,986	37,425	38,922	40,479
Interbank loans	1,291	1,356	1,424	1,495
Customer loans	136,308	144,169	151,996	159,592
Investment securities	15,153	15,835	16,548	17,292
Derivative receivables	528	528	528	528
Associates & JVs	4,106	4,106	4,106	4,106
Fixed assets (incl. prop.)	1,383	1,438	1,495	1,555
Other assets	8,025	11,743	12,086	15,855
Total assets	207,369	221,309	232,233	246,436
Interbank deposits	7,358	7,800	8,268	8,764
Customer deposits	163,073	172,042	181,504	191,487
Derivative payables	679	733	792	855
Debt equivalents	2,821	2,818	2,817	2,816
Other liabilities	7,965	11,079	10,539	12,607
Total liabilities	181,895	194,471	203,919	216,528
Shareholders' funds	25,474	26,838	28,314	29,909
Minority interest - accumulated	0	0	0	0
Total equity & liabilities	207,369	221,309	232,233	246,436

OPERATING RATIOS

Year to 30 Jun (%)	2019	2020F	2021F	2022F
Capital Adequacy				
Tier-1 CAR	13.1	14.7	15.0	15.3
Total CAR	16.3	15.1	15.4	15.8
Total assets/equity (x)	8.1	8.2	8.2	8.3
Tangible assets/tangible common equity (x)	8.7	8.8	8.8	8.8
Asset Quality				
NPL ratio	0.8	0.8	0.8	0.8
Loan loss coverage	117.8	117.7	124.2	126.9
Loan loss reserve/gross loans	0.9	1.0	1.0	1.1
Increase in NPLs	(4.8)	12.9	6.6	5.5
Credit cost (bp)	2.0	8.0	10.0	12.0
Liquidity				
Loan/deposit ratio	83.6	83.8	83.7	83.3
Liquid assets/short-term liabilities	24.5	24.1	23.9	23.7
Liquid assets/total assets	20.2	19.7	19.6	19.3

KEY METRICS

Year to 30 Jun (%)	2019	2020F	2021F	2022F
Growth				
Net interest income, yoy chg	(4.5)	(2.4)	5.4	4.0
Fees & commissions, yoy chg	2.0	6.0	6.0	6.0
Pre-provision profit, yoy chg	(5.2)	3.0	9.5	7.5
Net profit, yoy chg	1.0	(0.5)	8.3	8.1
Net profit (adj.), yoy chg	(1.7)	2.2	8.3	8.1
Customer loans, yoy chg	6.4	5.8	5.4	5.0
Customer deposits, yoy chg	3.6	5.5	5.5	5.5
Profitability				
Net interest margin	1.8	1.8	1.8	1.8
Cost/income ratio	44.3	43.9	42.3	41.2
Adjusted ROA	1.3	1.2	1.3	1.3
Reported ROE	10.8	10.1	10.4	10.7
Adjusted ROE	10.5	10.1	10.4	10.7
Valuation				
P/BV (x)	1.2	1.2	1.1	1.1
P/NTA (x)	1.3	1.3	1.2	1.1
Adjusted P/E (x)	12.2	11.9	11.0	10.2
Dividend Yield	3.8	3.8	4.1	4.4
Payout ratio	45.0	45.0	45.0	45.0

COMPANY RESULTS

KPJ Healthcare (KPJ MK)

4Q19: Capping The Year Off With A High

KPJ's 4Q19 results surprised off robust top-line growth and realisation of a tax credit, which would gradually diminish going forward. Higher gestation of new hospitals was reflected in healthy revenue intensity and patient volume growth. We continue to like KPJ for its highly affordable valuations in a defensive environment. Its greenfield expansions are reaching a tail-end, signifying a structural earnings uplift. Maintain BUY with a higher target price of RM1.37 (from RM1.22).

4Q19 RESULTS

Year to 31 Dec	4Q19 (RMm)	qoq % chg	yoy % chg	FY19 (RMm)	yoy % chg
Revenue	944.0	4.1	7.7	3,604.4	7.1
COS	(665.1)	9.2	10.8	(2,494.1)	7.1
Gross profit	279.0	(6.2)	0.9	1,110.3	7.1
EBIT	98.9	4.3	22.9	376.5	26.6
Finance costs	(37.5)	13.6	73.7	(145.0)	78.8
Associates	16.8	69.5	(7.4)	43.9	5.3
Pre-tax profit	78.3	9.0	1.6	275.4	6.7
Tax	12.5	(159.4)	(156.4)	(48.7)	(32.2)
PATAMI	84.0	76.2	57.5	211.4	17.8
Margin (%)	(%)	qoq ppt chg	yoy ppt chg	(%)	yoy ppt chg
Gross Margin (%)	29.5	(3.3)	(2.0)	30.8	0.0
EBIT Margin (%)	10.5	0.0	1.3	10.4	1.6
Eff. Tax rate (%)	15.9	45.1	44.5	(17.7)	10.2
Net Margin (%)	8.9	3.6	2.8	5.9	0.5

Source: KPJ, UOB Kay Hian

RESULTS

- **Beyond expectations.** KPJ Healthcare (KPJ) reported 4Q19 PATAMI of RM84.0m (+76% qoq, +58% yoy), bringing 2019 PATAMI to RM211m (17.8% yoy). This accounted for 114% of both our and consensus full-year forecasts. The positive deviation was due to robust top-line growth and a surprise tax credit. An interim DPS of 0.5 sen was declared, flat yoy. A final DPS of 0.5 sen was declared, bringing 2019 DPS to 2.0 sen (2018: 2.0 sen).
- **Ending the year with a high.** Group revenue saw sturdy growth of 7.7% yoy in 4Q19. This was driven by Malaysia operations (+7.8% yoy), boosted by revenue intensity (4.9%-7.1%) and robust patient volume growth (3.1-4.0% yoy), primarily on higher gestation of new hospitals. Meanwhile, Indonesia sustained its impressive top-line performance, growing 20% yoy, largely on the addition of more operating beds.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	3,366	3,604	3,866	4,145	4,439
EBITDA	449	536	580	625	749
Operating profit	297	376	407	439	474
Net profit (rep./act.)	179	211	212	226	245
Net profit (adj.)	179	211	212	226	245
EPS (sen)	3.6	4.2	4.3	4.5	4.9
PE (x)	26.4	22.4	22.5	21.1	19.4
P/B (x)	2.1	2.2	2.1	1.9	1.8
EV/EBITDA (x)	13.0	10.9	9.8	8.9	7.2
Dividend yield (%)	2.1	2.1	2.1	2.1	2.3
Net margin (%)	5.3	5.9	5.5	5.4	5.5
Net debt/(cash) to equity (%)	60.8	67.9	79.4	70.2	57.5
Interest cover (x)	5.5	3.7	4.0	3.9	4.4
ROE (%)	9.7	10.9	10.8	10.8	11.7
Consensus net profit	-	-	185	200	213
UOBKH/Consensus (x)	-	-	1.15	1.13	1.15

Source: KPJ Healthcare, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.950
Target Price	RM1.37
Upside	+44.0%
(Previous TP	*RM1.22)*

COMPANY DESCRIPTION

Private hospital operator which provides healthcare-related services.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker	KPJ MK
Shares issued (m)	4,279.1
Market cap (RMm)	4,065.2
Market cap (US$m)	960.2
3-mth avg daily t'over (US$m)	0.6

Price Performance (%)

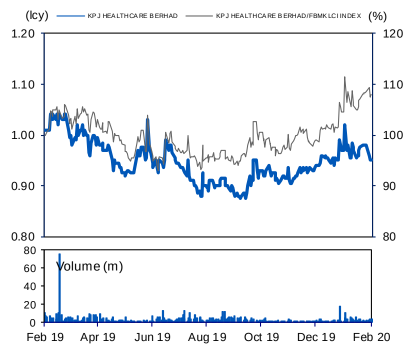
52-week high/low RM1.04/RM0.875

1mth	3mth	6mth	1yr	YTD
(2.1)	3.8	5.6	(10.4)	0.5

Major Shareholders	%
Johor Corp	45.5
EPF	11.4
LTH	10.4

FY20 NAV/Share (RM)	0.46
FY20 Net Debt/Share (RM)	0.37

PRICE CHART



Source: Bloomberg

ANALYST(S)

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4Q19 OPERATING STATS

Year to 31 Dec	4Q18	3Q19	4Q19	qoq % chg	yoy % chg	FY18	FY19	yoy % chg
Avg. revenue/outpatient (RM)	328	342	344	0.6	4.9	334	343	2.7
Avg. revenue/inpatient (RM)	7,274	7,782	7,790	0.1	7.1	7,302	7,828	7.2
Avg. revenue/bed (RM)	159,861	199,819	184,866	-7.5	15.6	175,451	191,822	9.3
No. of outpatients	653,179	671,845	673,569	0.3	3.1	2,541,822	2,629,878	3.5
No. of inpatients	78,703	82,772	81,818	-1.2	4.0	299,780	315,182	5.1
No. of operating beds	3,107	3,118	3,200	2.6	3.0	3,087	3,139	1.7
Occupancy rate (%)	65	68	67	-1.0	2.0	66	67	1.3
Avg length of stay (day)	2.5	2.5	2.5	0.0	0.0	2.5	2.5	0.7

Source: KPJ

- **Increasingly mature hospitals and tax credit uplifts margins.** While revenue intensity was higher, gross margins deteriorated by 2.0pts to 29.5% yoy. However, higher gestation of existing and new hospitals more than offset the dilution to boost operating margins by 0.3pts to 10.5% for the quarter yoy. During the quarter, KPJ realised a one-off tax credit arising from the recognition of an investment tax allowance. It lowered 4Q19's effective tax rate to +17.7% (4Q18: -28.6%), lifting 2019 PATAMI margin to 8.9% (4Q18: 6.1%).

STOCK IMPACT

- **Drug price control on hold.** We gather that government price control on drug prices would be on hold at least for 2020. Recall, the Ministry of Health (MoH) intended to use an External Reference Pricing (ERP) mechanism to benchmark drug prices in Malaysia against prices from a basket of selected countries. Phase 1 of the price control would have applied to single source originator drugs. The impact to KPJ would have been -10% to operational earnings given drugs sold by KPJ would have been price capped. However, it would have been offset by a cross subsidisation by introducing prescription fee on the medication, given that there is no existing charge. Therefore, it should mitigate any recurring concern of a drug price control in 2021.

- **Jeta Gardens sale is on pause.** The intended Jeta Gardens sale will take a pause as the previous offer's valuation was found to be unpalatable to the remaining 43% stake holder in Jeta Gardens, Al-Aqar REIT. Meanwhile, against the backdrop of a soft Australian property market, management would focus on enhancing value on the Jeta Garden sale in the interim while awaiting for a more opportune offer in the medium term. Jeta Gardens has been reclassified from "marked for sale" back to being consolidated into KPJ's financials. There would be no change to PATAMI but revenue and gross earnings will be impacted. Jeta Gardens is currently dragging on PATAMI by -RM2m or 1%. We had not factored in the sale of Jeta Gardens and therefore make no changes to the development although it would have been a positive catalyst to dispose the loss-making entity.

EARNINGS REVISION/RISK

- We revise our 2020/21F earnings by 8% and 5% respectively to factor in higher revenue intensity and patient volume assumptions. Key downside risks include: a) tightening of regulatory policy, b) delay in hospital openings, and c) inability to pass on higher operating costs to customers. We take the opportunity to introduce our 2022 net profit estimate.

VALUATION/RECOMMENDATION

- **Maintain BUY with a higher of target price of RM 1.37** (from RM1.22) in tandem with our revised operating earnings. Our valuation is based on 14x 2020F EV/EBITDA, a 20% discount to regional peers, and implies 28.9x 2020F PE. We believe the discount is fair as KPJ: a) has only domestic growth, b) has a stretched balance sheet (net gearing of 0.7x vs sector's 0.4x), and c) is illiquid. That said, we like KPJ for: a) its attractive valuations and b) it being a beneficiary of positive structural trends such as an ageing population and prevalence of 'lifestyle diseases'.

MALAYSIA HOSPITALS AT A GLANCE

	Hospitals	Beds	Market share of hospital beds
KPJ	25	3,060	22%
IHH	14	2,302	16%
Columbia Asia	12	837	6%
TDM	4	365	3%
Sime Darby	3	913	7%
Others*	154	6,480	46%
Total private hospitals*	187	13,957	100%
Public hospitals*	135	37,293	73%
Private hospitals*	187	13,957	27%
Total hospitals*	322	51,250	100%

** Based on 2016 figures*
Source: Ministry of Health, Respective companies, UOB Kay Hian

KPJ'S RECENTLY COMPLETED HOSPITALS

Project	Location	Total Capacity	Opening
BDO	Johor	150	1Q19
Miri	Sarawak	96	4Q19
Kuching	Sarawak	150	1Q20

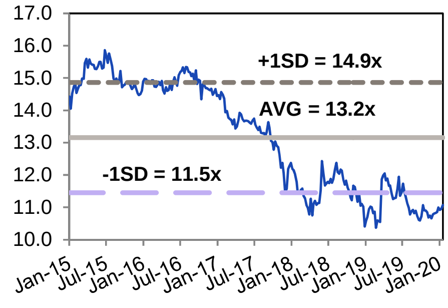
Source: KPJ

KPJ'S REMAINING GREENFIELD PROJECTS

Project	Location	Total Capacity
UTM	Johor	90
K/Bayuemas	Selangor	90
Melaka	Melaka	150

Source: KPJ

5-YEAR FORWARD EV/EBITDA BAND



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	3,604	3,866	4,145	4,439
EBITDA	536	580	625	749
Deprec. & amort.	160	173	186	276
EBIT	376	407	439	474
Associate contributions	44	50	54	58
Net interest income/(expense)	(145)	-131	-158	-166
Pre-tax profit	275	312	332	361
Tax	(49)	-89	-95	-103
Minorities	(15)	-11	-12	-13
Net profit	211	212	226	245
Net profit (adj.)	211	212	226	245

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	2,599	2,725	2,784	2,789
Other LT assets	2,208	2,468	2,477	2,455
Cash/ST investment	478	110	148	337
Other current assets	701	745	792	841
Total assets	5,986	6,048	6,201	6,421
ST debt	290	240	190	190
Other current liabilities	908	883	937	994
LT debt	1,474	1,474	1,474	1,474
Other LT liabilities	1,265	1,265	1,265	1,265
Shareholders' equity	1,893	2,019	2,157	2,306
Minority interest	156	168	179	192
Total liabilities & equity	5,986	6,048	6,201	6,421

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	590	277	377	484
Pre-tax profit	275	312	332	361
Tax	(95)	-89	-95	-103
Deprec. & amort.	160	173	186	276
Associates	0	50	54	58
Working capital changes	82	-69	7	8
Non-cash items	24	0	0	0
Other operating cashflows	145	0	0	0
Investing	(445)	(300)	(250)	(200)
Capex (growth)	(397)	(300)	(250)	(200)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(47)	0	0	0
Financing	(310)	(136)	(88)	(96)
Dividend payments	(86)	(86)	(88)	(96)
Issue of shares	(5)	0	0	0
Proceeds from borrowings	52	(50)	0	0
Loan repayment	(75)	0	0	0
Others/interest paid	(196)	0	0	0
Net cash inflow (outflow)	(164)	(159)	39	188
Beginning cash & cash equivalent	404	268	110	148
Changes due to forex impact	29	0	0	0
Ending cash & cash equivalent	268	110	148	337

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	14.9	13	13.2	13.4
Pre-tax margin	7.6	7.3	7.5	7.7
Net margin	5.9	5.1	5.3	5.5
ROA	3.9	3.8	4.1	4.4
ROE	10.9	9.1	9.5	9.9
Growth				
Turnover	7.1	5.7	7.9	10.1
EBITDA	19.4	7.2	8.9	10.6
Pre-tax profit	6.7	5.7	10.3	14.9
Net profit	17.8	5.7	10.3	14.9
Net profit (adj.)	17.8	5.7	10.3	14.9
EPS	17.8	5.7	10.3	14.9
Leverage				
Debt to total capital	46.3	78.4	71.2	66.6
Debt to equity	93.2	84.9	77.1	72.1
Net debt/(cash) to equity	67.9	79.4	70.2	57.5
Interest cover (x)	3.7	4.0	3.9	4.4

COMPANY RESULTS

Public Bank (PBK MK)

4Q19: Flattish Growth Trends

Public Bank's 4Q19 earnings were in line, with pre-provision operating profit expanding a modest 2.2% yoy. We expect the group to continue registering negative operating JAW in 2020. Maintain HOLD with a lower target price of RM18.25 on earnings cut and lower long-term growth assumptions as earnings growth is expected to remain muted as it continues to face a structural uptrend in cost-to-income ratio. Entry price: RM16.80.

RESULTS

- **In line.** Public Bank's (PBK) 4Q19 net profit of RM1,405m (flattish yoy, +3.1% qoq) was in line. 2019 earnings of RM5,511.6m (-1.4% yoy) represents 100.0% of our full-year forecast. Pre-provision operating profit growth was also modest, coming in at 2.2% yoy on the back of: a) muted loans growth of 4.1%, b) 1bp slippage in NIM, c) 3.4% contraction in net fee income, and d) 11.1% yoy spike in opex (driven largely by +12% yoy increase in staff cost due to one-off pay adjustments on certain staff levels).

- **On a qoq comparison**, earnings registered a slight recovery of 3.1%, driven largely by the downward re-pricing of fixed deposits which helped to underpin a 5bp increase in NIM to 2.17%. However, we note that the re-pricing is one-off while core operating metrics remain weak with fee income declining 6.3% qoq and loans growth remaining subdued at an annualised pace of 4.0% yoy. We expect the impact of the recent OPR cut to negatively impact NIM, and hence earnings in 1Q20, before normalising in 2Q20.

- **Negative operating JAW to persist.** Cost-to-income ratio increased to 34.5% in 4Q19 vs 32.7% in 4Q18 as revenue growth of 5% continues to lag opex growth of 11%. Additionally, we note that 4Q19's revenue growth of 5% was largely underpinned by more volatile forex and trading income. Assuming that current revenue trends were to persist, we expect the group to continue reporting negative operating JAW in 2020 with cost-to-income ratio expected to reach 35.0% vs its 3-year historical average of 32.3%.

- **Loan growth to remain at lower end of management's target.** The group reported 4.1% loans growth in 2019, vs management's full year target of 4.0-5.0%. Loans growth will be largely sustained by domestic residential property which expanded by 9.0% yoy. However, we believe that this was partially supported by the government's home ownership campaign which has expired end-19. We have pencilled in a 4.0% loans growth forecast for 2020, in line with management's guidance which they alluded has taken into account the potential impact of the coronavirus outbreak on certain customer segments.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net interest income	7,563	7,572	7,588	7,875	8,184
Non-interest income	2,215	2,401	2,478	2,596	2,721
Net profit (rep./act.)	5,591	5,512	5,430	5,587	5,739
Net profit (adj.)	5,591	5,512	5,430	5,587	5,739
EPS (sen)	144.0	142.0	139.9	143.9	147.8
PE (x)	11.9	12.1	12.3	12.0	11.6
P/B (x)	1.6	1.5	1.5	1.4	1.3
Dividend yield (%)	4.0	4.2	4.2	4.4	4.5
Net int margin (%)	2.2	2.1	2.1	2.1	2.1
Cost/income (%)	33.0	34.4	36.1	36.8	37.4
Loan loss cover (%)	126.0	124.1	120.2	119.2	116.8
Consensus net profit	-	-	5,685	5,927	-
UOBKH/Consensus (x)	-	-	0.96	0.94	-

Source: Public Bank, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	RM17.20
Target Price	RM18.25
Upside	+6.1%
(Previous TP	*RM21.36)*

COMPANY DESCRIPTION

Public Bank is the third-largest domestic banking group in Malaysia by assets with about 14.8% of system assets and 16.2% loan market share.

STOCK DATA

GICS sector	Financials
Bloomberg ticker	PBK MK
Shares issued (m)	3,882.1
Market cap (RMm)	66,772.1
Market cap (US$m)	15,810.0
3-mth avg daily t'over (US$m)	16.6

Price Performance (%)

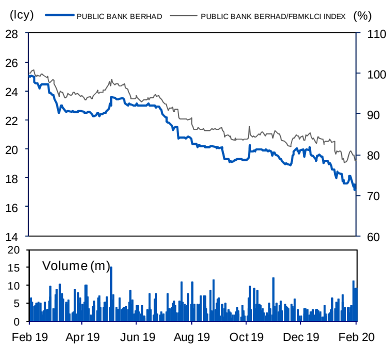
52-week high/low RM25.06/RM17.20

1mth	3mth	6mth	1yr	YTD
(10.3)	(11.8)	(17.3)	(31.4)	(11.5)

Major Shareholders	%
Tan Sri Dato' Sri Dr. Teh Hong Piow	22.8
EPF	13.5

FY20 NAV/Share (RM)	11.73
FY20 CAR Tier-1 (%)	14.37

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Asset quality remains benign.** Asset quality remains relatively benign with GIL ratio improving to 0.49% from 0.52% in 3Q19. Key segments of improvement were passenger car and working capital. As such, net credit cost remained exceptionally low at 5bp in 4Q19 and 2019 (FY18: 5bp). Given the relatively stable asset quality trends and the group's large LLC buffer of 249% we expect net credit cost to remain stable at 5bp-6bp in 2020-21.

- **Higher dividend payout.** On a more positive note, the group declared a higher interim DPS of 40 sen vs 37 sen in 4Q18 despite a flattish earnings trend. This resulted in higher dividend payout ratio of 51.4% in 2019 (DPS: 73 sen) vs 47.9% in 2018 (DPS: 69 sen), implying a current yield of 4.2%. Despite its higher payout ratio, we note that current yields are still slightly below industry average yields of 4.5% and its large-cap banking peer's dividend yield of 5.6-6.7%.

EARNINGS REVISION/RISK

- We trim our 2020 earnings by 2% after factoring in a potential 25bp OPR cut in 1H20 but partially offset by lower net credit cost of 5bp vs our initial assumption of 6bp.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a lower target price of RM18.25** (1.43x 2020F P/B, ROE: 11.9%, implied 2020F PE of 12.8x) from RM21.36 on the back of our earnings adjustment coupled with a lower our long term growth assumptions to factor in the group's modest growth given the structural uptrend in its cost-to-income ratio and consequently moderating ROEs. As there is minimal scope for the group to rationalise its already-lean cost structure, we think that the weak overall growth environment may have a larger impact on the group's near-term earnings growth outlook as it continues to face upward pressure on cost-to-income ratio.

KEY ASSUMPTIONS

(%)	2020F	2021F	2022F
Loan Growth	4.0	4.2	4.2
Credit Cost (bps)	5.0	6.0	7.0
ROE	11.9	11.8	11.6

Source: UOB Kay Hian

4Q19 Results

Profit & Loss (RMm)	4Q19	4Q18	yoy % chg	2019	yoy % chg	Remarks
Net Interest Income	1,945.5	1,908.4	1.9	7,572.3	0.1	Modest loans growth and 1bp NIM slippage yoy
Islamic Banking	286.3	272.4	5.1	1,129.1	5.9	
Fees & Commissions	416.3	430.9	(3.4)	1,740.5	(2.1)	Affected by lower service fee income and weak unit trust income
Net Investment Income	33.9	2.4	1,313.9	167.7	265.6	
Other Operating Income	168.1	96.6	74.1	492.7	26.1	
Total Income	2,850.1	2,710.6	5.1	11,102.3	2.4	
Operating Expenses	(985.1)	(886.2)	11.2	(3,819.2)	6.9	Staff cost increased 11% yoy
PPOP	1,865.0	1,824.5	2.2	7,283.1	0.2	
Provision on loans and investments	(43.3)	(37.3)	16.2	(152.3)	(12.5)	Benign asset quality allowed the group to sustain a low net credit cost of 5bp
PBT	1,822.5	1,789.7	1.8	7,134.1	0.5	
Net Profit	1,405.9	1,405.6	0.0	5,514.6	(1.4)	In line
EPS (sen)	36.3	36.4	(0.1)	142.6	(1.5)	
DPS (sen)	40.0	37.0	8.1	73.0	5.8	
BVPS (RM)	11.27	10.60	6.3	11.27	6.3	
Financial Ratios (%)	**4Q19**	**4Q18**	**yoy chg (ppt)**	**3Q19**	**qoq chg (ppt)**	**Remarks**
NIM	2.17	2.18	(0.01)	2.12	0.05	Re-pricing o deposits qoq helped to underpin NIM recovery
Loan Growth, yoy	4.1	4.2	(0.07)	4.1	0.09	
Deposit Growth, yoy	4.2	6.1	(2.05)	3.7	0.52	
Loan/Deposit Ratio	93.0	93.0	0.01	93.7	(0.71)	
Cost/Income Ratio	34.6	32.7	1.87	34.5	0.03	OPEX growth continues to outpace revenue
ROE	13.0	13.9	(0.87)	12.8	0.22	
NPL Ratio	0.5	0.5	(0.03)	0.5	(0.03)	
Credit Costs (bp)	5.2	4.7	0.54	5.6	(0.35)	
Loan Loss Coverage	124.1	126.0	(1.90)	117.6	6.50	
CET-1 CAR	13.5	13.1	0.37	13.1	0.36	

Source: Public Bank, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Interest income	16,429	18,010	18,814	19,799
Interest expense	(8,857)	(10,422)	(10,939)	(11,616)
Net interest income	7,572	7,588	7,875	8,184
Fees & commissions	1,740	1,793	1,864	1,939
Other income	660	685	732	782
Non-interest income	2,401	2,478	2,596	2,721
Income from islamic banking	1,129	1,186	1,245	1,307
Total income	11,102	11,252	11,716	12,212
Staff costs	(2,742)	(2,961)	(3,168)	(3,358)
Other operating expense	(1,078)	(1,096)	(1,143)	(1,207)
Pre-provision profit	7,283	7,195	7,405	7,646
Loan loss provision	(154)	(172)	(179)	(223)
Other provisions	2	0	0	0
Associated companies	3	4	4	4
Pre-tax profit	7,134	7,027	7,230	7,427
Tax	(1,555)	(1,531)	(1,576)	(1,618)
Minorities	(68)	(66)	(68)	(70)
Net profit	5,512	5,430	5,587	5,739
Net profit (adj.)	5,512	5,430	5,587	5,739

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Cash with central bank	10,044	10,311	10,733	11,173
Govt treasury bills & securities	21,773	22,209	22,653	23,106
Interbank loans	0	0	0	0
Customer loans	328,476	341,663	355,718	370,350
Investment securities	50,229	54,433	58,948	63,797
Derivative receivables	152	246	339	432
Associates & JVs	75	87	96	106
Fixed assets (incl. prop.)	1,143	1,343	1,543	1,743
Other assets	20,938	21,370	22,252	23,175
Total assets	432,831	451,659	472,281	493,882
Interbank deposits	8,494	7,608	6,815	6,104
Customer deposits	353,340	372,421	392,159	412,944
Derivative payables	346	311	280	252
Debt equivalents	0	0	0	0
Other liabilities	25,904	24,585	24,250	23,711
Total liabilities	388,084	404,925	423,504	443,010
Shareholders' funds	43,594	45,516	47,492	49,516
Minority interest - accumulated	1,152	1,218	1,286	1,355
Total equity & liabilities	432,830	451,659	472,281	493,882

OPERATING RATIOS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Capital Adequacy				
Tier-1 CAR	13.5	14.4	14.3	14.3
Total CAR	16.8	17.2	17.0	16.9
Total assets/equity (x)	9.9	9.9	9.9	10.0
Tangible assets/tangible common equity (x)	10.5	10.5	10.5	10.6
Asset Quality				
NPL ratio	0.5	0.5	0.5	0.5
Loan loss coverage	124.1	120.2	119.2	116.8
Loan loss reserve/gross loans	0.6	0.6	0.6	0.6
Increase in NPLs	(1.0)	5.0	2.6	3.9
Credit cost (bp)	4.6	5.0	5.0	6.0
Liquidity				
Loan/deposit ratio	93.0	91.7	90.7	89.7
Liquid assets/short-term liabilities	8.8	8.6	8.4	8.2
Liquid assets/total assets	7.4	7.2	7.1	6.9

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Growth				
Net interest income, yoy chg	0.1	0.2	3.8	3.9
Fees & commissions, yoy chg	(2.1)	3.0	4.0	4.0
Pre-provision profit, yoy chg	0.2	(1.2)	2.9	3.3
Net profit, yoy chg	(1.4)	(1.5)	2.9	2.7
Net profit (adj.), yoy chg	(1.4)	(1.5)	2.9	2.7
Customer loans, yoy chg	4.2	4.0	4.1	4.1
Customer deposits, yoy chg	4.2	5.4	5.3	5.3
Profitability				
Net interest margin	2.1	2.1	2.1	2.1
Cost/income ratio	34.4	36.1	36.8	37.4
Adjusted ROA	1.3	1.2	1.2	1.2
Reported ROE	13.0	12.2	12.0	11.8
Adjusted ROE	13.0	12.2	12.0	11.8
Valuation				
P/BV (x)	1.5	1.5	1.4	1.3
P/NTA (x)	1.6	1.6	1.5	1.4
Adjusted P/E (x)	12.1	12.3	12.0	11.6
Dividend Yield	4.2	4.2	4.4	4.5
Payout ratio	52.0	52.0	52.0	52.0

UOBKayHian

COMPANY RESULTS

Serba Dinamik Holdings (SDH MK)

4Q19: Significantly Beat Expectations

2019 performance beat expectations by 14% on higher revenues and lower tax, despite a one-off sukuk repayment, largely driven by Malaysia and Qatar. We raise forecasts by 8-23%, on higher 2020 revenue recognition and lower cost base, and for 2021 we assume a much higher end-20 orderbook base at RM13.5b (this is still conservative vs RM15b target). Post valuation upgrade, we now assume full dilution. Maintain BUY with a diluted target price of RM2.65 (pre-dilution: RM2.75).

4Q19 RESULTS

Year to 31 Dec (RMm)	4Q19	qoq % chg	yoy % chg	Ytd FY19 (RMm)	yoy % chg	Comments
Revenue	1,360.5	30.2	39.1	4,528.6	37.9	
-O&M	1,159.1	25.2	32.7	3,895.2	33.0	Higher Malaysia and ME revenue
-EPCC	143.9	34.9	38.7	509.0	46.8	
Gross profit	254.9	41.6	41.4	810.8	39.2	
-O&M	222.8	37.8	36.4	710.9	35.6	Margin of 19.2%, vs 17.5% QoQ
-EPCC	22.3	37.6	32.8	77.8	39.2	Margin of 15.5% vs 15.2% QoQ
Impairment losses	0.0	na	na	0.0	na	
GP margin (%)	18.7	1.5	0.3	17.9	0.2	Margin of 18.7%, vs 17.2% QoQ
Finance cost	(104.3)	289.2	626.3	(182.8)	268.6	Early sukuk redemption
Associates	20.5	135.8	578.4	35.0	152.4	KAJV and CSE Global
Pre-tax profit	139.1	1.3	6.0	544.8	24.5	
Income tax	1.1	(104)	(105)	(46.8)	4.6	Reversal of Labuan tax provision
Net profit	140.9	24.5	28.9	496.6	26.9	
Core profit	184.1	63.2	70.1	538.6	35.5	Strip out sukuk redemption

Source: Company , UOB Kay Hian

RESULTS

- **2019 core profit significantly exceeded expectation,** comprising 114% of our/ consensus forecasts. We excluded a RM52.3m one-off early repayment for the RM0.8b sukuk redemption during 4Q19, and about >RM5m of associate profit from the KAJV project arising from retrofitting works. While the revenue surge qoq (as 4Q is a seasonally strong quarter) was well expected, the positive deviation arose from: a) revenues and gross profit were above our forecast by about 5%, mainly driven by Malaysia and Qatar, while the other income (IT related business) started to ramp-up; b) after almost a year, the tax authorities allowed SDH to reverse the provisions in relation to the Labuan tax regime, thereby reverting the full year tax rate from >13% to 8%; b) JV/associate income was better than our conservative loss forecast, mainly driven by CSE Global (RM7m) and the remainder from KAJV. SDH declared a total RM0.075 DPS for the year, implying a payout of ~50%, above its minimum 30% payout and our forecast.

KEY FINANCIALS

Year to 31 Dec (RMm)	2018	2019	2020F	2021F	2022F
Net turnover	3,283	4,529	6,314	7,909	9,062
EBITDA	563	834	1,140	1,385	1,540
Operating profit	473	693	941	1,159	1,311
Net profit (rep./act.)	392	497	668	808	902
Net profit (adj.)	397	539	668	808	902
EPS (sen)	12.9	17.5	16.9	20.4	22.8
PE (x)	18.2	13.4	13.9	11.5	10.3
P/B (x)	3.5	3.0	3.2	2.7	2.3
EV/EBITDA (x)	18.6	12.5	9.2	7.6	6.8
Dividend yield (%)	1.7	3.2	2.9	3.5	3.9
Net margin (%)	11.9	11.0	10.6	10.2	10.0
Net debt/(cash) to equity (%)	45.5	84.1	110.8	112.6	99.7
Interest cover (x)	11.4	4.6	5.0	4.7	4.4
ROE (%)	22.5	22.0	24.9	25.3	24.0
Consensus net profit	-	-	575	653	-
UOBKH/Consensus (x)	-	-	1.16	1.24	-

Source: Serba Dinamik Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM2.34
Target Price	RM2.65
Upside	+13.4%
(Previous TP	*RM2.50)*

COMPANY DESCRIPTION

A leader in operation and maintenance (O&M) of rotating equipment for downstream and upstream industries, with major revenues from Middle East.

STOCK DATA

GICS sector	Energy
Bloomberg ticker	SDH MK
Shares issued (m)	3,083.9
Market cap (RMm)	7,216.2
Market cap (US$m)	1,707.8
3-mth avg daily t'over (US$m)	3.3

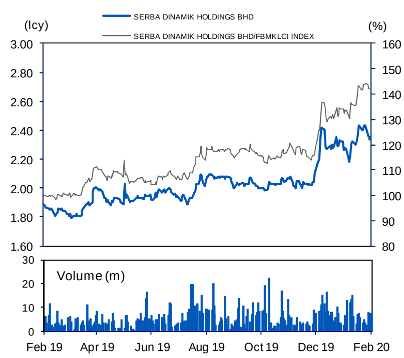
Price Performance (%)

52-week high/low RM2.43/RM1.80

1mth	3mth	6mth	1yr	YTD
0.9	13.5	16.4	25.0	6.4

Major Shareholders	%
Mohd Abdul Karim Bin Abdullah	21.4
Abdul Kadier Sahib	19.2
Daung Awang Dato	9.5
FY20 NAV/Share (RM)	0.74
FY20 Net Debt/Share (RM)	0.82

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Performance by geography.** a) Malaysia revenue surged given the higher orderbook base across both O&M and EPCC projects; b) there were no call-out revenues from Oman since 2Q. For Kuwait, call-out O&M works started since 2Q19 and will be sustainable depending on the turnaround cycles although there was a lack of works in 4Q19; c) both Qatar and UAE had strong demand in O&M call-out works, given the heightened need to upgrade their infrastructures ahead of global events like World Cup and Expo 2020. Qatar in particular, was the big revenue driver for 4Q19. Overall, Middle East remains as the key contributor comprising 59% of overall revenue in 4Q19 (3Q19: 64%; 4Q18: 57%), while Malaysia revenue mix also improved to 30%. Tanzania EPCC continues to be steady since it ramped up from 2Q19.
- **Achieved RM10b orderbook target, setting eyes on RM15b target for 2020.** With the inclusion of several new O&M contracts, SDH has achieved its RM10b orderbook (up from RM9.7b in Sep 19. As of Feb 20, its orderbook rose higher to RM10.7b. The end-2020 orderbook target of RM15b represents an aggressive 50% growth. We expect management to secure more sizable contracts, in particular several large EPCC jobs from Malaysia that are worth between RM0.5b-1.6b each, and recognising more work orders from the Master Service Agreement for Rotating Equipments (potentially up to RM1.5-2b). One of the high profile projects is a RM1.6b EPCC work for a large aromatics complex in Pengerang, that was recently announced by ChemOne. Serba is also actively bidding for contracts in the Middle East and Central Asia. Hence, the RM15b orderbook target appears to be achievable.
- **Serba incurred RM0.9b capex in 2019**, **gearing continues to grow**. While EBITDA generation remained strong at RM0.2b per quarter, the high working capital requirements and capex (to support its growing orderbook and key capex projects) renders the group to need to seek more funding. Despite the sukuk redemption, SDH raised a dollar sukuk recently resulting in its total borrowings lifted from RM2.5b to RM3.4b base. Gross and net gearing also surged to 1.4x and 0.8x respectively for 2019. We believe this high orderbook growth will necessitate more funding requirements.

EARNINGS REVISION/RISK

- **Raise 2020-21 earnings forecasts by 8%/23%.** We adjusted tax rate to 9%, as we now understand the lower tax rate is sustainable. We also assume JV profits moving forward, albeit lower vs the 2019 base to account for start-up losses in certain JV projects. Our 2020/21F revenue forecasts are raised by 5%/20% respectively. We assume a greater O&M recognition for 2020, but for 2021, revenue is premised on a higher orderbook base of RM13.5b (from RM11b previously). Note that we continue to be conservative relative to SDH's RM15b end-20 orderbook target. All these are offset by a much higher borrowing base and our finance cost assumption is adjusted to >RM0.23b per year. Our 2020/21 earnings growth forecasts of 24%/21% (2019: 36%) will correlate to its orderbook growth
- **Risks:** a) Cancellation/non-renewal of contracts; b) geopolitical risks; c) uncontrollable JV losses; d) US$/RM; e) Serba requires significant working capital (inventories and receivables) to grow their revenue. We expect negative FCF in 2019 and 2020 on capex expansion. This is in line with management's FCF guidance and its intention for sukuk raising. Its gross gearing has a comfortable limit of 1.25x.
- **Minimal impact to COVID-19.** Management guided that it has minimal exposure to the supply chain and procurement of parts from China.

VALUATION/RECOMMENDATION

- **Retain BUY, adjusted target price to RM2.65 (from RM2.50).** Our valuation is pegged to an unchanged 12x 2020F pre-diluted PE (15x diluted PE) and at a premium to local peer Deleum, given Serba's superior diversification and ROE of 23%. Our pre-dilution target price is RM2.75, which is now above the 880m warrant exercise price of RM2.62. Hence, we are now assuming full dilution (on a 4b share base) with warrants proceeds, arriving at a diluted target price of RM2.65. The valuation factors in future earnings momentum of SDH's >30% orderbook growth, and will have more upside once we roll over to the 2021 horizon. We continue to like SDH for its high growth stage, driven by its recurring maintenance income.

4Q19 REVENUE, QOQ/YOY CHANGE (%)

(RMm)	4Q19	qoq %	yoy %
Malaysia	395.5	49.4	41.9
Turkmenistan, India, Kazakhstan	103.7	163.7	3.5
Qatar	427.1	44.5	81.5
Kuwait	0.1	(99.6)	(66.4)
UAE	232.3	(6.2)	43.6
Saudi Arabia	25.0	(22.7)	(55.0)
Indonesia	12.5	(71.6)	(39.9)
Oman	0.0	na	na
Bahrain	122.0	52.3	19.9
UK	41.1	51.8	77.5
Laos	1.4	na	na

Source: Serba Dinamik, UOB Kay Hian

REVENUE MIX

(%)	4Q19	3Q19	4Q18
Malaysia	29.1	25.3	28.5
Turkmenistan, India, Kazakhstan	7.6	3.8	10.2
Qatar	31.4	28.3	24.1
Kuwait	0.0	1.4	0.0
UAE	17.1	23.7	16.5
Saudi Arabia	1.8	3.1	5.7
Indonesia	0.9	4.2	2.1
Oman	0.0	0.0	0.1
Bahrain	9.0	7.7	10.4
UK	3.0	2.6	2.4
Laos	0.1	0.0	0.0

Source: Serba Dinamik, UOB Kay Hian

SEGMENTAL GROWTH FORECASTS

(RMm)	2019	2020F	2021F
US$/RM (rate)	4.1	4.1	4.1
Revenue	4,528.6	6,313.7	7,908.9
- O&M	3,895.2	5,234.4	6,269.5
- EPCC	509.0	935.0	1,475.0
Orderbook	10,000	13,525	15,000
- O&M	~6,200	8,025.0	9,296.3
- EPCC	~3,800	5,500.0	5,700.0
New contract wins	~3,500	~4,600	~3,500
Gross profit	810.8	1,113.2	1,382.6
- O&M	710.9	923.0	1,099.3
- EPCC	77.8	155.6	244.0
- O&M margin (%)	*17.7%*	*17.6%*	*17.5%*
- EPCC margin (%)	*16.7%*	*16.6%*	*16.5%*

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Net turnover	4,529	6,314	7,909	9,062
EBITDA	834	1,140	1,385	1,540
Deprec. & amort.	142	199	226	228
EBIT	693	941	1,159	1,311
Associate contributions	35	25	27	29
Net interest income/(expense)	(183)	(230)	(296)	(347)
Pre-tax profit	545	735	889	993
Tax	(47)	(66)	(80)	(89)
Minorities	(1)	(1)	(1)	(1)
Net profit	497	668	808	902
Net profit (adj.)	539	668	808	902

BALANCE SHEET

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Fixed assets	1,929	2,605	2,958	2,989
Other LT assets	410	409	408	406
Cash/ST investment	1,307	1,107	1,186	1,516
Other current assets	2,709	3,948	4,984	5,783
Total assets	6,354	8,069	9,536	10,694
ST debt	2,947	3,944	4,687	5,141
Other current liabilities	516	743	924	1,055
LT debt	405	405	405	405
Other LT liabilities	47	47	47	47
Shareholders' equity	2,433	2,925	3,469	4,044
Minority interest	7	6	4	3
Total liabilities & equity	6,354	8,069	9,536	10,694

CASH FLOW

Year to 31 Dec (RMm)	2019	2020F	2021F	2022F
Operating	213	70	457	791
Pre-tax profit	545	735	889	993
Tax	(51)	(66)	(80)	(89)
Deprec. & amort.	142	199	226	228
Associates	(35)	(25)	(27)	(29)
Working capital changes	(578)	(1,012)	(856)	(668)
Other operating cashflows	191	239	305	356
Investing	(891)	(850)	(584)	(289)
Capex (growth)	(868)	(818)	(552)	(257)
Others	(23)	(32)	(32)	(32)
Financing	1,312	581	205	(173)
Dividend payments	(141)	(267)	(323)	(361)
Issue of shares	0	0	0	0
Proceeds from borrowings	1,649	1,098	845	555
Loan repayment	0	0	0	0
Others/interest paid	(196)	(250)	(316)	(367)
Net cash inflow (outflow)	633	(199)	79	329
Beginning cash & cash equivalent	632	1,307	1,107	1,186
Changes due to forex impact	42	0	0	0
Ending cash & cash equivalent	1,307	1,107	1,186	1,516

KEY METRICS

Year to 31 Dec (%)	2019	2020F	2021F	2022F
Profitability				
EBITDA margin	18.4	18.1	17.5	17.0
Pre-tax margin	12.0	11.6	11.2	11.0
Net margin	11.0	10.6	10.2	10.0
ROA	9.3	9.3	9.2	8.9
ROE	22.0	24.9	25.3	24.0
Growth				
Turnover	37.9	39.4	25.3	14.6
EBITDA	48.1	36.6	21.5	11.2
Pre-tax profit	24.5	35.0	20.9	11.6
Net profit	26.9	34.5	21.0	11.6
Net profit (adj.)	35.5	24.0	21.0	11.6
EPS	35.5	(3.5)	21.0	11.6
Leverage				
Debt to total capital	57.9	59.7	59.4	57.8
Debt to equity	137.8	148.7	146.8	137.1
Net debt/(cash) to equity	84.1	110.8	112.6	99.7
Interest cover (x)	4.6	5.0	4.7	4.4

UOBKH HIGHLIGHTS

Strategy – Malaysia

An Apparent Stalemate

WHAT'S NEW

- Tun Mahathir confirmed speculation that he wanted to form a unity government, saying the new administration would focus on national interests instead of political parties.
- However, Pakatan Harapan endorsed Datuk Seri Anwar Ibrahim as PM candidate at the presidential council meeting yesterday. DAP originally supported Tun Mahathir as PM, but subsequently endorsed Datuk Seri Anwar as Tun Mahathir refused to meet Pakatan Harapan.
- Sarawak Chief Minister Abang Johari Openg says his party, (GPS) is supportive of Tun Mahathir but will abide by any decision taken by the Yang di-Pertuan Agong.
- PKR secretary-general Saifuddin Nasution Ismail is optimistic that party president Anwar Ibrahim would become the eighth prime minister, saying that Anwar has more than 92 MPs backing him.

COMMENTS

- While we await the Agung's decision in a day or two, it would seem to us that unless there is a clear choice for a PM or a coalition having a simple majority in parliament, a fresh election would have to be called.
- Meanwhile, the political uncertainty points to a further downside bias to market, although we expect downside be limited. No change to our assessed trough valuation of 1,480.

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UOBKH HIGHLIGHTS

Deleum (DLUM MK/BUY/RM0.83/Target: RM1.07)

4Q19: Below Expectations. 2020 Expected to be a Clean Year Of Delivery

Year to 31 Dec	4Q19 (RMm)	qoq % chg	yoy % chg	Ytd 2019 (RMm)	yoy % chg	Year	EPS (sen)	Revision (%)	PE (x)
Revenue	232.1	(21.7)	15.8	868.3	39.2	2020F	10.2	(8.5)	8.1
- Power & Machinery (P&M)	140.5	(21.8)	12.2	486.2	35.0	2021F	11.6	(8.1)	7.2
- Oilfield Services (OS)	35.6	(4.0)	15.1	144.2	15.6	2022F	12.5	-	6.6
- Integrated Corrosion Solution (ICS)	55.9	(29.8)	26.4	237.3	71.7				
EBIT	16.1	(28.7)	59.0	52.7	19.7				
- Power & Machinery	19.9	5.6	102.5	49.8	38.2				
- Oilfield Services	(0.7)	(461.7)	(248.3)	0.9	(93.5)				
- Integrated Corrosion Solution	(3.1)	(186.9)	2455.7	1.8	(128.4)				
Operating Margin	*7.0%*	*-0.7%*	*1.9%*	*6.1%*	*-1.0%*				
Impairment Loss	0.0	nm	nm	nm	nm				
Net finance Cost	(0.9)	2.8	23.6	(3.2)	13.0				
Associates	0.4	0.7	(38.2)	6.1	(81.0)				
PBT	15.7	(33.2)	53.1	55.1	29.5				
Tax	(3.2)	(37.4)	30.1	(11.1)	(13.0)				
Net Profit	8.6	(34.6)	14.6	33.1	22.0				
Core Profit	7.9	(43.2)	(0.8)	35.0	24.7				
EPS (sen)	2.1			8.2					
DPS (sen)	3.0			4.4					

RESULTS

- **2019 core profit misses expectations.** Although 4Q was expected to be a seasonally strong quarter, full-year profit accounted for only 87%/89% of our and consensus full-year forecasts. It also declared a total DPS of 4.4 sen (50% payout), below our 5.0 sen forecast.
- **On a yoy basis,** P&M was the strong performer on the revenue surge from both sales of equipment and retrofit works, as management previously guided on the material overhaul. This also improved P&M profit even though the normal retrofit revenues saw a decline in revenues. For OS, slickline revenue was RM33m (3Q19: RM33m, 4Q18: RM29m), however margin compression remains as we understand there is still some third-party charters being used for certain slickline units. For ICS, overall revenues grew but the MCM activity declined in 4Q19 to RM33m (3Q19: RM60m, 4Q18: RM36m); this resulted in losses in the MCM contract due to lower execution of project works.
- **On a qoq basis,** P&M profits continued to be the only performer (despite lower revenue qoq), while OS and ICS divisions failed to match management's expectations. Although OS recovered from the RM3m loss in 2Q19, EBIT was still below average as the cost base was still high given there was still a portion of rented/ third-party charter among the slick line units. Margin pressure from MCM had reduced ICS earnings qoq.

EARNINGS REVISION

- **Cut 2020-21 net profit forecasts by 10-11%** to RM41m/RM46m respectively. We retain our view that P&M, its most recurring segment, will see a recurring strength moving forward. Management previously guided that the problems and earnings risks encountered in its slickline (third-party charters) and MCM (low margins, some revenues awaiting to be claimed from client) should be resolved and they expect 2020 to be a "clean year of execution". Nevertheless, we still discount its earnings for execution risk.

RECOMMENDATION

- **Retain BUY with reduced target price at RM1.07 (from RM1.17),** pegged to unchanged 10x 2020F PE. Our target price implies a 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 most recurring segment (P&M). 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 sets it apart from other O&G peers and sets a downside protection for the stock.

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UOBKH HIGHLIGHTS

Genting Plantations (GENP MK/HOLD/RM10.00/Target: RM9.50)

4Q19: Below Expectations

4Q19 RESULTS

Year to 31 Dec	4Q19 (RMm)	qoq % chg	yoy % chg	2019 (RMm)	yoy % chg	Comments
Turnover	644	35.4	33.4	2,266	19.1	
EBITDA	143	82.7	74.3	433	(0.1)	
Plantation	111	>100	49.9	337	(13.6)	Better qoq and yoy mainly driven by higher selling prices.
Property	15	25.6	61.7	38	4.7	The qoq increase mainly due to higher contribution from its property sale. Higher yoy due to is better overall margin for its project.
Downstream	14	38.0	>100	33	>100	Good earnings due to higher sales volume and capacity utilisation, on the back of higher margin.
Pre-tax Profit	81	>100	>100	185	(10.7)	
Net Profit	62	>100	>100	142	(13.8)	
Core Net Profit	63	>100	>100	140	(15.0)	Slightly below expectation.
FFB (tonne)	579,338	6.3	(5.5)	2,193,522	5.3	
CPO Price (RM/tonne)	2,278	15.8	23.3	2,048	(3.3)	
PK Price (RM/tonne)	1,231	13.0	(9.3)	1,179	(29.9)	

EARNINGS FORECASTS

FY	EPS (sen)	PE (x)
2020F	33.9	29.5
2021F	32.9	30.4
2022F	29.0	34.5

Source: GENP, UOB Kay Hian

RESULTS

- **Results slightly below expectations.** Genting Plantations (GENP) reported a core net profit of RM63m in 4Q19 (>100% qoq, >100% yoy) and RM140m in 2019 (-15% yoy). Results were slightly below our expectations, accounting for 91% of our full-year assumption due higher cost of production and lower-than-expected CPO selling prices.
- **Improvement in plantation segment in 4Q19.** The plantation segment's earnings had increased by >100% qoq and 50% yoy in 4Q19, mainly driven by higher selling prices. However, the late rally of CPO prices in 4Q19 was not sufficient to offset the selling prices for 9M19, resulting in lower-than-peers' selling prices at RM2,048/tonne for 2019. Further to that, the cost of production for the plantation segment was higher in 4Q19 because GENP caught up in fertiliser application in 4Q19 to meet its fertiliser application target.
- **Better downstream operations.** Downstream earnings had increased qoq and yoy mainly due to higher sales volume and utilisation rate. It was further supported by a higher operating margin with lower feedstock prices and timely purchase of feedstock. Biodiesel sales growth had increased to more than double-digits in 2019, supported by higher local blending (Malaysia mandate increase to B10 and B7 for industrial use) and strong biodiesel exports mainly to Europe given good palm oil-gasoil price differential.
- **Property segment did well in 4Q19** on the back of higher contribution from its property sales coupled with better overall margins for its projects. Management had guided that sales had improved by 7% yoy with its new residential launch in Indahpura. Unbilled sales was at RM54m as at Dec-19.

STOCK IMPACT

- **FFB production growth for 2020F.** The production growth in 2019 came in above our expectation at 5% vs our assumption of 3%, mainly contributed by increased harvesting area and better age profile. Management guided on a FFB production growth of 0-5% in 2020. However, we remain conservative over production growth and have revised our FFB production growth forecast for 2020 from 5% to 1% yoy, in view of the higher base in 2019 and the potential for lower yields as a result of the dry weather in 2019.
- **Capex.** The group capex for 2019 is at RM415m (2018: RM340m), which is mainly for the upgrading and the expansion of three refinery plants in West Kalimantan, bringing the total annual capacity to 675,000mt. The biodiesel plants are expected to commence operations in 2H20, with utilisation rate of 60-70% and 80% for its Indonesia and Malaysia operations respectively. Management had guided that the capex for 2020 will be at RM400m.

EARNINGS REVISION

- **Revised earnings forecasts.** We had adjusted our net profit forecasts by 4-7%, factoring in lower FFB production growth and lower downstream margins due to higher feedstock prices. Our net profit forecasts for 2020-22F are at RM304m, RM295m and RM260m respectively.

RECOMMENDATION

- **Maintain HOLD and lower target price to RM9.50** based on 28x 2020F PE (mean forward PE). Entry price: RM9.00.

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UOBKH HIGHLIGHTS

Hong Leong Financial Group (HLFG MK/BUY/RM16.80/Target: RM19.65)

2QFY20: Stronger Performance At HLBank

2QFY20 RESULTS

Year to 30 Jun	2QFY20 (RMm)	2QFY19 (RMm)	yoy % chg	1HFY20 (RMm)	yoy % chg	Year	EPS (sen)	PE (x)
Net Interest Income	786.6	758.6	4.0	1,542.8	2.6	FY20F	172.8	9.2
Islamic Banking	206.4	172.7	3.3	406.2	18.1	FY21F	179.5	8.9
Insurance Income	51.6	69.2	9.5	98.7	(30.4)	FY22F	186.7	8.6
Brokerage Income	13.6	12.3	9.1	26.1	(2.4)			
Unit trust & AM income	16.6	14.2	(7.8)	34.7	35.9			
Fee income	169.2	179.2	(10.3)	357.8	9.1			
Investment and Trading	77.1	(33.8)	(17.1)	170.1	154.1			
Other income	38.9	72.9	255.3	49.9	(58.4)			
Total Income	1360.1	1245.3	2.6	2,686.2	5.1			
Operating Expenses	(601.5)	(573.4)	3.3	(1,183.6)	1.6			
PPOP	758.6	671.9	2.0	1,502.6	8.0			
Credit Costs	(19.5)	58.6	(322.7)	(10.8)	(127.0)			
Associate	186.8	147.2	16.0	347.8	14.2			
PBT	924.3	877.5	1.2	1,837.9	6.0			
Core Net Profit	503.0	481.5	4.5	993.2	6.5			
EPS (sen)	43.8	42.0	2.6	86.6	6.5			
DPS (sen)	0.0	0.0	n.a.	13.0	n.a.			
BVPS (RM)	17.43	16.16	1.8	17.4	7.8			

Source: HLFG, UOB Kay Hian

RESULTS

- **2QFY20 results marginally above estimates.** Hong Leong Financial Group (HLFG) reported 2QFY20 net profit of RM503.2m (4.5% yoy). This was 4% above our estimates due to stronger-than-expected performance from HLBank which benefitted from low credit cost and solid operating cost management. The strong performance from HLBank was however partly offset by lower brokerage and insurance income.
- **HLBank remains a key earnings contributor.** Hong Leong Bank (HLBank) continues to be the key contributor, making up 91% of HLFG's earnings and revenue. HLFG's insurance division registered a 30% yoy decline in PBT in 1HFY20 due to lower life fund surplus and weaker premium trends. Hong Leong Capital's performance was impacted by lower brokerage income in 1QFY20, which was offset by higher unit trust income.

EARNINGS REVISION

- No changes.

RECOMMENDATION

- **Maintain BUY with lower TP of RM19.65 from RM19.80 post TP adjustment for Hong Leong Bank.** Our target price imputes a 20% holding company discount, in line with the 10-year historical mean discount. The stock is now trading at a 32% holding company discount to our SOTP value of RM24.76 vs its historical discount of 25%.

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UOBKH HIGHLIGHTS

Kerjaya Prospek Group (KPG MK/BUY/RM1.27/Target: RM1.66)

4Q19: In Line, Vying For More New Contracts In 2H20

Year to 31 Dec	4Q19 (RMm)	3Q19 (RMm)	qoq % chg	yoy % chg	2019 (RMm)	yoy % chg
Revenue	268.4	263.3	1.9	1.2	1,055.3	(1.3)
Construction	260.1	256.4	1.5	14.9	1,006.3	4.0
Manufacturing	0.2	0.0	1,293.8	205.5	0.4	(76.2)
Property Development	8.1	7.0	15.7	(79.2)	48.6	(51.1)
COGS	(210.8)	(205.4)	2.7	0.2	(838.3)	(2.5)
EBITDA	57.6	57.9	(0.6)	5.0	217.0	4.0
Construction	42.5	43.6	(2.4)	8.9	162.7	5.7
Manufacturing	1.2	1.7	(29.0)	(38.9)	5.2	(2.8)
Property Development	2.0	2.1	(3.7)	(81.8)	11.5	(56.4)
PBT	46.7	46.0	1.6	0.7	185.8	1.9
PATMI	36.2	33.0	9.7	6.5	140.1	1.2
Core PATMI	36.2	33.0	9.7	(7.2)	140.1	(2.3)
Margins (%)	%	%	+/-ppt	+/-ppt	%	+/-ppt
Construction	16.4	17.0	(0.7)	2.3	16.2	0.3
PBT	17.4	17.5	(0.1)	(0.1)	17.6	0.5
PATMI	13.5	12.5	1.0	(0.2)	13.3	0.3

Year	EPS (sen)	PE (x)
2020F	11.2	10.7
2021F	12.3	9.2

Source: Kerjaya Prospek Group, UOB Kay Hian

RESULTS

- **12M19 results in line.** Kerjaya Prospek Group (Kerjaya) posted net profit of RM36m for 4Q19 (+10% qoq, -7% yoy) on revenue of RM268m (+2% qoq, +1% yoy), driven by the construction division. 12M19 net profit came in at 100% of our full-year estimate, driven by construction progress billings as well as property billings recognition.
- **Margins unchanged for 12M19 period.** 12M19 PATAMI margin was at 13.3% (+0.3ppt yoy), while construction margin marginally improved by 0.3ppt to 16.2%, driven by its ongoing projects which are in the advanced stages of construction.
- **Outstanding construction orderbook of RM3.1b as at Jan 20** represented an orderbook cover of 3.1x 2019 construction revenue. In addition, the company does not depend on government-related projects, ensuring its earnings visibility in the long term amid less infrastructure contract awards to be awarded
- **Secured new jobs of RM1.0b in 2020.** Kerjaya secured new jobs worth up to RM1.0b, accounting for 2/3 of its internal target of RM1.5b. The company is upbeat about surpassing its 2020 internal target thanks to various mixed development projects that were tendered previously. From our checks, Kerjaya is vying for a property projects like a) mixed development projects worth close to RM800m each (tendered for two separate projects), involving the construction of high-rise residential and commercial projects located in Klang Valley, b) high-rise building contract in Sabah worth RM500m; and c) building job from Aspen Group worth <RM100m.
- **Sustaining property earnings through from upcoming launches.** The company plans to launch two high-rise residential projects located in Kelab Monterez, Shah Alam (GDV: RM250m) in 2H20 and Mont Kiara (GDV: RM400m) in 2H21, which are expected to provide earnings visibility for the division from 2020 onwards.

EARNINGS REVISION

- No change to our earnings forecasts.

RECOMMENDATION

- **Maintain BUY and target price of RM1.66.** Our target price is based on 14x 2020F PE and net cash position as of Mar 19. We opine the higher-than-peers' PE multiple is justified due to Kerjaya's zero reliance on government projects and its ability to clinch building jobs (driven by the private sector) despite uncertainties in the construction space. We like Kerjaya for its: a) superior margins, b) high orderbook cover, c) net cash of RM191m as of Mar 19, and d) ability to clinch new contracts, given its strong track record.

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UOBKH HIGHLIGHTS

Malaysian Resources Corporation (MRCB MK/HOLD/RM0.66/Target: RM0.74)

4Q19: Missed Expectations, Hoping For A Better 2020

Year to 31 Dec	4Q19 (RMm)	3Q19 (RMm)	qoq % chg	yoy % chg	2019 (RMm)	yoy % chg
Revenue	471.6	372.7	26.5	26.1	1,319.4	(29.5)
Construction	258.7	137.4	88.3	31.1	679.5	(10.4)
Property Development	195.3	215.0	(9.2)	22.3	566.7	(45.6)
Others	17.6	20.4	(13.3)	3.7	73.2	8.8
EBIT	26.5	28.0	(5.7)	1.7	102.1	(32.6)
Engineering & Construction	19.8	1.8	1,017.2	73.2	23.1	(59.0)
Property Development	7.0	22.8	(69.5)	(22.5)	76.8	(21.5)
Others	(0.3)	3.4	(108.6)	(105.3)	2.2	(57.6)
Associates & JV	0.7	2.7	(75.3)	(115.8)	6.6	(74.2)
PBT	20.4	14.3	43.1	(39.4)	53.0	(64.2)
Net Profit	6.0	2.5	139.4	(77.2)	23.7	(76.5)
Core Net Profit	6.0	2.5	139.4	(77.2)	33.7	(66.7)
EBIT Margin	%	%	qoq ppt chg	yoy ppt chg	%	yoy ppt chg
Construction	7.6	1.3	6.4	5.5	3.4	(4.0)
Property	3.6	10.6	(7.1)	(3.6)	13.6	4.2
Core Net Margin	1.3	0.7	0.6	(1.7)	2.6	(2.9)

Year	Net Profit (RMm)	EPS (sen)	PE (x)
2020F	72.0	1.6	40.2
2021F	105.2	2.4	27.5

Source: Malaysian Resources Corporation, UOB Kay Hian

RESULTS

- **2019: Missed expectations.** Malaysian Resources Corporation (MRCB) reported a 4Q19 core net profit of RM6m (+139% qoq, -77% yoy) on revenue of RM472m (+27% qoq, +26% yoy), with its 2019 net profit accounting for only 89% of our 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, b) lower-than-expected sales from its completed properties, and c) higher tax expense as some costs incurred were not tax deductible.
- **Property development: Early stages of construction.** The property arm reported a lower 2019 property profit of RM77m (-22% yoy) owing to: a) high base in 2018 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 (2019 unbilled sales: RM1.6b); and c) no revenue was recognised from completed units pending SPA signing. As of 2019, property sales came in at RM537m and MRCB hopes to secure new sales of ~RM500m in 2020 from new launches as well as to pare down its inventory of RM435m (ie RM150m commercial units from Vivo Seputeh and RM285m from various residential units). Separately, MRCB has plans to launch Kwasa Sentral Residence of GDV RM300m, Subang mixed development project with GDV of RM320m and PJ Sentral Office Suite with GDV of RM520m in 2020, subject to the property market condition.
- **Construction: Slower progress arising from variation orders.** 2019 construction revenue fell to RM680m (-10% yoy) and 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, lower billings recognition of selected key projects such as the MRT2, SUKE, and DASH arising from variation orders from clients has caused the decline of progress billings in 2019. Separately, under JV contribution, MRCB booked profits of RM0.6m in 2019, down from RM15m in 2018, 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. To date, LRT3 progress stands at <23%.

EARNINGS REVISION

- We reduce our 2020-21 net profit forecasts by 13-14% after adjusting billings recognition for its outstanding construction orderbook and unbilled property billings coupled with tweaking our margins assumptions and lowering property sales target to RM500m (from RM700m previously for 2020). Our orderbook replenishment 2020 has been revised down to RM500m (vs RM1b).

RECOMMENDATION

- **Maintain HOLD with lower target price of RM0.74 (from RM0.83), post earnings revision.** Our target price is based on a 15% discount to our SOTP valuation of RM0.87/share, implying 45x 2020F PE. We expect stronger earnings recovery for MRCB as the company shall recognise higher billings (vs 2019) for its construction arm (ie finalisation of LRT3 in 1H20) while its property segment is to record significant improvements as it is expected to deliver the RM300m 1060 Carnegie property in phases from 1H20 onwards and higher billings from its Sentral Suites project. Meanwhile, 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: RM0.68)

4Q19: Results Below Expectation, Expanding Green Energy Division

Year to 31 Dec (RMm)	4Q19	qoq % chg	yoy % chg	2019	yoy % chg
Turnover	123.3	(5.9)	(8.3)	473.7	3.6
EBIT	19.1	(3.7)	(11.0)	71.0	3.9
Pre-tax Profit	10.5	(8.5)	(9.3)	39.9	(9.8)
Tax	(2.6)	8.0	(52.5)	(8.9)	(37.8)
Reported Net Profit	7.2	(14.8)	1.4	28.1	15.6
Core Net Profit	7.2	(14.8)	1.4	28.1	6.0
	(%)	+/- ppt	+/- ppt	(%)	+/- ppt
EBIT Margin (%)	15.9	0.3	(0.5)	15.0	0.3
EBITDA Margin (%)	23.7	(0.2)	5.4	28.8	6.2
PBT Margin (%)	8.6	(0.2)	(0.1)	8.4	(1.7)
Net Margin (%)	5.3	(0.6)	0.6	5.9	(0.0)

Year	EPS (sen)	Revision (%)	PE (x)
2020F	3.3	-	16.8
2021F	3.5	-	16.4
2022F	3.7	-	15.8

Source: OCK, UOB Kay Hian

RESULTS

- **2019 core net profit below expectations.** OCK reported 4Q19 core net profit of RM7.2m (+1% yoy; -15% qoq) on the back of a 14% yoy drop in telecommunications network service (TNS) revenue, and higher finance charge (+6% yoy) given an enlarged borrowing base. This was partly offset by higher green energy contribution (+>100%). 2019 core net profit of RM28.1m (+6% yoy) accounts for 93% of our full-year net profit forecast.
- **4Q19 revenue declined 8% yoy and 6% qoq,** dragged by: a) lower TNS revenue (-14% yoy, -3% qoq) amid softer demand from engineering services, and b) lower contribution from the trading division (->100% yoy, -22% qoq). This was partly offset by a stellar performance in the green energy segment (+>100% yoy, +20% qoq) with higher revenue from green power solutions. The group has recently proposed to acquire 6 new solar farms (total capacity of 5.43MW) on top of the 11 existing solar farms (total capacity of 5.9MW), in a bid to further boost its long-term recurring revenue (targeting 10% – 15% of top-line).

REVENUE AND EARNINGS BY SEGMENT

Year to 31 Dec (RMm)	4Q18	3Q19	4Q19	qoq % chg	yoy % chg	2018	2019	yoy % chg
TNS	128.8	113.6	110.6	(2.7)	(14.1)	422.1	411.4	(2.5)
Green Energy	4.2	9.3	11.2	20.3	+>100	31.5	35.4	12.6
Trading	10.2	3.3	2.6	(21.9)	->100	21.7	19.3	(11.0)
M&E	11.8	12.3	11.1	(10.0)	(6.2)	22.3	41.4	85.9
Elimination	(20.6)	(7.5)	(12.2)	62.0	(41.0)	(40.3)	(33.8)	(16.1)
Total Revenue	134.4	131.1	123.3	(5.9)	(8.2)	457.2	473.7	3.6
TNS	26.4	9.0	6.4	(28.9)	(75.8)	59.7	30.8	(48.4)
Green Energy	(0.7)	0.7	0.5	(25.2)	->100	1.5	2.0	37.5
Trading	1.3	1.1	0.6	(44.1)	(53.6)	2.8	3.4	19.6
M&E	0.9	0.6	0.8	19.6	(17.1)	0.5	3.7	+>100
Investment holding	3.7	2.1	(0.1)	+>100	+>100	(0.2)	(0.2)	(9.8)
Elimination	(20.1)	(2.1)	2.3	n.m.	n.m.	(26.4)	(4.3)	(83.6)
Pre-tax Profit	11.6	11.5	10.5	(8.5)	(9.3)	44.2	39.9	(9.8)

Source: OCK, UOB Kay Hian

STOCK IMPACT

- **Potential beneficiaries of NFCP.** We believe OCK is well-positioned to benefit from the National Fiberisation and Connectivity Plan (NFCP) roll-out initiated by the regulator, MCMC. The NFCP will focus on rural fibre roll-out to enable greater digital connectivity. This could translate to more TNS job orders for OCK.
- **5G opportunities for telco contractors.** Key areas of work include: a) network densification requirements as more cell towers will need to be installed, and b) upgrades to core network to support higher bandwidth and new 5G features (such as network slicing).

EARNINGS REVISION/RISK

- Trim 2020 earnings by 3% to reflect a slower than expect TNS orderbooks.

VALUATION/RECOMMENDATION

- **Maintain BUY with a marginally lower SOTP-based target price of RM0.68** in tandem with the earnings cut. At our target price, the stock will trade at 17x 2020F PE and 8.5x EV/EBITDA. We like OCK's earnings quality as the group focuses on long-term recurring income from the towerco leasing business.

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UOBKH HIGHLIGHTS

SP Setia (SPB MK/HOLD/RM1.28/Target: RM1.46)

2019: Misses Expectations

Year to 31 Dec	4Q19 (RMm)	3Q19 (RMm)	qoq % chg	yoy % chg	2019 (RMm)	yoy % chg
Revenue	796.2	932.1	(14.6)	(28.7)	3,928.9	9.3
Construction	8.2	13.2	(37.5)	(93.6)	60.8	(31.4)
Property Development	731.4	865.7	(15.5)	(21.4)	3,667.9	10.5
Others	56.5	53.2	6.1	(0.8)	200.3	7.6
COGS	(553.0)	(678.8)	(18.5)	(23.9)	(2,913.0)	16.5
Gross Profit	243.1	253.2	(4.0)	(37.6)	1,015.8	(7.0)
PBT	116.3	179.1	(35.1)	(43.0)	625.1	(36.5)
Construction	(1.5)	(2.0)	(24.7)	(63.1)	0.9	(84.1)
Property Development	115.6	180.9	(36.1)	(48.4)	598.3	(40.0)
Others	2.1	0.2	1,111.9	(113.4)	(1.0)	(94.9)
Taxation	(34.7)	(39.6)	(12.4)	(54.4)	(176.2)	(7.9)
PATAMI	70.1	108.9	(35.6)	(30.9)	370.6	(44.3)
Core PATAMI	47.5	71.1	(33.2)	(29.1)	271.2	20.2
Margins	(%)	(%)	+/- ppt	+/- ppt	(%)	+/- ppt
PBT Margin	14.6	19.2	(4.6)	(1.2)	15.9	(11.5)
PBT Property Margin	15.8	20.9	(5.1)	(2.1)	16.3	(13.8)
PATAMI Margin	8.8	11.7	(2.9)	2.2	9.4	(9.1)
Core PATAMI Margin	6.0	7.6	(1.7)	(0.6)	6.9	0.6

Year	EPS (sen)	PE (x)
2020F	10.4	12.3
2021F	15.5	8.3

Source: UOB Kay Hian

RESULTS

- **Below expectations**. SP Setia reported 4Q19 core net profit of RM48m (-33% qoq, -30% yoy) on revenue of RM796m (-15% qoq, -29%yoy). On a yoy basis, 2019 core net profit (excludes land disposal gain of RM70m, fair value gain of investment properties RM12m and FX losses of RM16m) rose by 20% yoy and accounts for 89% of our full-year estimates. Key variances against our forecast were lower-than-expected property sales and progress billings, as well as margin contraction**.**

SP SETIA 2019 PERFORMANCES

	(RMm)	Remarks
Sales achieved for 2019	4,555	• Came slightly above target of RM4.550b, down 11% yoy. • Sales derived from - Home Ownership Campaign; RM1.8b - Completed inventories; RM637m - Landbank sales; RM87m • Sales by region - Central; RM2.8b (61%) - Northern; RM480m (11%) - Southern; RM747m (16%) - Eastern; RM1m (<1%) - International; RM543m (12%)
Sales Target for 2020	4,550	• Sales for 2020 are backed with ongoing projects, new pipeline launches of RM4.4b and inventories of RM1.4b • New pipeline projects by region - Central; RM3b - Southern; RM1b - Northern; RM0.3b - International; RM0.1b • Planned launches by type - Landed residential; RM2.8b - Affordable housing; RM0.2b - Commercial; RM0.9b - Apartment; RM0.5b
Target New Launches (GDV) for 2020	4,400	• To focus on landed residential property • 88% of SP Setia project will be from township and eco-themed developments
Unbilled Sales	10,670	
Inventories (as of 2019)	1,435	• Inventories 2019: RM1,435m, down by 9% yoy. SP Setia plans to pare down 6 completed projects worth RM914m (64% of total inventory). Targeting overseas buyers with right pricing and financing package.

Source: UEMS, UOB Kay Hian

- **Strong unbilled sales backlog of RM10.7b.** SP Setia's earnings are expected to sustain in the coming years, while lumpy earnings are expected in 2021 upon the Battersea Phase 2 property delivery, underpinned by strong unbilled sales backlog of RM10.7b. Positively, earnings are expected to pick up gradually, driven by accelerated billings of its projects which will enter advanced stages in the coming quarters.

EARNINGS REVISION

- We have revised down our 2020-21 net profit forecasts by 10-12% to account for the lower property sales assumption while tweaking our progress billings recognition for its unbilled sales and property margins. Our revised annual property sales forecasts are RM4.3b for 2020-21 (from RM4.5b).

RECOMMENDATION

- **Maintain HOLD with a lower target price of RM1.46 (from RM1.53),** in line with the earnings adjustment. Our target price is based on a huge 60% discount to our RNAV of RM3.64/share and implies 18.7x 2020F PE due to the sluggish outlook for both its local and overseas markets. Entry price is RM1.23.

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UOBKH HIGHLIGHTS

WCT Holdings (WCTHG MK/HOLD/RM0.71/Target: RM0.91)

12M19: Within Expectations

Year to 31 Dec (RMm)	4Q19	3Q19	qoq % chg	yoy % chg	2019	yoy % chg
Revenue	460.6	368.3	25.1	(37.6)	1,793.6	(21.9)
Construction	260.5	258.0	1.0	(59.5)	1,244.1	(33.9)
Property Development	147.2	61.9	137.7	391.6	346.1	35.7
Investment Property	52.9	48.4	9.3	(17.9)	203.5	3.7
COGS	(329.5)	(275.1)	19.8	(47.7)	(1,351.7)	(29.6)
EBIT	131.0	93.2	40.6	21.1	441.9	17.6
Construction	3.1	25.1	(87.8)	(85.1)	99.5	(29.6)
Property Development	43.9	6.2	605.4	(406.6)	95.0	134.5
Investment Property	41.4	22.9	81.3	(41.7)	114.2	(19.4)
Net Interest	(31.5)	(37.3)	(15.6)	(30.0)	(145.0)	4.4
JV & Associates	(39.9)	(5.5)	620.5	28.4	(37.1)	12.3
PBT	17.0	11.4	49.2	1,266.7	126.6	(14.9)
Taxation	(7.0)	0.2	(3,885.4)	(87.0)	(44.7)	(56.8)
PATAMI	12.5	13.3	(6.3)	257.6	88.8	(16.9)
Core PATAMI	22.1	26.0	(14.9)	(305.0)	80.2	191.1
Margins	%	%	+/-ppt	+/-ppt	%	+/-ppt
EBIT – Construction	1.2	9.7	(8.6)	(12.1)	8.0	0.5
EBIT - Property Development	29.8	10.1	19.8	14.5	27.5	11.6

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

Source: WCT Holdings, UOB Kay Hian

RESULTS

- **Broadly in-line.** WCT Holdings (WCT) reported a 4Q19 core net profit of RM22m (-15% qoq, "non-material" yoy) and revenue of RM461m (+25% qoq, -38% yoy). Excluding one-off items and RM71m gains from disposals and impairment of various assets amounting to RM65m, 12M19 core net profit of RM80m (+1.9x yoy from a low base) came in broadly in line at 105% of our estimates. We expect earnings momentum to sustain underpinned by: a) billings recognition on its construction orderbook backlog of RM5.0b, 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: Lower progress billings due to project completion.** The construction division recorded a 2019 EBIT of RM100m (-30% yoy) on revenue of RM1.2b (-34% yoy). The 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 period. Separately, construction margins were relatively stable at 8% (+0.5ppt yoy). We expect margins to sustain at the current level (ie mid to strong single digit) as a large chunk of its recently awarded mega project recorded lower-than-expected margins. In 2019, no new jobs were secured for its construction arm apart from 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.
- **Property: Boosted by land sales.** The property arm reported 2019 EBIT of RM95m (+135% yoy), driven by land sales with revenue of RM118m and PBT of RM91m. As of 2019, unbilled sales stood at RM100m while 2019 property sales stood at RM322m (vs RM146 in 2018), while inventory stood at RM738m (including JV projects). The company is targeting to sell new properties worth >RM300m from its planned launches such as The Maple OUG (Phase 2) worth RM300m/block (3 blocks in total worth RM930m) as well as paring down its inventory.
- **Investment property: High base effect in 2018.** WCT's 2019 investment property earnings dropped 19% yoy due to higher fair value gain recognised in 2018 and receipt of facilitation fund. However, higher revenue from the segment underpinned by stronger occupancy from Paradigm Johor Bahru (JB) and higher rental income from Bukit Tinggi Shopping Mall, was 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 maintain our HOLD recommendation as there are no immediate catalysts, from the construction segment amid the shrinking pool of new contracts. However, we deem the stock is undervalued as it is trading at a compelling TP/NTA of 0.4x.
- 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 the 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: RM0.68.

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TRADERS' CORNER

Source: BursaStation Professional

CCK Consolidated Holdings (CCK MK)

Technical BUY on breakout with +19.6% potential return

Last price: RM0.52

Target price: RM0.59, RM0.64

Support: RM0.485

Stop-loss: RM0.48

BUY on breakout with a target price of RM0.64 and stop-loss at RM0.48 Yesterday, the stock managed to close above the BBI line, and is approaching the breakout level of RM0.535 on high trading volumes. We expect CCK to continue to move towards our targets of RM0.59 and RM0.64 once it penetrates above RM0.535. This bullish movement is supported by the MACD, which is currently on a bullish crossover. This is also consistent with the uptick in the RSI, which suggests stronger buying momentum ahead.

Expected Timeframe: 2 weeks to 2 months.

Note: Not available for CFD Trading

Source: BursaStation Professional

Hock Seng Lee (HSL MK)

Technical BUY on breakout with +14.7% potential return

Last price: RM1.34

Target price: RM1.49, RM1.56

Support: RM1.28

Stop-loss: RM1.27

BUY on breakout with a target price of RM1.56 and stop-loss at RM1.27. Based on the daily chart, share price is recovering gradually and moving above the 7- and 21-day EMAs. On yesterday's movement, HSL managed to penetrate above the BBI line and closed higher at RM1.34 with high trading volume. This is supported by the rising DMI and RSI indicators, which imply that positive momentum, will strengthen in the near term. We expect the stock to continue to move towards our targets of RM1.49 and RM1.56 once it breaks above RM1.36.

Expected Timeframe: 2 weeks to 2 months

Note: Not available for CFD Trading

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