



AME ELITE (RM1.83 - N-R)

A pure FDI proxy for Malaysia
Industriously attracting investment

AME Elite Consortium Bhd (AME) (N-R) provides one-stop industrial space solutions from the point of building industrial parks to the construction of large manufacturing plants and industrial properties. AME specialises in the development of industrial parks. It hopes to replicate its success in Johor in Selangor and Penang. The company currently trades at a 16x trailing consensus PE, which is at a discount to its Malaysian construction peers but at a significant premium to property developers given its niche in industrial property.

FDI Visibility: visit to AME's industrial parks an eye-opener

Malaysia's Budget 2020 came with several incentives to attract more FDI into the country, which is a crucial driver of the GDP growth targets set by the government. We visited two of AME's industrial parks in Johor, i-Park@Senai Airport City and i-Park@Indahpura, and we came away impressed. i-Park@Senai Airport City is gated, guarded and managed. i-Park@Indahpura, while still an on-going project is gated and guarded. Both these industrial parks have attracted multinational companies; it is a visible FDI proxy in Malaysia. Johor has the second largest number of industrial parks after Selangor.

Earnings profile

AME derives close to 70% of its revenue from the construction and engineering segments, which is the driving force behind the development of industrial parks. That aside, the company has built a steady flow of recurring income from its property investment and leasing operations, which the company said will contribute up to 20% of its revenue. Its gross profit margin has averaged 27%-28% over the past three years.

Expansion plans on the cards

AME may benefit from the growing demand for industrial parks with the building of manufacturing and warehousing (ecommerce and courier) facilities. While overall sentiment for the property sector looks glum, demand for industrial property is on the rise given the government's efforts to attract FDI. The company indicated that it has plans to replicate its success in Johor in Selangor and Penang. Both these states are FDI attracting hubs for manufacturing & aerospace and E&E, respectively.

Valuation misnomer: AME is a listed pure industrial park player in Malaysia

There is no direct peer comparable within Malaysia for AME, given its niche as an industrial park player. AME currently trades at a 16x consensus trailing PE, which is at a discount to Malaysia's construction peers but a premium to property developers. Based on the company's plans detailed in its prospectus it sees promising growth. AME was listed on Bursa Malaysia on 14 Oct 2019. AME aims to be the Amata of Malaysia (Amata is an industrial estate developer listed in Thailand).

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Key company data AME MK N-R

Share capital	
1M high/low	RM 1.92/1.30
20D avg daily vol	7.7 mil
Major shareholders	Lee Chai, Lim Yook Kim, Kang Ah Chee, Lee Sai Boon

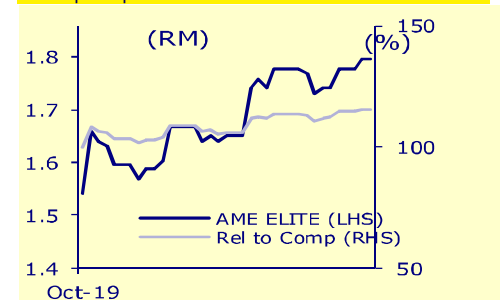
Estimated free float

Performance (%)	1W	1M	12M
Absolute	4.9	13.6	
Relative to index	6.0	10.0	
Absolute (US\$)	4.4	13.8	

Source: CLSA

Relative other IPOs, it has performed better in 2019

Share-price performance



Source: Bloomberg, CLSA

Financials

FY March	2016	2017	2018	2019
Revenue	249.2	299.0	341.3	339.0
Profit after tax	32.6	57.7	71.0	47.3
EPS (sen)*	7.6	13.5	16.6	11.1
EPS growth (% YoY)	-	76.9	23.1	(33.3)
ROE (%)	10.7	18.7	19.2	11.7
Net gearing	Net cash	0.45	0.3	0.28
GP margin (%)	21.7	27.4	27.2	27.7
PBT margin (%)	16.5	24.9	27.9	21.4
PAT margin (%)	13.1	19.3	20.8	14.0

Note: * 2016-2019 were adjusted based on IPO number of shares. Source: Company



Key messages

- ❑ The company was recently listed on Bursa Malaysia in early October 2019 as the first pure, industrial park company in Malaysia. The stock, currently trading at 16x trailing consensus PE, is comparable with Amata & WHA in Thailand (closest Asean comparable) which are trading at 15x & 18x trailing consensus PEs. While there is no direct comparable in Malaysia, we highlight that AME is trading at a slight discount to construction peers but at a premium to property developers.
- ❑ As an industrial park developer, AME also provides construction services, engineering services, as well as property management services (of the parks as well as worker's dormitories).
- ❑ AME provides one-stop industrial space solutions from the point of building industrial parks, to the construction of large manufacturing plants and industrial properties, also carries out engineering services (pre-cast concrete works, steel engineering works and M&E engineering services), as well as property investment and rental and management of workers' dormitories.
- ❑ AME plans to complete the development of its on-going industrial park projects and increase its portfolio of industrial properties in Johor. The company will continue to attract more renowned international and domestic companies as their long-term tenants.
- ❑ Replicating its success in Johor in Selangor and Penang, the company is committed to become a leading industrial park developer and services provider in Malaysia, it intends to replicate its success in other states in Peninsular Malaysia, particularly in Selangor and Penang that meet requirements of customers within the next 36 months. Future industrial park developments are likely to replicate the concept built at i-Park@Senai Airport City – gated, guarded and managed, and with workers' dormitories
- ❑ The company's IPO prospectus (24 Sep 2019) indicated key senior management personnel have been with the company for over a decade. Its four key persons are the company's senior management team – Mr Lee Chai (Group Managing Director), Mr Lim Yook Kim (Executive Director), Mr Kang Ah Chee (Executive Director) and Mr Lee Sai Boon (Executive Director)
- ❑ AME, in its IPO prospectus, stated that it may consider the formation of an industrial real estate investment trust (REIT) at an appropriate time in the future. It is currently actively identifying suitable sites for industrial park development throughout Peninsular Malaysia.

Company background

- ❑ Incorporated on 27 Aug 2018 as a public limited company under the name AME Elite Consortium Bhd. The company was established in its original form as a construction company – AME Construction – back in 1995.
- ❑ It started off building large manufacturing plants and industrial buildings for both local and multinational companies operating in Peninsular Malaysia. The company ventured to start developing industrial parks in 2011.
- ❑ AME operates with an integrated business model involving construction services, industrial property development, engineering services as well as property investment and rental of management of workers' dormitories.

Key management/Board composition

- ❑ Four key persons are the company's senior management team – Mr Lee Chai (Group Managing Director), Mr Lim Yook Kim (Executive Director), Mr Kang Ah Chee (Executive Director) and Mr Lee Sai Boon (Executive Director)
- ❑ There are eight members on AME's Board of Directors; half of the Board are Independent Directors, inclusive of the Chairperson (a legal professional). The independent directors each have 200,000 shares/<0.1% of the companies listed shares. The other 4 board members hold executive positions (same names as above)

Figure 1

AME's industrial parks in Johor

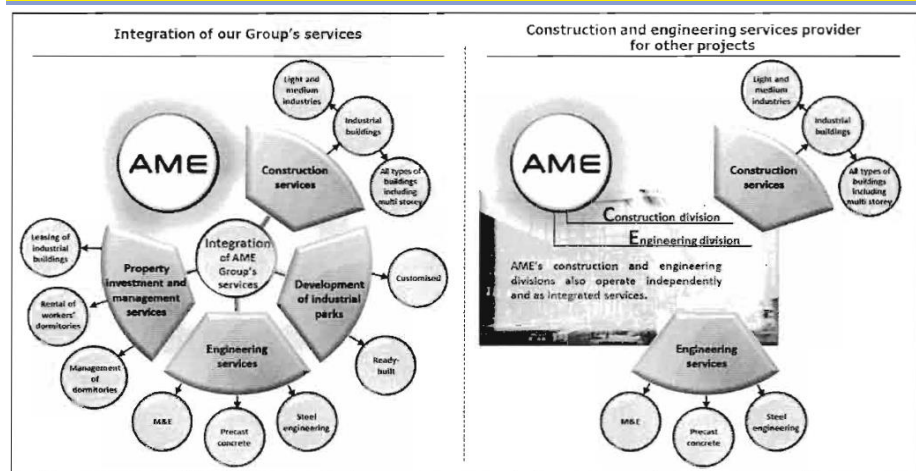


Source: Company



Figure 2

AME's business model



Source: Company

Construction & engineering services (FY19: 81% of revenue)

- ❑ **Construction (FY19: 69% of revenue):** AME was originally set up as a construction company and started its foray in building large manufacturing plants and industrial buildings. It has, over the past 20 years, completed the construction of around 200 manufacturing plants and industrial buildings. AME Construction is registered as a Grade G7 contractor under Construction Industry Development Board (CIDB). The company has an outstanding external construction order-book of RM338m.
- ❑ **Engineering (FY19: 12% of revenue):** Under its subsidiaries AME Engineering (steel engineering work, pre-cast concrete work) and Asiamost (fire protection systems and related services), the company provides steel engineering works, precast concrete works and machinery & engineering services (M&E). Collectively, this division has an outstanding external order-book of RM39m.

Figure 3

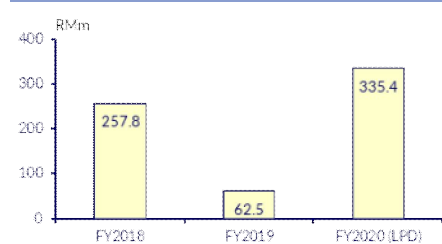
Construction & engineering services order-book breakdown (end-1QFY20)

Development of projects	Location	Commencement date (CY)	Completion date (CY)	Total contract value (RMm)	Remaining contract value (RMm)
Construction services					
A single-storey warehouse and two-storey factory unit and warehouse with a six-storey office block	Selangor	3Q 2019	2Q 2021	282.88	282.88
A single-storey industrial factory unit with a two-storey office block in i-Park@Senai Airport City	Johor	2Q 2019	1Q 2020	34.00	23.51
Engineering services					27.18
Precast works for a residential flat development comprising two blocks of apartment	Singapore	3Q2018	2Q 2020	31.11	43.31
Others				241.78	376.88
Total				589.77	753.76

Source: Company

Figure 4

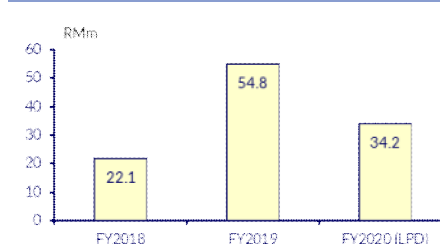
Orderbook replenishment: construction



Note: LPD – last practicable date; Source: Company

Figure 5

Orderbook replenishment: engineering



Note: LPD – last practicable date; Source: Company

Strong order-book replenishment to last the company up to 2023-2025, according to the company, with a combination of its own i-Park jobs and external and overseas jobs

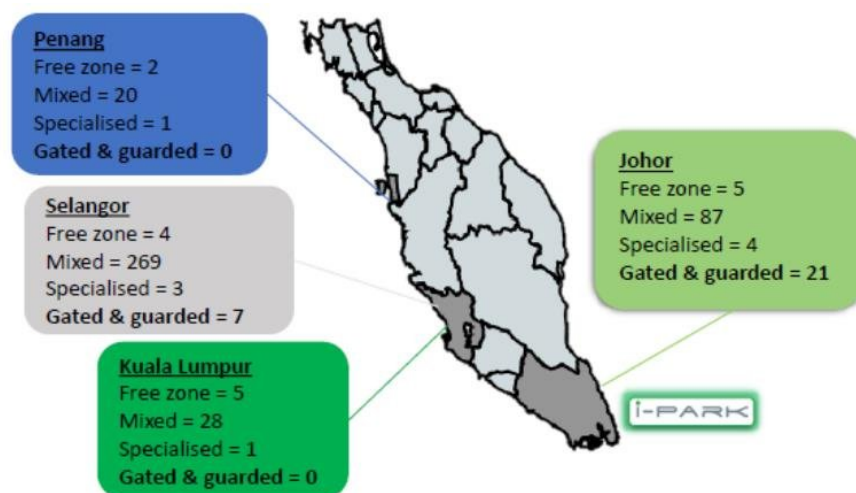


Industrial park development (FY19: 13% of revenue)

- An industrial park is a portion of a city which is zoned for industrial use. It is typically a space which houses manufacturing facilities, production, transportation and warehousing facilities for both local and foreign companies. Industrial parks can be free zone, mixed, specialised as well as gated & guarded. To date, there are approximately 650 industrial parks in Peninsular Malaysia, of which 117 are in Johor. Johor is a key market for commercial and industrial properties in the southern region of Malaysia which saw growth from FDIs as multinational companies set up or expanded their manufacturing facilities over the years.

Figure 6

Industrial parks in select states in Malaysia



Source: CLSA, Company, EPU, MIDA, SDC, Smith Zander

- AME's maiden industrial park development project was **i-Park at SiLC at Nusajaya**. Given where AME's industrial parts are located, it is a beneficiary of the manufacturing shift from Singapore, in addition to other multinational corporations which have set up shop in Malaysia. This was followed by **district6@SiLC** and **SME City**, both completed in 2015.
- Two on-going industrial park projects are:
 - **i-Park@Indahpura**, AME's second project after i-Park@ SiLC, has a total GDV of RM1.1bn spanning over 190 acres, located just 7km from Singapore's second link expressway. Phases 1 and 2 were completed in 2016; Phase 3 is currently work-in-progress (jointly undertaken by its JV entity – Axis-AME IP) and is scheduled to be completed by 2023. Also complemented with workers' dormitories (five blocks) which has a capacity of 3,200 beds. 85% of its occupants are multinational corporations, of which 40% are from Singapore. Profile of its occupants range from automotive, pharmaceutical, warehouses for courier and e-commerce companies and tech players.
 - Hosting several MNC's, **i-Park@ Senai Airport City** (AME's third and latest development project) was built with multiple types of factories (some customised), worker dormitories, sports and recreational facilities, all within a gated, guarded, and most importantly, managed, industrial parks. i-Park@Senai Airport City has a total GDV of RM717m spanning over 189 acres targeted for full completion in 2025. Phases 1 and 2 have a total of 51 units of 1 ½ storey semi-detached factories and 48 retail shops. Of its completed units, 49% have been sold, 37% are leased. Whilst for the portions under development, 67% has been sold and 3% are leased. 60% of occupants in this industrial park are multinational corporations, ranging from high-valued tech companies, food manufacturers, and equipment makers, among others. The company is in the midst of building a facility for a China-based firm manufacturing solar-related products. AME recently acquired land to extend

A host of multinational companies from are located in AME's industrial parks



its development for Phase 3 in Aug 2019. The company indicated that there are confirmed take ups for space. Development for Phase 3 will commence in 1Q20.

- Since 2018, according to AME, it has seen increased demand for industrial property within Malaysia, with existing clients asking for more space within their existing parks, and for the company to expand to other states in Malaysia. According to AME, Penang and Selangor are possible locations for future expansion.

Next stop, Selangor and Penang

Figure 7

i-Park@Senai Airport City (topography view)



Source: Company

Figure 8

i-Park@Senai Airport City – work in progress



Source: CLSA

Figure 9

i-Park@Senai Airport City – sample unit



Source: CLSA

Figure 10

i-Park@Senai Airport City – infrastructure-ready



Source: CLSA

Figure 11

i-Stay at i-Park@Senai Airport City



Source: Company

Figure 12

iPark@ Senai Airport City – sample unit (inside)



Source: CLSA



- Both these on-going industrial parks have worker's dormitories in them. AME also provides ancillary services to its clients. Aside from providing management and maintenance of their industrial parks, AME provides worker accommodation in the form of dormitories dubbed **i-Stay**. The dormitories are safe and secured with entrances into the living quarters equipped with biometric entry points.
- Plenty of amenities are available within the workers' dormitories in the form of convenience stores, canteens, mobile phone stores, clinics, multi-purpose vending machines and automated laundry shops, where cashless transactions are encouraged. This is operated by Merchantrade, which also gives the workers the option of remitting cash to their home countries, again reducing the holding risk of cash. Cashless payments are the preferred use of pay at i-Stay.

Figure 13

i-Stay workers' dormitory units - bedroom

Source: CLSA

Figure 14

i-Stay workers' dormitory bathrooms

Source: CLSA

Figure 15

i-Stay workers' dormitory units - living room

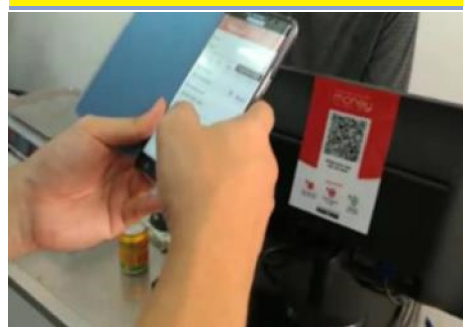
Source: CLSA

Figure 16

Automated entrances to workers' dormitories

Source: Company

Figure 17

Go cashless!

Source: Company

Figure 18

Clinic

Source: Company

Figure 19

Convenience store

Source: Company

Figure 20

Laundromat

Source: Company

Figure 21

Canteen

Source: CLSA



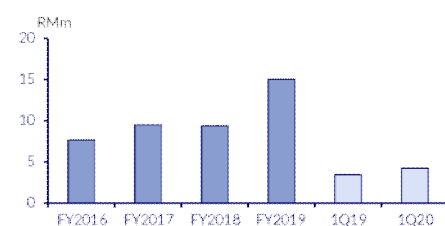
Property investment & management services (FY19: 6% of revenue)

- Property leasing – AME's property leasing arm generates recurring income for the company. For FY2019, property leasing revenue rose to RM15m and up to 1Q20, it was at RM4.3m. The company expects 20% of its revenue to be generated from this division over time. Its tenancy and leasing profile is well spread although there is a slight concentration at the 3rd and 5th year mark. As at end August 2019, a total of 35 industrial properties were tenanted by third parties. Leased properties account for 11.33% of the total number of saleable units in its industrial park.

Its property leasing arm generates recurring income

Figure 22

Property leasing revenue



Source: Company

Figure 23

Tenancy and lease profile



Source: Company

- Rental of workers' dormitories – As mentioned above, AME provides an integrated business model and the company develops, owns, rents and manages workers' dormitories (refer Figures 13-21 for visuals). The dormitories are rented to customers and tenants that operate in AME's industrial parks as accommodation for their workers. AME has two operational workers' dormitories – one at i-Park@Indahpura and another at i-Park@Senai Airport City.

Figure 24

Details of i-Stay properties

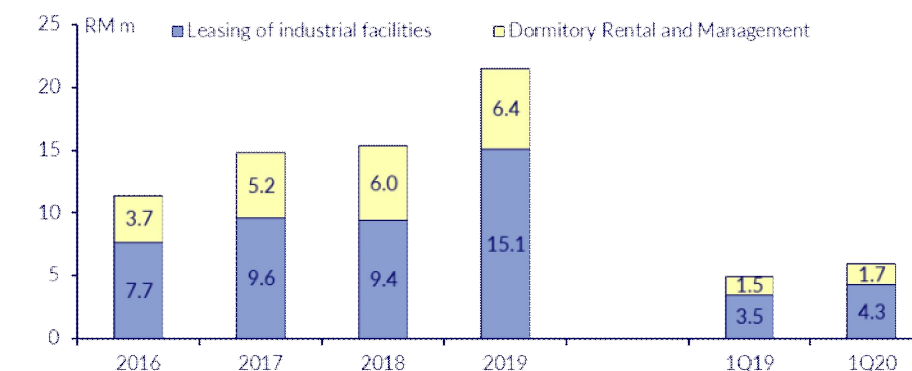
i-Stay	i-Park@Indahpura	i-Park@Senai Airport City
Capacity	3,206 beds	2,572 beds
Average size per unit	881.5 sqft	Type 1: 1,161.5 sqft Type 2: 841.9 sqft
No. of units	229 (max 14 beds each)	Type 1: 170 (max 14 beds each) Type 2: 16 (max 12 beds each)
Commenced	Phase 1: Jan 2014 Phase 2: Apr 2015	Phase 1: May 2019 Phase 2: Jul 2019
Term of tenancy	1-5 years	1-3 years
Average monthly rental/unit	RM2,475/month	Type 1: RM2,633/month Type 2: RM2,322/month
Occupancy rate	83.4%	74.7%

Source: Company

Over the past four years, AME's i-Stay's bed-count has increased from 3,000 to over 5,000

Figure 25

Revenue breakdown of property investment & management services segment



Source: CLSA, Company



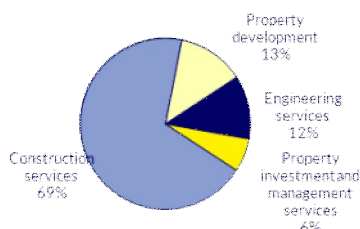
Financials

- AME derives a large portion of its revenues from construction supplemented by property development (industrial parks) with increasing contribution from engineering services and property investment & management services (recurring income base). The company intends to grow this segment to RM30m by end-FY20 driven by both leasing of industrial factories and rental & management of workers' dormitories (Fig 25)

Huge contribution from the construction division, growing its recurring income base

Figure 26

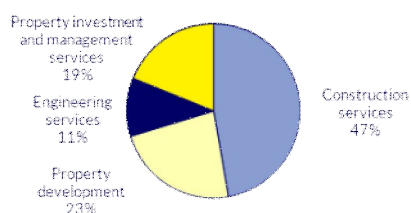
FY19 revenue breakdown



Source: CLSA, Company

Figure 27

FY19 gross profit breakdown



Source: CLSA, Company

- There might be distortion in its FY19 earnings as it would have accounted for fair value gains and listing expenses. Lower revenue was mainly from lower property development revenues in FY19 as FY18 saw the delivery of i-Park@Senai Airport City's project. Other segments have been delivering consistent moderate increases in both revenues and gross profit.
- Administrative expenses (largely staff costs and depreciation) are the main component of operating expenses.
- 1Q20 trends: 1Q20 revenues improved YoY driven by a reversal of its property development segment as progress billings increased. Gross profit levels also rose as there were higher construction segment contribution.

Figure 28

Revenue breakdown

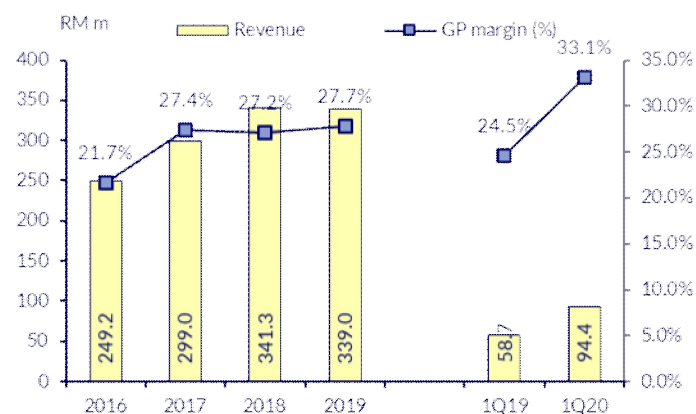
FY 31 Mar	2016		2017		2018		2019		1Q20	
	RM m	%	RM m	%	RM m	%	RM m	%	RM m	%
Construction services										
Construction of plants and industrial properties	158.0	63.4%	207.0	69.2%	214.0	62.7%	233.7	68.9%	40.0	42.4%
Property development										
Development of industrial parks and sale of industrial properties	15.1	6.0%	37.2	12.4%	85.4	25.0%	43.1	12.7%	36.5	38.7%
Engineering services										
Steel engineering and precast concrete works	30.1	12.1%	9.3	3.1%	9.6	2.8%	20.0	5.9%	11.8	12.5%
M&E engineering works	34.6	13.9%	30.7	10.3%	16.9	4.9%	20.7	6.1%		
Property investment and management services										
Letting/leasing of properties	7.8	3.1%	9.6	3.2%	9.4	2.7%	15.1	4.5%		
Rental and management of workers' dormitories	3.7	1.5%	5.2	1.7%	6.0	1.8%	6.4	1.9%	6.0	6.4%
Total revenue	249.2	100.0%	299.0	100.0%	341.3	100.0%	339.0	100.0%	94.3	100.0%

Source: Company



Figure 29

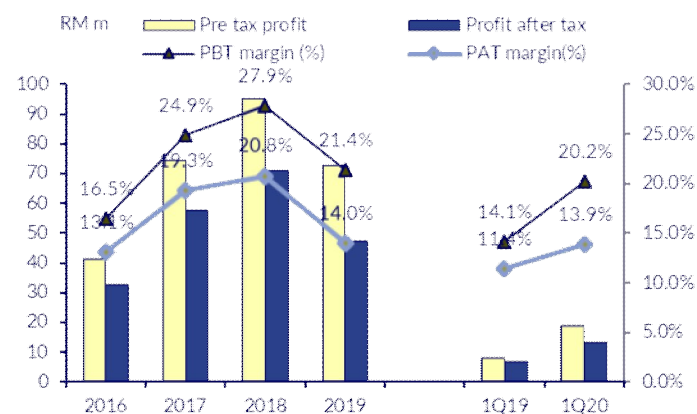
Revenue and gross margin trends



Source: CLSA, Company

Figure 30

Profit and margin trends



Source: CLSA, Company

Figure 31

AME's income statement

FY 31 March	2016	2017	2018	2019	1Q19	1Q20
RM m						
Revenue	249.2	299.0	341.3	339.0	58.7	94.4
Cost of sales	(195.1)	(217.0)	(248.6)	(245.0)	(44.3)	(63.1)
Gross profit	54.1	81.9	92.7	94.1	14.4	31.2
Other income	8.2	18.4	29.3	18.5	0.6	0.3
Distribution expenses	(1.1)	(3.2)	(2.4)	(3.8)	(0.6)	(1.2)
Administrative expenses	(23.0)	(27.1)	(28.2)	(32.0)	(7.1)	(8.9)
Other expenses	(0.4)	(1.7)	(1.2)	(0.2)	(0.0)	(0.0)
Results from operating activities	37.8	68.2	90.2	76.6	7.4	21.4
Finance income	4.0	4.3	3.9	3.2	0.7	0.7
Finance costs	(3.4)	(4.5)	(4.3)	(6.6)	(1.2)	(4.1)
Net finance income/(costs)	0.6	(0.3)	(0.4)	(3.4)	(0.5)	(3.5)
Share of profit (JV)	2.7	6.6	5.5	(0.6)	1.4	1.1
Pre tax profit	41.1	74.5	95.2	72.6	8.3	19.1
Tax	(8.5)	(17.4)	(17.0)	(21.6)	(1.5)	(4.5)
Non-controlling interest	(0.0)	0.6	(7.2)	(3.6)	(0.1)	(1.4)
Profit after tax	32.6	57.7	71.0	47.3	6.7	13.1
EBITDA	45.5	80.8	102.6	83.9	18.7	33.5
EBITDA margin (%)	18.2%	27.0%	30.1%	24.8%	31.9%	35.5%
GP margin (%)	21.7%	27.4%	27.2%	27.7%	24.5%	33.1%
PBT margin (%)	16.5%	24.9%	27.9%	21.4%	14.1%	20.2%
PAT margin (%)	13.1%	19.3%	20.8%	14.0%	11.4%	13.9%
Effective tax rate (%)	20.7%	23.4%	17.9%	29.8%	18.3%	23.8%
EPS (sen)*	7.63	13.5	16.62	11.09	1.96	3.85
EBITDA						
PBT	41.1	74.5	95.2	72.6	8.3	19.1
Depreciation	4.9	5.9	6.9	7.9	9.9	10.9
Add Finance costs	3.4	4.5	4.3	6.6	1.2	4.1
Less Finance income	(4.0)	(4.3)	(3.9)	(3.2)	(0.7)	(0.7)
EBITDA	45.5	80.8	102.6	83.9	18.7	33.5

Source: Company prospectus. *2016-2019 were adjusted based on IPO number of shares;



❑ Balance sheet strength:

- The company carries term loans for the purchase of land for development of industrial parks. Finance leases are used for hire purchase purposes. Bulk of the company's debt is skewed to the longer term (> 5 years). Term loans are used to fund property development. Finance costs on average at 5.6% as at end FY19.
 - Managing gearing ratio below 50%. Post IPO, AME's gearing on a pro-forma post-IPO is below 30%. Bulk of its term loans were used to fund working capital requirements for i-Park@Senai Airport City in FY19.
 - More than half of its assets are investment properties which are completed properties held for sale. Its inventory turnover period stood at 39 months as at end FY19 and typically be volatile depending on the timing of properties sold after a project is completed.
- ❑ The board of the company intends to distribute at least 20% of adjusted profit after tax (adjustment nets of fair value gain on investment properties). These will be subjected to shareholder approval at the Annual General Meeting.

Growth strategies

- ❑ AME plans to complete the development of its on-going industrial park projects and increase its portfolio of industrial properties in Johor. Its on-going projects are i-Park@Indahpura (Phase 3) which it hopes to complete by 2023, and i-Park@Senai Airport City (Phases 1 and 2) with Phase 3 to commence in 1Q20; these are to be completed by 2025. Any future development in Johor will be focused on industrial property projects under the "i-Park" brand. The completion of Phase 3 at i-Park@Senai Airport City will increase AME's portfolio of industrial properties for sale and lease in Johor up to 2025.
- ❑ The company will continue to attract more renowned international and domestic companies as their long-term tenants. This is aligned with the Malaysian government's intentions and initiatives to attract FDI. The Malaysian government during Budget 2020 stated that it will make available up to RM1bn in customised packaged investment incentives annually over five years, as part of a strategic push to attract target Fortune 500 companies and global unicorns in technology, manufacturing, creative and new economic sectors.
- ❑ Replicating its success in Johor to Selangor and Penang – the company is committed to become a leading industrial park developer and services provider in Malaysia, it intends to replicate its success in other states in Peninsular Malaysia, particularly in Selangor and Penang that meet requirements of customers within the next 36 months. Future industrial park developments are likely to replicate the concept built at i-Park@Senai Airport City – gated, guarded and managed, and with workers' dormitories.
- ❑ AME, in its IPO prospectus, stated that it may consider a formation of an industrial real estate investment trust (REIT) at an appropriate time in the future. It is currently actively identifying suitable sites for industrial park development throughout Peninsular Malaysia.
- ❑ There is potential in its precast business as demand for customised precast concrete products have been increasing from both Malaysia and Singapore. AME has an on-going order-book to deliver for a Singapore project. The company has started a new facility in April 2019 to cater for larger and heavier precast concrete products. The new facility would enable AME to capture growth opportunities in Malaysia and position itself to tap into its customers in Singapore and other contractors there which could be potential new customers in future.

Strengthening its position in Johor

Attract more renowned international and domestic companies as long-term tenants

Replicating its success in Selangor and Penang

REIT option in the future

Expanding precast concrete and engineering business in anticipation of rising demand



- AME also intends to grow its engineering division by offering more standalone services to external customers. Together with its precast expansion plans (as above), the company intends to bid for more projects in future.
- The company also aims to continue to add to its portfolio of workers' dormitories as this generates recurring income, which it hopes to increase as a proportion of revenues in future. AME will package the workers' dormitories in its future industrial park development to provide its customers a more holistic offering.

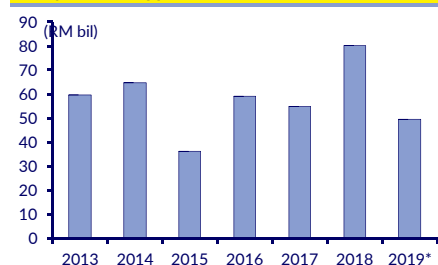
Generating more recurring income to diversify its revenue streams

Industry outlook

- Malaysia's Budget 2020 came with several incentives to attract more FDI into the country. With the targeted focus and execution of the government, plus the right support from the local companies, the hope for stronger FDI flow into Malaysia is real. Malaysia has seen record high approved FDI since 2018.

Figure 32

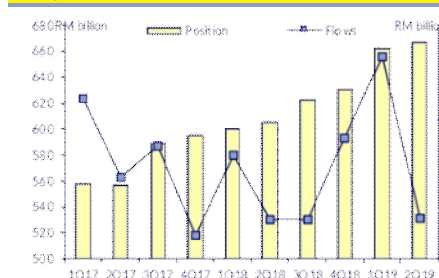
Malaysia: FDI approved



* Up to 1H19; Source: CLSA, MIDA

Figure 33

Malaysia: FDI (realised) flow



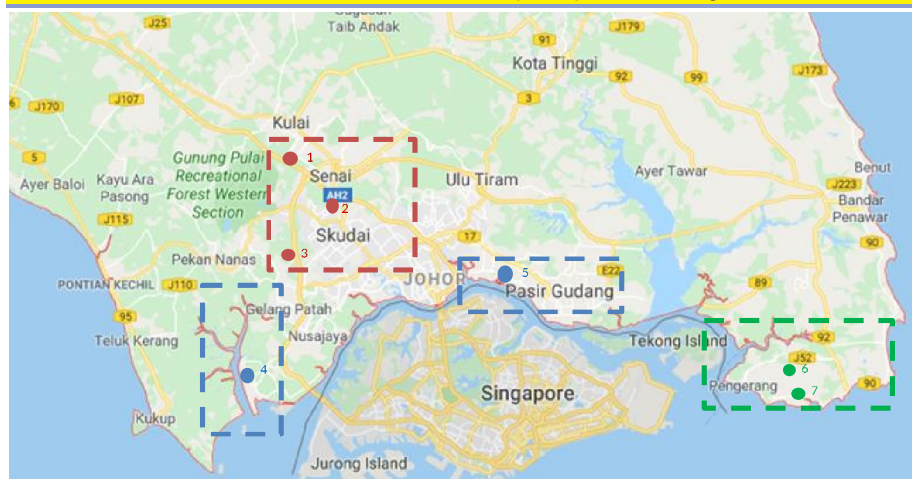
Source: CLSA, BNM, DOSM

Malaysia's approved FDI is at a record high. It typically lags realised FDI from as short as six months to as long as 3-5 years depending on the nature of the investment

- Johor is home to several multinational companies ranging from highly-valued tech companies, food manufacturers, equipment makers, automotive maker, pharmaceutical companies, couriers and ecommerce companies. The state is strategically located with good access via its international airport, ports and two highways to Singapore positioning it as an attractive consideration for global companies looking to expand into Southeast Asia. Johor also houses electronic manufacturing services (EMS) players, ports and oil & gas.

Figure 34

Johor state: a centre of FDI and investment for industrial parks, ports and oil & gas



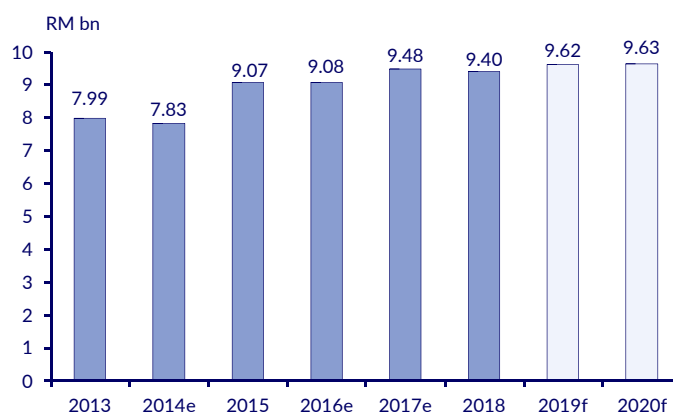
Source: CLSA; Google maps. 1 Indahpura, 2 i-Senai Airport City, 3 SiLC, 4 Port of Tanjung Pelepas, 5 Johor Port, 6 RAPID Pengerang - Petronas, 7 RAPID Pengerang - Dialog

- Growing industrial construction activities is aligned with Malaysia's aim to grow its investments and manufacturing activities. Manufacturing contributed 22.4% of GDP in 2018. In line with growing demand for industrial parks, there should be continuous demand for industrial construction activity.



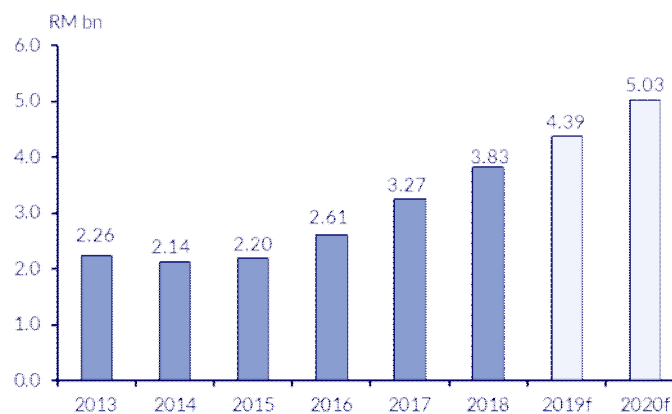
- Malaysia is a beneficiary of growing FDI and supply chain relocation/diversion driven by the US-China trade war should drive the need for more manufacturing facilities to be built.
- Growing ecommerce trends will contribute to future demand for industrial property particularly for warehouses and distribution centres. Malaysia's ecommerce lifecycle is just at the nascent stage with potential for growth.
- The growth in precast concrete demand is a result of the government's effort to promote the adoption of industrialised building systems (IBS) in construction.

Figure 35

Value of industrial construction work in Malaysia

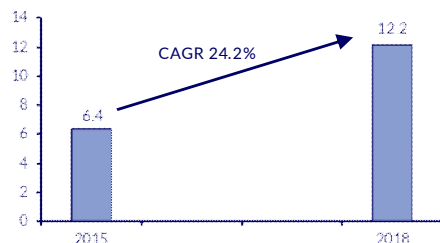
Note: (e) estimate, (f) forecast; Value of construction work done for industrial buildings in 2014, 2016, 2017 and 2018 were not publically available. Figures have been estimated using publicly available data in 2012, 2013 and 2015 Source: Company prospectus (main source), DOSM, Smith Zander

Figure 36

Manufacturing sales value

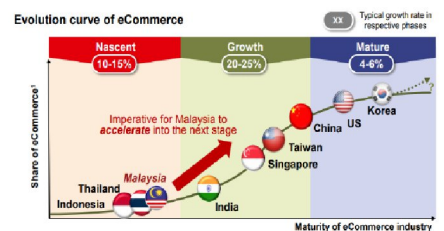
Note: Figures include the manufacture of precast concrete, cement or artificial stone articles used for construction; Source: Company prospectus (main source), DOSM, Smith Zander

Figure 37

Ecommerce sector growth

Source: Company, Smith Zander

Figure 38

Evolution curve of ecommerce

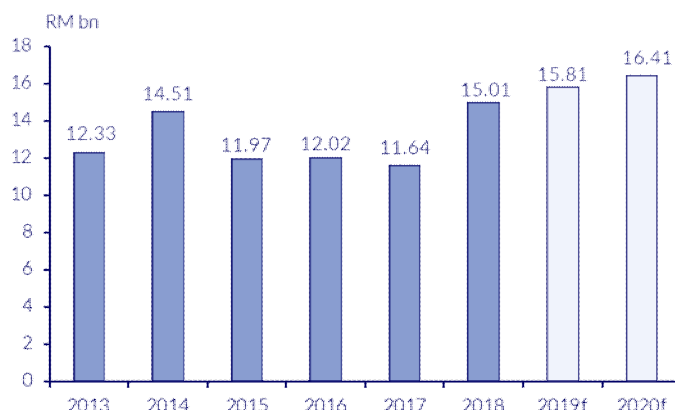
Source: Company, MITI, DOSM, EPU, MDec, Euromonitor, World Bank, A.T. Kearney analysis

- There is strong demand for industrial property. Industrial park industry (specifically in Johor). This is particularly the case as Johor has been touted as the key location for commercial and industrial properties in the Southern region of Malaysia and saw FDI growth as international companies set up or expanded manufacturing facilities over the years. While there was a notable decline in value of industrial property transactions from 2014 to 2017, the recovery noted in 2018 suggests that demand for industrial properties to support business activities by both local and foreign players in Johor have re-emerged. Recent MIDA statistics supports this with rising manufacturing FDI approved in Johor.



Figure 39

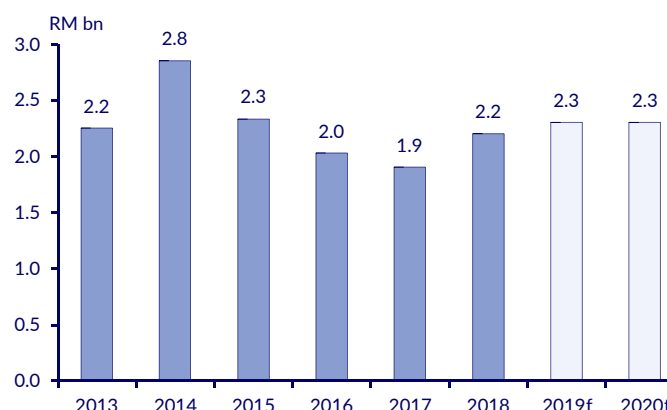
Value of industrial property transactions in Malaysia



Note: f - forecast; Source: Company, NAPIC, Smith Zander

Figure 40

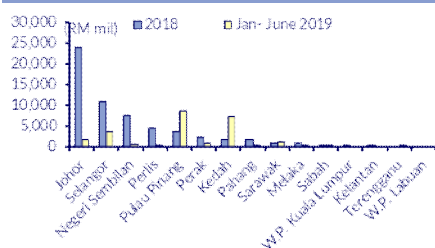
Value of industrial property transactions in Johor



Note: f - forecast; Source: Company, NAPIC, Smith Zander

Figure 41

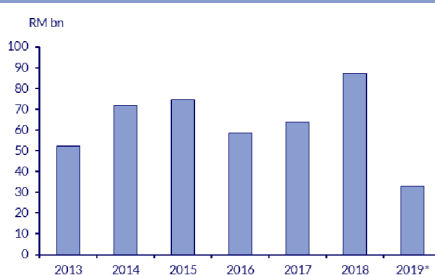
Malaysia manufacturing FDI approved by state



Source: CLSA, MIDA

Figure 42

Malaysia manufacturing FDI approved



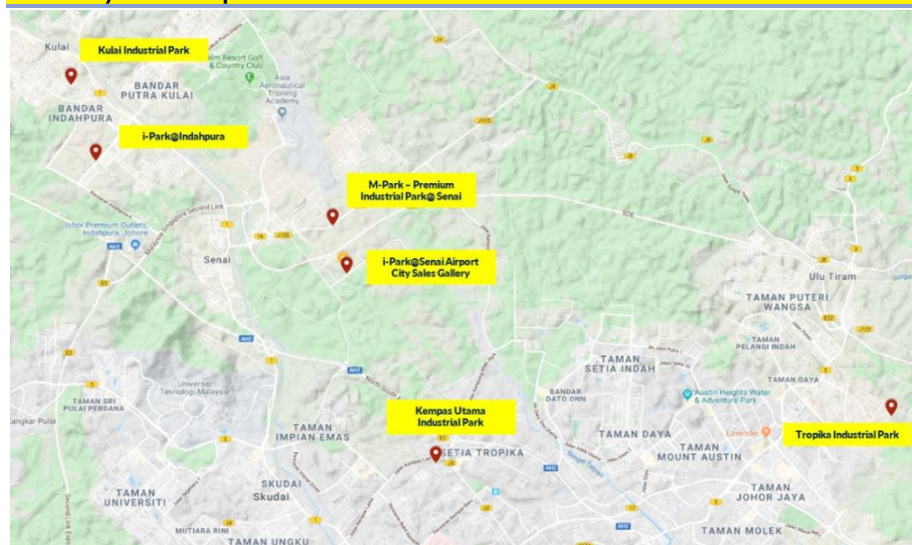
* 1H 2019; Source: CLSA, MIDA

Johor has been a key beneficiary of manufacturing FDI approvals

- Competitive landscape: while the construction sector is fragmented, players have different focus. AME competes with industry players which would be involved in the construction of large manufacturing plants and industrial buildings, and in the development of industrial parks. The company indicated that as at 31 March 2019, it had a market share of 2.48% for its construction segment and 0.29% for its industrial park segment.

Figure 11

Johor: key industrial parks



Source: CLSA, Google maps



Figure 43

Property companies that have industrial development exposures

Company	Type of property development			Type of industrial development	Example of Industrial Park (IP)	Location of industrial park
	Residential	Commercial	Industrial			
SP Setia	x	x	x	Gated, guarded and mixed industrial park	Setia Business Park I Setia Business Park II Taman Industri Jaya Temasya IP	Johor, Selangor
Mah Sing Group	x	x	x	Mixed industrial park	i-Parc@Tanjung Pelepas i-Parc2@Shah Alam i-Parc3@Bukit Jelutong M-Parc@Permatang Tinggi	Johor, Selangor, Penang
Eco World	x	x	x	Gated, guarded and mixed industrial park	Eco Business Park I Eco Business Park II Eco Business Park III Eco Business Park V	Johor, Selangor
UEM Sunrise	x	x	x	Specialised and gated guarded industrial park	Nusajaya Tech Park Bio-Xcell Biotechnology Park	Johor
United Malayan Land	x	x	x	Specialised and gated guarded industrial park	Iskandar Halal Park	Johor
AME Elite			x	Gated, guarded and mixed industrial park	i-Park@SiLC i-Park@Indahpura i-Park@Senai Airport City SME City District 6	Johor
Crescendo	x	x	x	Mixed industrial park	Nusa Cemerlang IP Taman Perindustrian Cemerlang	Johor
WB Land			x	Gated guarded industrial park	Frontier IP	Johor
Gromutual	x	x	x	Mixed industrial park	Tropika IP Ayer Hitam IP Perindustrian Bukit Gambir	Johor

Source: CLSA, Company prospectus

Key management and board of directors

- ❑ The company's IPO prospectus (24 Sep 2019) indicated that the key senior management personnel have been with the company for over a decade.
- ❑ The four people instrumental to the company are:
 - Mr Lee Chai (Kelvin) founded AME Construction in 1993. In 1994, Mr Lee, together with Mr Lim Yook Kim, Kang Ah Chee, established Asiamost (Engineering). Subsequently, they established Amsun Capital (heavy construction) in 1997. In 2008, Mr Lee co-founded AME Engineering. Currently, as Group Managing Director of AME, he is responsible for business growth and direction, strategic corporate planning and overall operations of the company. He is also in charge of property investment and management services where he plans and identifies properties to invest and develop and oversees the management of i-Stay.
 - Mr Lim Yook Kim was appointed Director of AME Engineering in 1993. Mr Lim co-founded AME Engineering and was involved in setting up the fabrication plant of AME Engineering. Subsequently, with Mr Lee and Mr Kang, they established Amsun Capital (heavy construction) in 1997. Together, they co-founded AME Engineering in 2008. Currently, at AME, Mr Lim is responsible for on-site operations and activities carried out by the construction and engineering division.
 - Mr Kang Ah Chee was appointed Director of AME Construction in 1993. Together with Mr Lee and Mr Lim, Mr Kang established Asiamost, a company that provide fire protections system and M&E engineering services for building and construction projects. Subsequently, with Mr Lee and Mr Kang, they established Amsun Capital (heavy construction) in 1997. Together, they



co-founded AME Engineering in 2008. Currently, at AME, Mr Kang is responsible for on-site operations and activities carried out by the construction and engineering division.

- Mr Lee Sai Boon (Simon) worked in several companies before joining forces with the three above and incorporated Asiamost and subsequently all four of them co-founded AME Engineering in 2008. Currently, at AME, Mr Simon Lee oversees the property development and M&E division and plays an important role in negotiations for land acquisition and planning of development projects. He is also in charge of IT and financials budgeting for the company.
- Three of the personnel listed above came from a common company – Syarikat Asia Mechanical Engineering – Me Lee Chai started there in 1984 as a contract executive, Mr Lim Yook Kim and Mr Kang Ah Chee were the joint-proprietors since 1976 and ran its steel fabrication business.

Figure 44

Key management team		
Name	Designation	Years of relevant experience^
Lee Chai (Kelvin)*	Group Managing Director	35
Lim Yook Kim*	Executive Director	45
Kang Ah Chee*	Executive Director	47
Lee Sai Boon (Simon)*	Executive Director	25
Gregory Lui Poh Sek	Group Financial Controller	28
Lim Pei Shi	Alternate Director to Lim Yook Kim/Executive Director/Marketing Director, AME Development	8
Kang Koh Wei	Director, AME Construction	12
Lim Khai Wen	Managing Director, AME Engineering	11
Razak bin Ahmad	Deputy Managing Director, Asiamost	26
Teo Kian Jin	Project Director, AME Construction	37
Law Han Meng	Project Director, AME Construction	29

* Also Board of Directors; ^ Reflect the experience relevant to their respective work scope or relevant to AME's core business, whichever comes earlier; Source: Company

- The company employs c. 400 employees with 11 (named above as senior management). Of the total employees, approximately 83% are local employees with the rest being foreign workers. In the company's IPO prospectus, it laid out that the foreign workers have valid working permits and have not been in any breach of any immigration laws. None of its employees belong to a labour union.



Figure 45

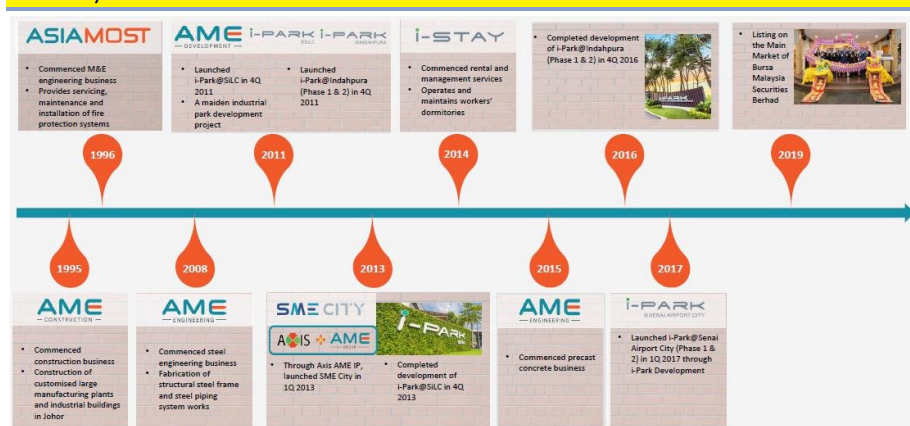
AME's key subsidiaries and jointly-controlled entities

Name	Date of incorporation	Effective equity interest	Principal activities
AME Construction ¹	7 Oct 1993	100%	Fabrication works, building contractors and property letting activities
Asiamost	2 Dec 1994	100%	Fire protection system and M&E contractor
Amsun Industries	16 Nov 1996	100%	Investment holding
Asiamost Engineering ²	26 Nov 1996		Provision of servicing, maintenance and installation of firefighting system
Amsun Capital	24 Feb 1997	100%	Provision of heavy equipment for construction industry
Active Gold	16 Jul 2007	99.9%	Property investment
AME Development	21 Jan 2008	100%	Property development
Tanjung Bebas	28 Aug 2008	100%	Property investment
AMD Engineering	23 Sep 2008	100%	Manufacturing, installation and contractor for industrialised building system-precaster concrete and steel structure product
AME Integrated	28 Aug 2012	99.9%	Investment holding
AME Industrial Park	29 Aug 2012	100%	Investment holding
Ipark Development ³	26 Sep 2012	80%	Property development
Axis AME IP ⁴	16 Nov 2012	50%	Property development and investment
I Stay Management	18 Feb 2014	70%	Property letting and maintenance

* 1 Subsidiary of Amsun Industries, 2 Subsidiary of Asiamost, 3 Subsidiary of AME Integrated, 4 jointly-controlled entity of AME Industrial Park; Source: Company

Figure 46

AME's key milestones



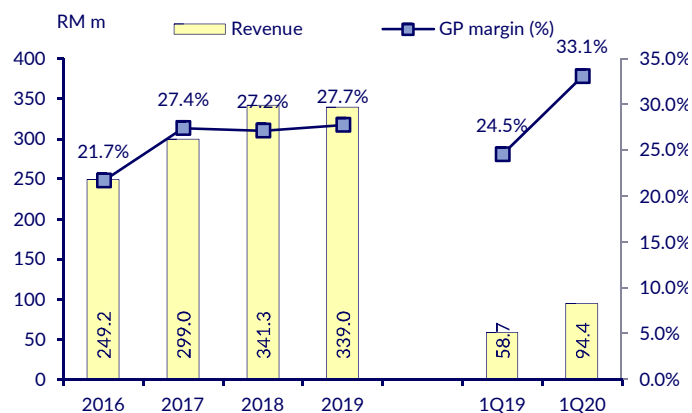
Source: Company



Key financials at a glance

Figure 47

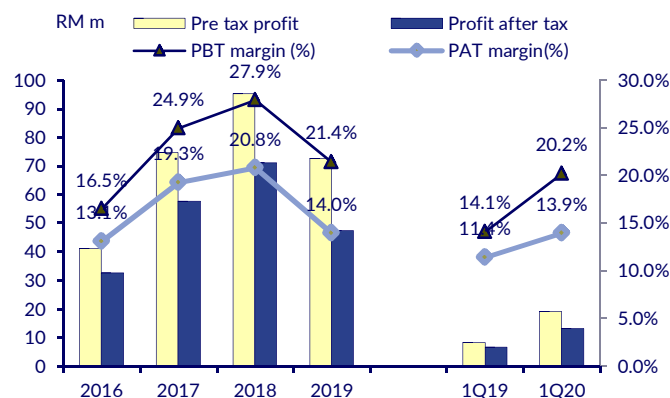
Revenues and gross profit (GP) margin



Source: Company, CLSA

Figure 48

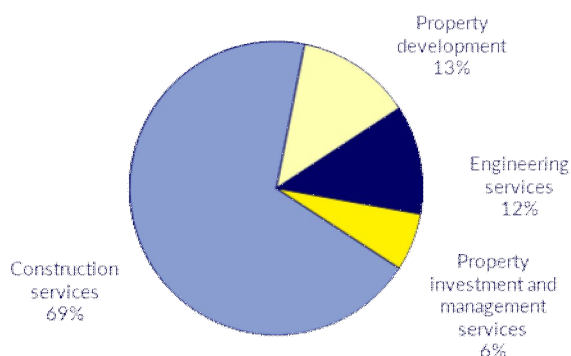
Profit and margins



Source: Company, CLSA

Figure 49

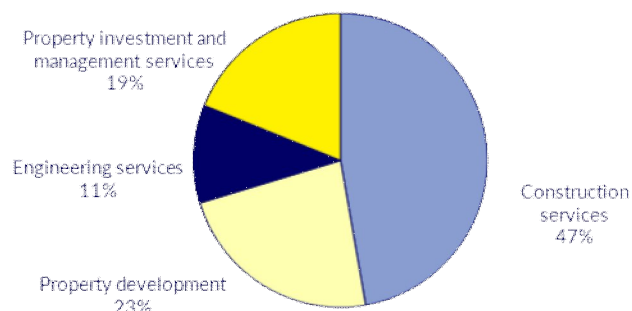
Revenue breakdown for FY19



Source: Company, CLSA

Figure 50

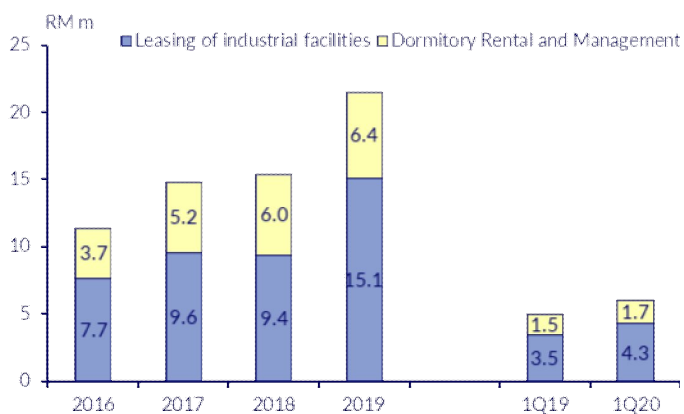
Gross profit breakdown by segment for FY19



Source: Company, CLSA

Figure 51

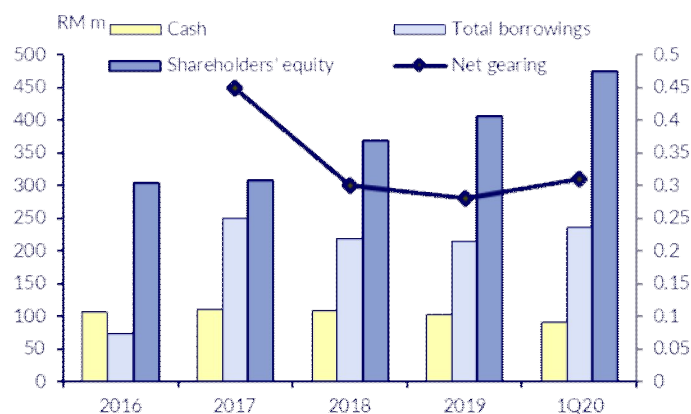
Growing recurring income base



Source: Company, CLSA

Figure 52

Balance sheet position



Note: Company was net cash in 2016; Source: Company, CLSA

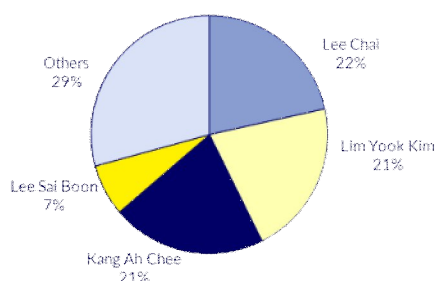


10 things you need to know

1. Company profile and history

- ❑ Incorporated on 27 Aug 2018 as a public limited company under the name AME Elite Consortium Bhd. The company was established in its original form as a construction company – AME Construction – back in 1995.
- ❑ It started off building large manufacturing plants and industrial buildings for both local and multinational companies operating in Peninsular Malaysia. The company ventured to start developing industrial parks in 2011.
- ❑ AME operates with an integrated business model involving construction services, industrial property development, engineering services as well as property investment and rental of management of workers' dormitories.

3. Ownership structure



5. Capital-raising history

- ❑ AME was listed on Bursa Malaysia on 14 Oct 2019 at a RM1.30 per share with a market capitalisation of RM662m.

7. Cashflow

- ❑ Bulk of the company's cash flow is tied up to its cash flow to operations; it turned position in the past two financial years. The main portion of its cash from investing activities related to acquisition of property, plant and equipment. The IPO should strengthen its cash flow from financing.

9. Key strengths

- ❑ Well positioned in Johor to take advantage of the current US-China trade war amid the supply chain relocation
- ❑ The company specialises in industrial park developments – particularly gated, guarded and managed ones
- ❑ Ability to attract several multinational companies to operate in its industrial parks.

2. How does the company make money?

- ❑ Construction services, according to the company, which involves building large manufacturing plants and industrial buildings, contribute 69% and 47% to revenue and gross profit.
- ❑ The company also provides steel engineering works, precast concrete works and machinery & engineering services
- ❑ By developing industrial parks, AME earns revenues in the form of sales of industrial park units, long term rentals from units put in lease and rentals from workers' dormitories.
- ❑ The company is growing its recurring income base from its property investment & management services segment

4. Management/board composition/auditor

- ❑ The four key people in the company's senior management team are: Mr Lee Chai (Group Managing Director), Mr Lim Yook Kim (Executive Director), Mr Kang Ah Chee (Executive Director) and Mr Lee Sai Boon (Executive Director)
- ❑ There are eight members on AME's Board of Directors; half of the Board are Independent Directors, inclusive of the Chairperson (a legal professional). The independent directors each have 200,000 shares/<0.1% of the companies listed shares. The other 4 board members hold executive positions (same names as above)
- ❑ KPMG is the auditor for the company for the IPO.

6. Dividend history

- ❑ The company has yet to declare its maiden dividend since IPO but has indicated that it intends to recommend and distribute at least 20% of adjusted profit after tax based on its annual audited profit after tax attributable to shareholders.

8. Key things to note in the accounts

- ❑ Revenue breakdown by be volatile across operating segments depending on time of project delivery.
- ❑ Note one-off expenses related to listing expenses were incurred in FY19-20.

10. Key risks

- ❑ Overall macro slowdown leading to a dearth of construction and engineering projects.
- ❑ Difficulty in securing foreign workers as a result of changes in government policies
- ❑ Inability to secure new contracts and secure land for new development.

Source: Company, CLSA



Valuation details

- AME was listed on Bursa Malaysia on 14 Oct 2019. The stock is currently trading at 16x trailing consensus PE. There is currently only one local research firm covering the stock,
- On a trailing PE basis, AME trades at a discount to one of its regional peers. As AME is a pure industrial property cum construction stock, there is no direct comparable within Malaysian peers. But as a guide, based on trailing PE, AME is trading at a discount to CLSA's rated construction peers but at a premium to its rated property developer peers. However, the property companies listed in the peer table below may not be a fair comparison as these are largely residential property players although they have a small segments of their businesses in industrial parks.

Figure 53

Peer comparables

Company	Rec	Target Price	Price	Mkt cap	ADT	PE	EPS Growth		PB		ROE		Yield		EV/EBITDA		
		(RM)	(RM)	(US\$m)	(US\$m)	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20
						(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
AME Elite	N-R	-	1.9	196	7.70	16.1	16.7	na	0.0	na	0.0	12.2	9.5	na	1.2	na	13.9

Regional peers

Company	Rec	Target Price	Price	Mkt cap	ADT	PE	EPS Growth		PB		ROE		Yield		EV/EBITDA		
		(RM)	(RM)	(US\$m)	(US\$m)	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20
						(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
Amata Corp	N-R	-	24.1	6,157	45.31	15.1	14.0	(28.0)	67.5	1.8	1.6	12.1	12.6	2.5	2.7	16.8	15.3
WHA Corp	N-R	-	4.4	15,495	84.79	18.3	15.3	(11.0)	18.8	2.1	2.1	11.9	13.1	2.7	3.0	25.2	20.4
Weighted average						17.4	15.0	(15.9)	32.6	2.0	1.9	11.9	12.9	2.6	2.9	22.8	18.9

Construction peers

Company	Rec	Target Price	Price	Mkt cap	ADT	PE		EPS Growth		PB		ROE		Yield		EV/EBITDA	
		(RM)	(RM)	(US\$m)	(US\$m)	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20
						(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
IJM	O-PF	2.5	2.1	1,828	1.24	16.0	14.5	18.6	10.3	0.8	0.7	4.9	5.1	2.5	2.8	10.8	9.9
Gamuda	BUY	4.5	3.9	2,284	2.53	17.2	13.3	92.6	21.7	1.6	1.6	14.0	15.5	8.1	10.1	13.0	10.9
SunCon	BUY	2.3	2.0	603	0.20	18.5	14.2	1.6	33.3	4.1	3.7	22.0	27.3	4.1	4.6	9.0	6.8
AQRS	BUY	1.85	1.2	142	0.29	8.7	6.9	11.2	50.2	1.2	1.0	13.8	18.9	4.8	7.3	5.3	4.0
Weighted average						16.7	13.7	51.0	19.7	1.6	1.5	11.5	13.2	5.4	6.6	11.4	9.8
Weighted average ex. IJM & GAM						16.7	12.8	3.5	36.6	3.5	3.2	20.4	25.7	4.2	5.1	8.3	6.2

Property peers

Company	Rec	Target Price	Price	Mkt cap	ADT	PE	EPS Growth		PB		ROE		Yield		EV/EBITDA		
		(RM)	(RM)	(US\$m)	(US\$m)	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20	CY19	CY20
						(x)	(x)	(%)	(%)	(x)	(x)	(%)	(%)	(%)	(%)	(x)	(x)
Mah Sing	BUY	1.1	0.7	416	0.25	5.7	13.3	(10.7)	18.1	0.5	0.5	6.1	7.1	4.7	6.0	6.3	5.8
Eco World	SELL	0.6012	0.6	445	1.06	8.9	5.9	13.8	68.8	0.6	0.5	4.2	6.6	0.0	0.0	17.9	16.8
UEMS	N-R	-	0.7	804	0.32	16.5	19.8	33.7	(18.0)	0.5	0.5	3.0	2.3	1.1	1.1	18.4	23.5
Weighted average						12.7	13.0	6.6	19.9	0.4	0.4	3.6	4.2	2.2	2.9	15.4	16.5

Note: AME was only listed on 14 October 2019, as such CY19 refers to trailing PE while CY20 is based on one analyst consensus figures. EPS growth, ROE and PB are not available; Source: CLSA, Bloomberg



Investment risks

- ❑ A slowdown in demand due to political, economic and regulatory risks. Overall moderation of economic growth, slower FDI flows and weak investment sentiment could derail the momentum of the construction industry as well as demand for industrial properties. Indirectly, this could also cause a decrease in demand for precast concrete and steel engineering works. There is also risk of raw material prices rising which would affect the overall cost of construction and developing its industrial parks
- ❑ As the construction sector depends quite heavily on foreign workers, changes in government policies (and this was stated in the Budget 2020 that over time the country would want to lower reliance on foreign workers). Shortage of foreign workers employed could cause project delivery delays.
- ❑ Inability to secure new contracts to replenish order-book. According to AME, its construction contracts are typically implemented over 1-2 years while engineering contracts are implemented over a few months to two years. As such, the company's revenue may fluctuate depending on job flow and stage of completion of projects. The company bids competitively for projects but there is no certainty that it can secure all contracts it bids for.
- ❑ The company's ability to secure land banks may affect growth. There is competition with other developers when sourcing for suitable development sites in addition of being mindful of costs and location.



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Companies mentioned

AME ELITE (N-R)
 Active Gold (N-R)
 AMATA (N-R)
 AMD Engineering (N-R)
 AME Development (N-R)
 AME Engineering (N-R)
 AME Industrial Park (N-R)
 AME Integrated (N-R)
 Amsun Capital (N-R)
 Amsun Capital (N-R)
 Amsun Industries (N-R)
 AQRS (AQRS MK - RM1.20 - BUY)
 Asiamost (N-R)
 Axis (N-R)
 Axis AME IP (N-R)
 Bursa Malaysia (BURSA MK - RM6.05 - BUY)
 Crescendo (N-R)
 Eco World (ECW MK - RM0.65 - SELL)
 Gamuda (GAM MK - RM3.84 - BUY)
 Gromutual (N-R)
 I Stay Management (N-R)
 IJM (IJM MK - RM2.12 - O-PF)
 Ipark Development (N-R)
 KPMG (N-R)
 Mah Sing (MSGB MK - RM0.72 - BUY)
 Merchantrade (N-R)
 SP Setia (SPSB MK - RM1.25 - SELL)
 SunCon (SCGB MK - RM1.95 - BUY)
 Syarikat Asia Mechanical Engineering (N-R)
 Tanjung Bebas (N-R)
 UEM Sunrise (N-R)
 United Malayan Land (N-R)
 WB Land (N-R)
 WHA (WHA TB - BT4.4 - O-PF)

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