

Outthink. Outperform.

2QFY20: Above expectations

AME Elite's 2QFY20 results were above our expectations. Net profit more than doubled to RM34.1m in 6MFY20 driven by higher earnings for all divisions and a RM7.3m fair-value gain on its investment properties. We raise our core EPS by 6-13% for FY20-22E to reflect higher profit margins and property revenue. Despite the run-up in the share price, we believe its core FY20E PER of 14x is undemanding. We reiterate our BUY call with a higher 12-month TP of 2.28 based on an unchanged 30% discount to our upgraded RNAV estimate.

Above expectations

Net profit of RM34.1m in 6MFY20 comprises 64% of our previous full-year forecast of RM53.6m. There was a RM7.3m fair-value gain on its investment properties, which we did not assume in our forecast. AME's revenue grew 7% yoy to RM176.2m in 6MFY20, mainly driven by higher property development (+374% yoy), property investment (+60% yoy) and engineering services (+17% yoy) revenue. This was partly offset by lower construction revenue (-35% yoy) as some existing projects were near completion and new projects are still at initial stages. Core net profit jumped 61% yoy to RM26.8m in 6MFY20, driven by better performance and profit margins for all divisions.

Good earnings prospects

AME is seeing higher demand for its industrial properties (purchase and lease) and construction services from local companies looking to set up new plants in industrial parks with better facilities and security. There are also multinational companies (MNC) looking to build new industrial facilities in Johor. Its remaining construction order book of RM402m and property gross development value (GDV) of RM1.3bn should sustain earnings growth ahead.

Upgrade earnings

We lift our EPS estimates by 6-13% in FY20-22E to reflect higher property development and investment revenue, with better operating profit margins across the board as shown in the 6MFY20 results. We also factored in the increase in total GDV by RM120m with the recent acquisition of a 6.1-hectare land for RM25m to develop i-Park@Indahpura Phase 3.

Maintain HOLD

We raise our RNAV/share estimate to RM3.24 from RM2.62 to reflect higher construction and property (higher GDV and market value of investment properties) segment valuations. Based on the same 30% discount to RNAV, we raise our 12-month TP to RM2.28 from RM1.83. We believe our implied target CY20E PER of 15x is fair. Maintain our BUY call.

Earnings & Valuation Summary

FYE 31 Mar	2018	2019	2020E	2021E	2021E
Revenue (RMm)	341.3	339.0	370.4	401.1	381.5
EBITDA (RMm)	67.7	66.1	93.8	99.0	105.7
Pretax profit (RMm)	95.2	72.6	87.5	89.9	100.3
Net profit (RMm)	71.0	47.3	64.1	65.0	72.4
EPS (sen)	16.6	11.1	15.0	15.2	17.0
PER (x)	11.7	17.5	12.9	12.8	11.4
Core net profit (RMm)	42.9	31.5	59.8	65.0	72.4
Core EPS (sen)	10.0	7.4	14.0	15.2	17.0
Core EPS growth (%)	4.6	(26.6)	89.8	8.7	11.5
Core PER (x)	19.3	26.3	13.9	12.8	11.4
Net DPS (sen)	0.0	0.0	3.0	3.0	3.4
Dividend Yield (%)	0.0	0.0	1.5	1.6	1.7
EV/EBITDA (x)	13.9	14.3	8.7	7.9	6.8
Chg in EPS (%)			5.5	9.7	12.8
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

AME Elite

AME MK

Sector: Construction & Infra

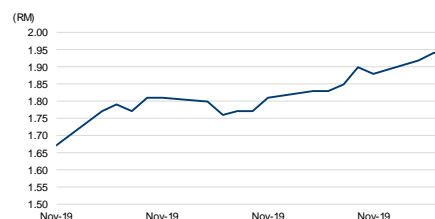
RM1.94 @ 27 November 2019

BUY (maintain)

Upside 18%

Price Target: RM2.28

Previous Target: RM1.83



Price Performance

	1M	3M	12M
Absolute	15.4%	NA	NA
Rel to KLCI	14.0%	NA	NA

Stock Data

Issued shares (m)	427
Mkt cap (RMm)/(US\$m)	833/199
Avg daily vol - 6mth (m)	NA
52-wk range (RM)	1.27-1.96
Est free float	29%
BV per share (RM)	1.45
P/BV (x)	1.3
Net cash/(debt) (RMm) (2Q20)	(227)
ROE (FY20E)	12.4%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Lee Chai	21.5%
Lim Yook Kim	21.2%
Kang Ah Chee	21.1%
Lee Sai Boon	7.0%

Source: Affin Hwang, Bloomberg

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New projects and investment properties

AME achieved a high take-up rate of 79% for the launch of its retail shops i-Park@Senai Airport City (SAC), generating RM47m in sales. We see good potential to sell the remaining units worth RM21m in 2HFY20. Progress billings on the sold units should accelerate in 2HFY20 to boost property development revenue and earnings. AME targets to launch its i-Park@SAC Phase 3 project with a total GDV of RM555m in 4QFY20 to boost property sales given the encouraging demand. A new MNC tenant just commenced the lease for a new plant at i-Park@SAC, which will boost property investment revenue by about RM3.6m p.a. starting in 2HFY20. New construction contracts secured in 1HFY20 will start to contribute in 2HFY20. All these factors point to a stronger 2HFY20 performance.

Key risks

Key downside risks are slower industrial property sales, higher building material costs and weaker demand for construction services for industrial buildings.

Fig 1: Results summary

FYE 31 Mar (RMm)	2Q	1Q	2Q	QoQ	YoY	6M	6M	YoY	Comments
	FY19	FY20	FY20	% chg	% chg	FY19	FY20	% chg	
Revenue	106.3	94.4	81.8	(13.3)	(23.0)	165.0	176.2	6.8	Higher property development (+374% yoy), engineering (+17% yoy) and property investment (+60% yoy) revenue, which was partially offset by lower construction revenue (-35% yoy).
Op costs	(89.5)	(71.6)	(60.0)	(16.2)	(33.0)	(139.5)	(131.5)	(5.7)	
EBITDA	16.8	22.8	21.9	(4.2)	30.0	25.5	44.7	75.1	
<i>EBITDA margin (%)</i>	<i>15.8</i>	<i>24.2</i>	<i>26.7</i>	<i>2.5 ppt</i>	<i>10.9 ppt</i>	<i>15.5</i>	<i>25.4</i>	<i>9.9 ppt</i>	Higher profit margins for construction division and better property sales mix.
Depreciation	(1.7)	(1.4)	(1.6)	14.8	(8.1)	(3.1)	(3.0)	(2.8)	
EBIT	15.1	21.4	20.3	(5.4)	34.4	22.4	41.7	85.8	
<i>EBIT margin (%)</i>	<i>14.2</i>	<i>22.7</i>	<i>24.8</i>	<i>2.1 ppt</i>	<i>10.6 ppt</i>	<i>13.6</i>	<i>23.7</i>	<i>10.1 ppt</i>	
Int expense	(0.8)	(4.1)	(3.1)	(24.0)	306.1	(1.9)	(7.3)	277.1	Higher borrowings to acquire new land bank.
Int and other inc	1.0	0.7	0.7	11.6	(26.9)	1.7	1.4	(16.0)	
Associates	(1.2)	1.1	3.7	239.8	n.m	0.3	4.8	1775.2	
EI	0.0	0.0	7.3	20058.3	65872.7	0.0	7.3	40416.7	Includes RM7.3m fair-value gain on investment properties.
PBT	14.2	19.1	28.8	51.0	103.4	22.4	47.9	113.3	
<i>PBT margin (%)</i>	<i>13.3</i>	<i>20.2</i>	<i>35.2</i>	<i>15.0 ppt</i>	<i>21.9 ppt</i>	<i>13.6</i>	<i>27.2</i>	<i>13.6 ppt</i>	
Core PBT	14.1	19.0	21.5	13.2	52.3	22.4	40.6	81.0	
Tax	(3.9)	(4.5)	(5.5)	21.3	42.0	(5.4)	(10.0)	86.0	
<i>Tax rate (%)</i>	<i>27.3</i>	<i>23.8</i>	<i>19.1</i>	<i>(4.7 ppt)</i>	<i>(8.3 ppt)</i>	<i>24.0</i>	<i>20.9</i>	<i>(3.1 ppt)</i>	
MI	(0.3)	(1.4)	(2.3)	67.0	730.4	(0.3)	(3.7)	1012.9	
Net profit	10.0	13.1	21.0	59.6	109.7	16.7	34.1	104.2	Above expectations.
EPS (sen)	2.9	3.1	6.1	99.5	109.6	4.9	10.0	104.3	
Core net profit	10.0	13.1	13.7	4.7	37.3	16.7	26.8	60.7	Excluding one-off items. Above expectations.

Source: Affin Hwang estimates, Company

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Fig 2: Segmental results summary

FYE 31 Mar (RMm)	2QFY19	1QFY20	2QFY20	YoY (%)	YoY (%)	6MFY19	6MFY20	YoY (%)
Segmental results								
Revenue								
Construction services	76.0	40.0	40.2	0.5	(47.1)	122.6	80.3	(34.6)
Property development	9.0	36.5	19.3	(47.2)	113.7	11.8	55.8	373.9
Engineering services	16.0	11.8	11.9	1.2	(25.4)	20.3	23.7	17.0
Property investment	5.2	6.0	10.4	71.4	97.3	10.3	16.4	59.7
Total	106.3	94.4	81.8	(13.3)	(23.0)	165.0	176.2	6.8
EBIT								
Construction services	5.1	7.1	7.7	7.3	50.9	10.4	14.8	42.1
Property development	(0.5)	6.9	2.5	(64.2)	(589.7)	(2.4)	9.4	(496.4)
Engineering services	1.0	2.8	1.1	(59.8)	10.9	2.1	4.0	86.8
Property investment	4.4	5.0	16.1	219.8	270.2	9.4	21.2	126.0
Total	9.9	21.9	27.4	25.1	175.2	19.5	49.3	152.4
EBIT margin %								
Construction services	6.7	17.8	19.0	1.2 ppt	12.3 ppt	8.5	18.4	9.9 ppt
Property development	(5.6)	18.9	12.8	(6.1 ppt)	18.4 ppt	(20.1)	16.8	36.9 ppt
Engineering services	6.4	23.9	9.5	(14.4 ppt)	3.1 ppt	10.4	16.6	6.2 ppt
Property investment	82.9	83.4	155.6	72.2 ppt	72.6 ppt	91.1	129.0	37.8 ppt

Source: Affin Hwang estimates, Company

Fig 3: Change in RNAV and target price

Segments	Stake (%)	RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 14x sustainable PAT of RM35m	100	490	350	40
Engineering @ PE 14x sustainable PAT of RM5m	100	70	70	0
Property development @ DCF (WACC 7.5%)	100	382	348	10
Property investment @ Market value	100	427	346	23
Net cash/(debt)		17	3	393
RNAV		1,385	1,118	24
No. of shares (m shrs)		427	427	0
RNAV/share (RM)		3.24	2.62	24
Target price at 30% discount to RNAV/share		2.28	1.83	24

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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