

Outthink. Outperform.

### 3QFY20: Within expectations

AME Elite's 3QFY20 results were within our expectations. Net profit jumped 55% yoy to RM49m in 9MFY20, driven by higher earnings for all divisions and a RM7.3m fair-value gain on its investment properties. This was partly offset by RM2.9m listing expenses incurred in 2QFY20 and 3QFY20. Core net profit increased 42% yoy to RM44.6m in 9MFY20. We reiterate our BUY call with a 12-month TP of 2.28, based on a 30% discount to our RNAV.

#### Strong earnings momentum

Net profit of RM49m in 9MFY20 comprises 76% of our full-year forecast of RM64.1m. There was a RM7.3m fair-value gain on its investment properties and listing expenses of RM2.9m, which we have assumed in our forecast. AME's revenue grew 5% yoy to RM282.3m in 9MFY20, mainly driven by higher property development (+129% yoy), property investment (+62% yoy) and engineering services (+44% yoy) revenue. This was partly offset by lower construction revenue (-27% yoy) as some existing projects were near completion and new projects are still at initial stages. Core net profit jumped 42% yoy to RM44.6m in 9MFY20, driven by better performances and profit margins for all divisions. Sequentially, core net profit grew 13% qoq to RM16.7m in 3QFY20, mainly driven by higher construction (+77% qoq) and engineering services (+30% qoq) earnings.

#### High order book and unbilled sales

AME is seeing higher demand for its industrial properties (purchase and lease) in i-Park@Indahpura and i-Park@Senai Airport City (SAC) from foreign companies from China, Singapore, Australia, Hong Kong, Japan and the US. Its remaining construction order book of RM348.5m and property unbilled sales of RM121bn will sustain earnings growth ahead, in our view.

#### Commenced i-Park@SAC Phase 3

AME has commenced i-Park@SAC Phase 3 with gross development value of RM555m to meet rising demand. It is exploring land-banking opportunities to grow the i-Park brand industrial parks throughout Peninsular Malaysia.

#### Maintain BUY

We maintain our earnings forecasts and RNAV/share estimate of RM3.24. AME is one of our top construction sector small-cap BUYs with 12-month TP of RM2.28, based on a 30% discount to RNAV.

#### 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)	10.8	16.2	12.0	11.8	10.6
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)	17.9	24.4	12.9	11.8	10.6
Net DPS (sen)	0.0	0.0	3.0	3.0	3.4
Dividend Yield (%)	0.0	0.0	1.7	1.7	1.9
EV/EBITDA (x)	13.0	13.3	8.0	7.3	6.2
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

#### Results Note

## AME Elite

AME MK

Sector: Construction &amp; Infra

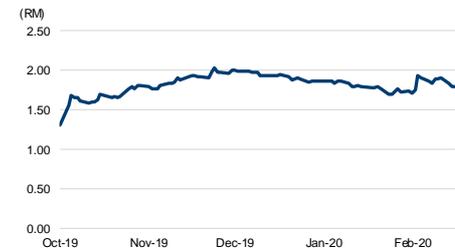
RM1.80 @ 26 February 2020

BUY (maintain)

Upside 27%

Price Target: RM2.28

Previous Target: RM2.28



#### Price Performance

	1M	3M	12M
Absolute	0.0%	-7.2%	NA
Rel to KLCI	5.2%	-1.7%	NA

#### Stock Data

Issued shares (m)	427.1
Mkt cap (RMm)/(US\$m)	768.8/182.2
Avg daily vol - 6mth (m)	NA
52-wk range (RM)	1.27-2.05
Est free float	29.5%
BV per share (RM)	1.45
P/BV (x)	1.2
Net cash/(debt) (RMm) (3Q20)	(133)
ROE (FY20E)	12.4%
Derivatives	Nil
Shariah Compliant	Yes

#### Key Shareholders

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

Source: Affin Hwang, Bloomberg

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**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)	3Q	2Q	3Q	QoQ	YoY	9M	9M	YoY	Comments
	FY19	FY20	FY20	% chg	% chg	FY19	FY20	% chg	
<b>Revenue</b>	<b>105.0</b>	<b>81.8</b>	<b>106.1</b>	<b>29.7</b>	<b>1.1</b>	<b>269.9</b>	<b>282.3</b>	<b>4.6</b>	Higher property development (+129% yoy), engineering (+44% yoy) and property investment (+62% yoy) revenue, which was partially offset by lower construction revenue (-27% yoy).
Op costs	(81.9)	(58.9)	(79.7)	35.2	(2.7)	(221.3)	(210.2)	(5.0)	
<b>EBITDA</b>	<b>23.1</b>	<b>22.9</b>	<b>26.4</b>	<b>15.4</b>	<b>14.4</b>	<b>48.6</b>	<b>72.1</b>	<b>48.4</b>	Higher profit margins for construction division and better property sales mix.
<i>EBITDA margin (%)</i>	<i>22.0</i>	<i>28.0</i>	<i>24.9</i>	<i>(3.1 ppt)</i>	<i>2.9 ppt</i>	<i>18.0</i>	<i>25.5</i>	<i>7.5 ppt</i>	
Depreciation	(1.3)	(1.6)	(1.6)	(1.1)	18.3	(4.4)	(4.6)	3.6	Higher borrowings to acquire new land bank.
<b>EBIT</b>	<b>21.7</b>	<b>21.3</b>	<b>24.8</b>	<b>16.6</b>	<b>14.1</b>	<b>44.2</b>	<b>67.5</b>	<b>52.8</b>	
<i>EBIT margin (%)</i>	<i>20.7</i>	<i>26.0</i>	<i>23.4</i>	<i>(2.6 ppt)</i>	<i>2.7 ppt</i>	<i>16.4</i>	<i>23.9</i>	<i>7.6 ppt</i>	Includes RM7.3m fair-value gain on investment properties.
Int expense	(2.5)	(3.1)	(3.5)	12.8	41.9	(4.4)	(10.8)	144.4	
Int and other inc	0.6	0.7	1.1	56.5	88.7	2.3	2.5	12.1	Within expectations
Associates	(0.0)	3.7	0.1	(97.6)	n.m	0.2	4.9	2145.8	
EI	0.1	6.2	(1.9)	n.m	n.m	0.2	4.4	2567.9	Excluding one-off items. Within expectations.
<b>PBT</b>	<b>20.0</b>	<b>28.8</b>	<b>20.7</b>	<b>(28.2)</b>	<b>3.5</b>	<b>42.4</b>	<b>68.5</b>	<b>61.6</b>	
<i>PBT margin (%)</i>	<i>19.0</i>	<i>35.2</i>	<i>19.5</i>	<i>(15.7 ppt)</i>	<i>0.4 ppt</i>	<i>15.7</i>	<i>24.3</i>	<i>8.6 ppt</i>	
<b>Core PBT</b>	<b>19.8</b>	<b>22.6</b>	<b>22.5</b>	<b>(0.2)</b>	<b>13.6</b>	<b>42.2</b>	<b>64.1</b>	<b>51.8</b>	Within expectations
Tax	(4.8)	(5.5)	(5.7)	3.1	18.2	(10.2)	(15.7)	54.1	
<i>Tax rate (%)</i>	<i>24.0</i>	<i>19.1</i>	<i>27.4</i>	<i>8.3 ppt</i>	<i>3.4 ppt</i>	<i>24.0</i>	<i>22.9</i>	<i>(1.1 ppt)</i>	
MI	(0.3)	(2.3)	(0.2)	(92.7)	(49.4)	(0.7)	(3.9)	480.1	Within expectations
<b>Net profit</b>	<b>14.8</b>	<b>21.0</b>	<b>14.8</b>	<b>(29.3)</b>	<b>(0.1)</b>	<b>31.6</b>	<b>49.0</b>	<b>55.1</b>	
EPS (sen)	4.4	6.1	3.6	(41.9)	(17.9)	9.2	13.4	44.7	Excluding one-off items. Within expectations.
<b>Core net profit</b>	<b>14.7</b>	<b>14.7</b>	<b>16.7</b>	<b>13.2</b>	<b>13.6</b>	<b>31.4</b>	<b>44.6</b>	<b>41.9</b>	

Source: Affin Hwang estimates, Company

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Fig 2: Segmental results summary

FYE 31 Mar (RMm)	3QFY19	2QFY20	3QFY20	YoY (%)	YoY (%)	6MFY19	6MFY20	YoY (%)
<b>Segmental results</b>								
<b>Revenue</b>								
Construction services	68.6	40.2	60.1	49.3	(12.4)	191.2	140.3	(26.6)
Property development	18.7	19.3	14.0	(27.6)	(25.3)	30.5	69.7	129.0
Engineering services	12.4	11.9	23.2	94.1	87.1	32.7	46.9	43.6
Property investment	5.3	10.4	8.9	(14.3)	66.6	15.6	25.3	62.1
<b>Total</b>	<b>105.0</b>	<b>81.8</b>	<b>106.1</b>	<b>29.7</b>	<b>1.1</b>	<b>269.9</b>	<b>282.3</b>	<b>4.6</b>
<b>EBIT</b>								
Construction services	13.4	7.7	13.6	77.2	1.3	23.8	28.3	19.2
Property development	0.8	2.5	1.8	(26.5)	115.8	(1.5)	11.2	(834.4)
Engineering services	0.6	1.1	1.5	29.7	155.9	2.7	5.4	101.6
Property investment	4.4	16.1	6.3	(60.9)	44.2	13.7	27.5	100.0
<b>Total</b>	<b>19.2</b>	<b>27.4</b>	<b>23.1</b>	<b>(15.4)</b>	<b>20.7</b>	<b>38.7</b>	<b>72.4</b>	<b>87.1</b>
<b>EBIT margin %</b>								
Construction services	19.5	19.0	22.6	3.6 ppt	3.0 ppt	12.4	20.2	7.8 ppt
Property development	4.5	12.8	13.0	0.2 ppt	8.5 ppt	(5.0)	16.0	21.0 ppt
Engineering services	4.6	9.5	6.3	(3.2 ppt)	1.7 ppt	8.2	11.6	3.3 ppt
Property investment	82.0	155.6	71.0	(84.6 ppt)	(11.0 ppt)	88.0	108.6	20.6 ppt

Source: Affin Hwang estimates, Company

Fig 3: Change in RNAV and target price

Segments	Stake (%)	RNAV (RMm)
Construction @ PE 14x sustainable PAT of RM35m	100	490
Engineering @ PE 14x sustainable PAT of RM5m	100	70
Property development @ DCF (WACC 7.5%)	100	382
Property investment @ Market value	100	427
Net cash/(debt)		17
<b>RNAV</b>		<b>1,385</b>
No. of shares (m shrs)		427
<b>RNAV/share (RM)</b>		<b>3.24</b>
<b>Target price at 30% discount to RNAV/share</b>		<b>2.28</b>

Source: Affin Hwang estimates

## Important Disclosures and Disclaimer

### Equity Rating Structure and Definitions

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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