3 April 2020

Securities

AFFIN HWANG CAPITAL

Outthink. Outperform.

Delayed sales

AME Elite continues to attract multi-national corporations (MNCs) to its gated and guarded industrial parks in Johor. Sales jumped to RM137.4m in 9MFY20 compared to RM87.6m in FY19, even though travel restrictions imposed by the government led to delays in completing several land sales. Given the rising risk of a global economic downturn, we expect core EPS to fall 5% yoy in FY21E. This is still a relatively strong performance considering the high FY20E EPS base (+78% yoy). AME is among our top sector BUYs with a 12-month target price of RM1.52, based on 50% discount to RNAV.

Sales recognition delayed

AME indicated that 4 new customers from China were interested in setting up manufacturing plants in i-Park@Indahpura. However, the travel restrictions imposed by Malaysia led to a delay in signing the Sales and Purchase (S&P) agreements for the land sales. Hence, this will adversely affect property sales in 4QFY20. But we gather that the potential sales will go ahead and the delay in completing the sales only represents a timing difference in sales recognition. Hence, we expect core net profit to fall 32% qoq to RM11m in 4QFY20.

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 based in China, Singapore, Australia, Hong Kong, Japan and the US. Its remaining construction order book of RM349m and property unbilled sales of RM121m will shore up FY21E earnings. However, earnings growth will depend on the success rate for its current tenders of RM470m and sales of its remaining property gross development value (GDV) of RM1.5bn.

Good demand for new i-Park@SAC Phase

AME has commenced i-Park@SAC Phase 3 with gross development value of RM555m to meet rising demand. Recently, a pharmaceutical company based in Singapore agreed to set up a large manufacturing plant on a 7-acre site in i-Park@SAC. Given the rising demand for gated and guarded industrial properties, AME is exploring potential joint-venture opportunities with land owners to develop i-Park industrial parks in Penang and Selangor.

Among our top sector BUYs

We assume new contract wins of RM427m/100m/100m and property sales of RM140m/100m/140m in our FY20/21/22E earnings. We believe AME is relatively more resilient in replenishing its order book and sustaining property sales due to robust industrial property demand. Maintain BUY.

Earnings & Valuation Summary

FYE 31 Mar	2018	2019	2020E	2021E	2021E
Revenue (RMm)	341.3	339.0	357.1	406.2	401.3
EBITDA (RMm)	67.7	66.1	88.5	82.9	90.9
Pretax profit (RMm)	95.2	72.6	82.2	73.9	85.2
Net profit (RMm)	71.0	47.3	60.2	53.3	61.5
EPS (sen)	16.6	11.1	14.1	12.5	14.4
PER (x)	7.8	11.7	9.2	10.4	9.0
Core net profit (RMm)	42.9	31.5	55.9	53.3	61.5
Core EPS (sen)	10.0	7.4	13.1	12.5	14.4
Core EPS growth (%)	4.6	(26.6)	77.6	(4.6)	15.3
Core PER (x)	12.9	17.6	9.9	10.4	9.0
Net DPS (sen)	0.0	0.0	2.8	2.5	2.9
Dividend Yield (%)	0.0	0.0	2.2	1.9	2.2
EV/EBITDA (x)	9.8	10.1	6.1	6.4	5.3
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Company Update

AME Elite

AME MK
Sector: Construction & Infra

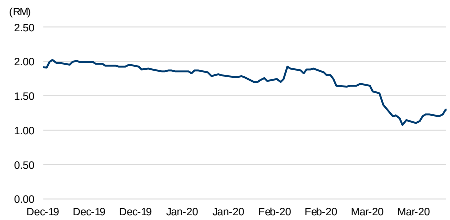
RM1.30 @ 2 April 2020

BUY (maintain)

Upside 17%

Price Target: RM1.52

Previous Target: RM1.52



Price Performance

	1M	3M	12M
Absolute	-20.2%	-31.6%	NA
Rel to KLCI	-12.1%	-17.6%	NA

Stock Data

Issued shares (m)	427.1
Mkt cap (RMm)/(US$m)	555.2/127.5
Avg daily vol - 6mth (m)	NA
52-wk range (RM)	1.01-2.05
Est free float	29.1%
BV per share (RM)	1.45
P/BV (x)	0.9
Net cash/(debt) (RMm) (3Q20)	(133)
ROE (FY20E)	11.7%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Lim Yook Kim	21.0%
Kang Ah Chee	21.3%
Lee Chai	21.3%
Lee Sai Boon	7.1%

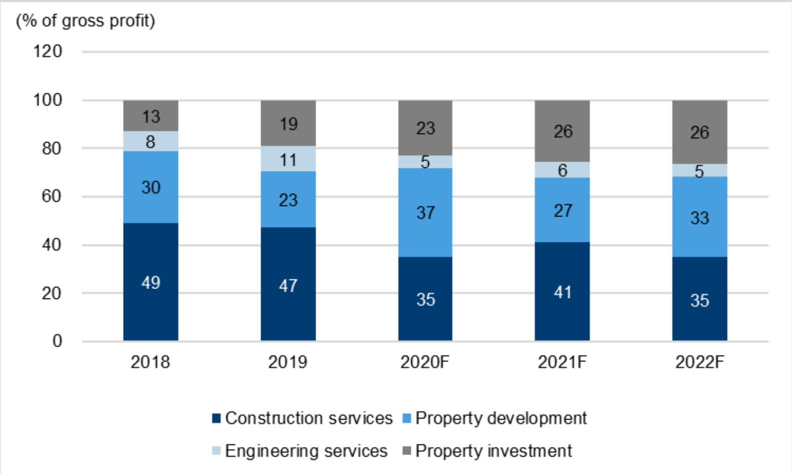
Source: Affin Hwang, Bloomberg

Loong Chee Wei, CFA
(603) 2146 7548
cheewei.loong@affinhwang.com

Growing property investment income

AME is growing its recurring income base by expanding its investment property portfolio. The completion of a manufacturing plant with a long-term lease to a MNC manufacturing household products and higher rental income for its workers' dormitories lifted property investment revenue by 70% yoy to RM25.3m while core operating profit grew 48% to RM20.3m in 9MFY20. We expect its property investment division to contribute 23-27% of group gross profit in FY20-22E compared to 19% of group gross profit in FY19.

Fig 1: Segmental gross profit breakdown



Source: Affin Hwang estimates, Company

Investment properties provide recurrent earnings

We believe its property investment income stream is secure as its portfolio of 34 tenanted/leased industrial properties and 2 integrated workers' dormitories are leased mostly to MNCs; 53% of the units have leasing periods of over 5 years while the remaining units are less than 5 years. It currently owns 44 industrial properties comprising 27 investment properties and 17 inventory units, with an indicated occupancy rate of 77%. Currently, none of its tenants has asked for a rental rebate despite not operating during the Movement Control Order (MCO) imposed by the government until 14 April 2020 to counter the Covid-19 outbreak.

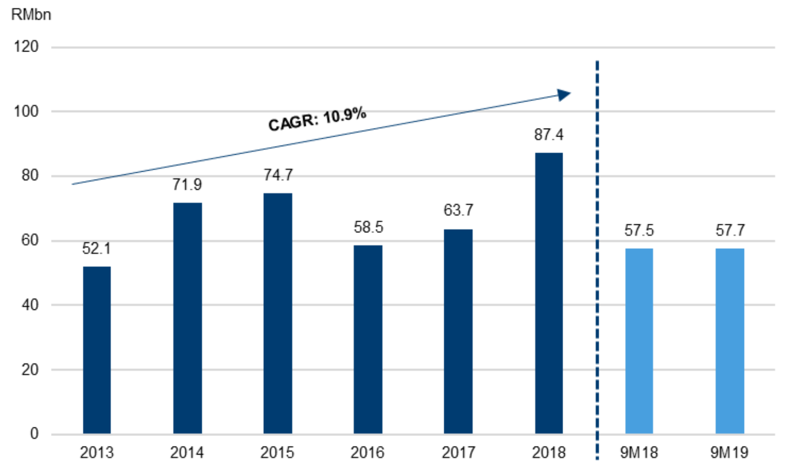
Strength in integrated business model

AME's integrated construction/property development/property investment business model provides its customers with a one-stop shop and efficient services to set up operations in its i-Parks. This proposition is attractive especially for MNCs that are unfamiliar with local construction and property ownership laws. The business model also allows AME to maximise the value of its land bank, as unsold inventory units can be leased to generate rental income and realise the property value by selling them in the future. Its investment properties have total book value of RM497m or RM1.16/share.

Beneficiary of rising manufacturing investments

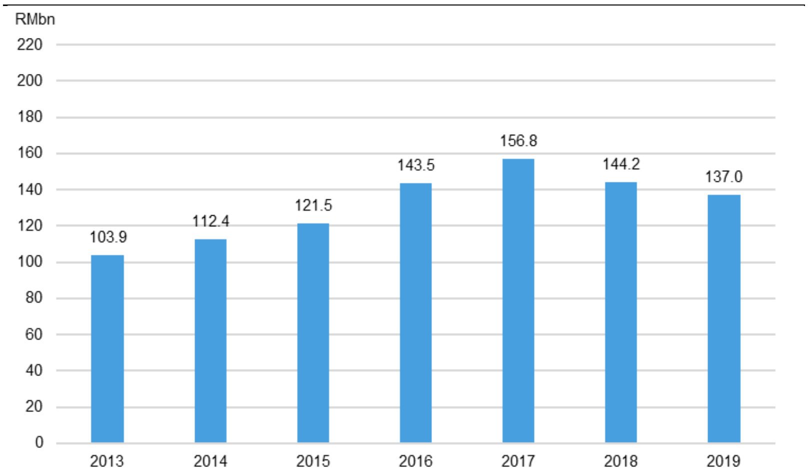
Malaysia remains an attractive destination for manufacturing investments due to its location in the centre of Southeast Asia, with good infrastructure, a wide international transportation network and relatively low land cost. The US-China trade war and Covid-19 outbreak that started in Wuhan, China, highlight the need for MNCs and China-based companies to diversify their manufacturing operations geographically to reduce single-country risk. The sustained growth in approved investment in the manufacturing sector in Malaysia highlights the country's popularity as a manufacturing hub, though gross foreign direct investment has declined over the past 2 years.

Fig 2: Approved investment in manufacturing sector



Source: Malaysia Investment Development Authority (MIDA)

Fig 3: Gross foreign direct investment



Source: Malaysia Investment Development Authority (MIDA)

Flat gross profit in FY21E

We expect revenue growth of 14% yoy to RM406m in FY21E, accelerating from 5% yoy growth in FY20E. This is driven by its higher construction and engineering progress billings in FY21E, while we expect property development revenue to decline on weaker sales. We expect gross profit to be flat despite higher revenue due to a lower average gross margin since the revenue growth will be mainly driven by its relatively low-margin construction and engineering divisions, while its high-margin property development division will likely see lower revenue. Its remaining construction order book of RM349m and property unbilled sales of RM121m will shore up FY21E earnings, in our opinion.

Fig 4: Segmental revenue and gross profit breakdown

FYE 31 Mar (RMm)	2018	2019	2020E	2021E	2022E
Revenue					
Construction services	214.0	233.7	207.2	267.9	240.6
Property development	85.4	43.1	93.2	71.3	93.1
Engineering services	26.4	40.7	24.0	31.0	27.8
Property investment	15.4	21.5	32.8	36.1	39.7
Total	**341.3**	**339.0**	**357.1**	**406.2**	**401.3**
Gross profit					
Construction services	45.5	44.5	41.4	48.2	43.3
Property development	27.6	21.7	43.3	31.3	41.1
Engineering services	7.7	10.1	6.0	7.4	6.7
Property investment	11.9	17.8	27.1	29.8	32.8
Total	**92.7**	**94.1**	**117.8**	**116.7**	**123.9**
Gross profit margin (%)					
Construction services	21.3	19.0	20.0	18.0	18.0
Property development	32.3	50.3	46.5	43.9	44.2
Engineering services	29.0	24.9	25.0	24.0	24.0
Property investment	77.3	82.6	82.6	82.6	82.6
Average	**27.2**	**27.7**	**33.0**	**28.7**	**30.9**

Source: Affin Hwang estimates, Company

Low net gearing

AME's net gearing improved to 20.4% as at end-2019 from 42.7% as at 30 September 2019 after receiving net IPO proceeds of RM108m. Its improved financial position will allow the group to weather the expected recession in 2020. AME has a dividend policy of paying out at least 20% of its PAT (excluding fair-value gains on investment properties). Based on the minimum payout ratio of 20%, we expect DPS of RM0.028/0.025/0.029 in FY20/21/22E. Net yield of about 2% is reasonable as we consider AME as a growth stock.

Top small-cap sector BUY

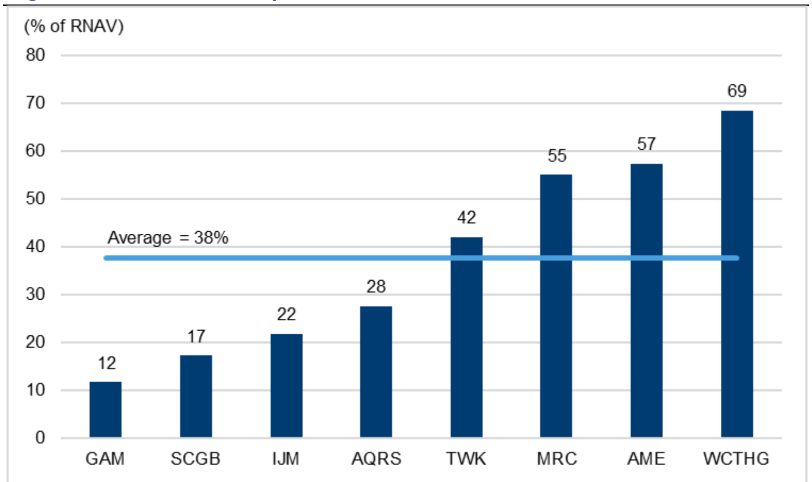
AME is one of our top small-cap sector BUYs as it is a beneficiary of robust demand for industrial properties in Malaysia. We believe AME's construction business is more resilient in the current cyclical downturn as it does not rely on government projects. It has a niche in industrial building construction and the expertise to build large manufacturing plants. We believe current CY20E PER of 9x is attractive compared to the construction sector weighted-average PER (excluding Gamuda, IJM, MRCB) of 13x. Our target price of RM1.52 is based on 50% discount to RNAV/share of RM3.05. The 50% discount to RNAV applied to AME is higher than our construction sector average of 38% given AME's relatively smaller size.

Fig 5: 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	297
Property investment @ Market value	100	427
Net cash/(debt)		19
RNAV		**1,303**
No. of shares (m shrs)		427
RNAV/share (RM)		**3.05**
Target price at 50% discount to RNAV/share		**1.52**

Source: Affin Hwang estimates

Fig 6: Construction share price discount to RNAV



Source: Affin Hwang estimates

Fig 7: Construction peer comparison

Company Name	Stock Code	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RMbn)	Year end	Core PE (x) CY20E	Core PE (x) CY21E	Core EPS growth (%) CY20E	Core EPS growth (%) CY21E	P/BV (x) CY20E	ROE (%) CY20E	Div Yield CY20E	RNAV/ share	Sh Pr discount to RNAV	TP Discount to RNAV
GAMUDA	GAM MK	SELL	2.91	2.04	7.3	Jul	12.6	13.6	(12.8)	(6.9)	0.9	6.9	4.1	3.30	12	40
IJM CORP	IJM MK	SELL	1.61	1.24	5.8	Mar	28.7	27.6	(27.1)	4.2	0.5	1.8	1.9	2.06	22	40
MRCB	MRC MK	SELL	0.40	0.31	1.8	Dec	86.5	91.0	(159.6)	(5.0)	0.4	0.4	4.4	0.89	55	65
WCT	WCTHG MK	HOLD	0.39	0.37	0.5	Dec	8.1	5.3	(42.9)	44.7	0.2	2.0	4.4	1.24	69	70
SUNWAY CONSTRUCTIOI	SCG MK	BUY	1.58	1.72	2.0	Dec	15.2	15.3	0.5	(0.3)	3.1	20.1	4.4	1.91	17	10
AME ELITE	AME MK	BUY	1.30	1.52	0.6	Mar	10.3	9.3	8.4	10.2	0.8	8.3	2.0	3.05	57	50
GABUNGAN AQRS	AQRS MK	HOLD	0.81	0.78	0.4	Dec	10.3	10.5	14.0	(1.9)	1.2	7.3	4.9	1.12	28	30
PINTARAS	PINT MK	HOLD	2.45	2.33	0.4	Jun	7.7	8.1	8.6	(5.6)	1.1	14.9	7.3	NA	NA	NA
TALIWORKS	TWK MK	BUY	0.74	1.02	1.5	Dec	16.9	22.4	76.2	(24.3)	1.5	8.9	9.0	1.27	42	20
HSS ENGINEERING	HSS MK	HOLD	0.39	0.32	0.2	Dec	22.2	20.8	574.3	6.8	0.9	3.9	0.0	NA	NA	NA
Average					**20.5**		**16.4**	**16.7**	**(7.5)**	**(1.8)**	**1.1**	**4.1**	**4.2**		**38**	**41**
Avg ex Gamuda, MRCB, IJM					**5.6**		**12.7**	**12.3**	**1.2**	**10.2**						

Source: Affin Hwang estimates

Key risks

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

AME Elite – FINANCIAL SUMMARY

Profit & Loss Statement

FYE 31 Mar (RMm)	2018	2019	2020E	2021E	2022E
Revenue	**341.3**	**339.0**	**357.1**	**406.2**	**401.3**
Operating expenses	(273.6)	(272.9)	(268.6)	(323.3)	(310.4)
EBITDA	**67.7**	**66.1**	**88.5**	**82.9**	**90.9**
Depreciation	(5.6)	(5.4)	(5.7)	(6.1)	(6.5)
EBIT	**62.1**	**60.7**	**82.7**	**76.8**	**84.4**
Net int income/(expense)	(0.4)	(3.4)	(4.9)	(2.9)	0.7
Associates' contribution	5.5	(0.6)	0.0	0.0	0.0
Forex gain/(loss)	0.0	0.0	(0.0)	0.0	0.0
Exceptional gain/(loss)	28.1	15.9	4.3	0.0	0.0
Pretax profit	**95.2**	**72.6**	**82.2**	**73.9**	**85.2**
Tax	(17.0)	(21.6)	(15.6)	(14.8)	(17.0)
Minority interest	(7.2)	(3.6)	(6.4)	(5.7)	(6.6)
Net profit	**71.0**	**47.3**	**60.2**	**53.3**	**61.5**
Core net profit	**42.9**	**31.5**	**55.9**	**53.3**	**61.5**

Balance Sheet Statement

FYE 31 Mar (RMm)	2018	2019	2020E	2021E	2022E
Fixed assets	77.3	95.4	109.6	123.5	137.1
Other long term assets	292.9	322.9	370.1	363.1	355.3
Total non-current asse	**370.2**	**418.3**	**479.8**	**486.7**	**492.4**
Cash and equivalents	109.8	102.5	334.3	336.2	379.1
Stocks	231.6	234.1	214.3	259.3	248.5
Debtors	142.5	134.3	126.2	143.5	141.8
Other current assets	3.4	4.3	4.3	4.3	4.3
Total current assets	**487.3**	**475.1**	**679.0**	**743.3**	**773.6**
Creditors	162.2	159.5	163.7	198.0	189.8
Short term borrowings	0.0	0.0	0.0	1.0	2.0
Other current liabilities	89.8	82.9	26.2	20.6	15.9
Total current liabilities	**252.0**	**242.4**	**189.9**	**219.6**	**207.7**
Long term borrowings	0.0	0.0	0.0	1.0	2.0
Other long term liabilities	209.8	214.3	316.0	315.0	314.0
Total long term liabiliti	**209.8**	**214.3**	**316.0**	**316.0**	**316.0**
Minority interests	**26.6**	**30.3**	**32.0**	**32.0**	**32.0**
Shareholders' Funds	**369.1**	**406.4**	**621.4**	**664.0**	**713.3**

Cash Flow Statement

FYE 31 Mar (RMm)	2018	2019	2020E	2021E	2022E
PAT	71.0	47.3	60.2	53.3	61.5
Depreciation & Amortisati	5.6	5.4	5.7	6.1	6.5
Working capital changes	48.7	0.1	(18.9)	(28.0)	4.3
Others	(25.1)	(6.9)	6.4	5.7	6.6
Cashflow from operati	**100.2**	**45.9**	**53.4**	**37.2**	**78.9**
Capex	(16.4)	(23.5)	(20.0)	(20.0)	(20.0)
Disposal/(purchases)	3.9	0.7	0.0	0.0	0.0
Others	(41.6)	(17.8)	0.0	0.0	0.0
Cash flow from invest	**(54.1)**	**(40.6)**	**(20.0)**	**(20.0)**	**(20.0)**
Debt raised/(repaid)	(31.2)	(3.9)	99.2	(4.6)	(3.7)
Net interest income/(exp)	(0.4)	(3.4)	(4.9)	(2.9)	0.7
Dividends paid	(10.3)	(10.0)	(12.0)	(10.7)	(12.3)
Others	(9.0)	5.0	116.0	2.9	(0.7)
Cash flow from financi	**(51.0)**	**(12.2)**	**198.4**	**(15.3)**	**(16.0)**
Free Cash Flow	**83.7**	**22.4**	**33.4**	**17.2**	**58.9**

Key Financial Ratios and Margins

FYE 31 Mar (RMm)	2018	2019	2020E	2021E	2022E
Growth					
Revenue (%)	14.2	(0.7)	5.3	13.7	(1.2)
EBITDA (%)	18.9	(2.4)	33.9	(6.3)	9.7
Core net profit (%)	4.6	(26.6)	77.6	(4.6)	15.3
Profitability					
EBITDA margin (%)	19.8	19.5	24.8	20.4	22.7
PBT margin (%)	27.9	21.4	23.0	18.2	21.2
Net profit margin (%)	20.8	14.0	16.9	13.1	15.3
Effective tax rate (%)	17.9	29.8	19.0	20.0	20.0
ROA (%)	8.6	5.4	5.9	4.5	4.9
Core ROE (%)	12.7	8.1	10.9	8.3	8.9
ROCE (%)	11.6	9.9	11.0	8.2	8.5
Dividend payout ratio (%)	0.0	0.0	20.0	20.0	20.0
Liquidity					
Current ratio (x)	1.9	2.0	3.6	3.4	3.7
Op. cash flow (RMm)	100.2	45.9	53.4	37.2	78.9
Free cashflow (RMm)	83.7	22.4	33.4	17.2	58.9
FCF/share (sen)	20.5	5.4	7.8	4.0	13.8
Asset management					
Debtors turnover (days)	161.9	149.0	129.0	129.0	129.0
Stock turnover (days)	343.5	347.0	327.0	327.0	327.0
Creditors turnover (days)	211.7	239.7	249.7	249.7	249.7
Capital structure					
Net gearing (%)	0.3	0.3	net cash	net cash	net cash

Quarterly Profit & Loss

FYE 31 Mar (RMm)	1Q20	2Q20	3Q20
Revenue	**94.4**	**81.8**	**106.1**
Operating expenses	(71.6)	(58.9)	(79.7)
EBITDA	**22.8**	**22.9**	**26.4**
Depreciation	(1.4)	(1.6)	(1.6)
EBIT	**21.4**	**21.3**	**24.8**
Net int income/(expense)	(3.5)	(2.4)	(2.4)
Associates' contribution	1.1	3.7	0.1
Forex gain/(loss)	0.0	(0.0)	0.0
Exceptional items	0.0	6.2	(1.9)
Pretax profit	**19.1**	**28.8**	**20.7**
Tax	(4.5)	(5.5)	(5.7)
Minority interest	(1.4)	(2.3)	(0.2)
Net profit	**13.1**	**21.0**	**14.8**
Core net profit	**13.1**	**14.7**	**16.7**
Margins (%)			
EBITDA	24.2	28.0	24.9
PBT	20.2	35.2	19.5
Net profit	13.9	25.6	14.0

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

This report is printed and published by:
Affin Hwang Investment Bank Berhad (14389-U)
A Participating Organisation of Bursa Malaysia Securities Berhad

22nd Floor, Menara Boustead,
69, Jalan Raja Chulan,
50200 Kuala Lumpur, Malaysia.

T : + 603 2142 3700
F : + 603 2146 7630
research@affinhwang.com

www.affinhwang.com