

Outthink. Outperform.

Going strong

We hosted a conference call for AME Elite. Good institutional investor interest with 14 investors from 10 firms participated in the call. Despite the government's Movement Control Order (MCO), AME has been able to close new property sales through alternative channels. It is exploring opportunities to expand its land bank in Johor given its low net gearing of 20% at end-2019. AME continues to see enquiries for potential sales at i-Park. We reiterate our BUY call and lift our 12-month target price (TP) to RM1.84, based on a lower 40% discount to RNAV.

Sales through alternative channels

AME secured some property sales in 4QFY20 despite the MCO and the closure of its show galleries. It managed to finalise sales negotiations with potential customers through video conference calls. AME achieved RM137m sales in 9MFY20, which exceeded the RM88m sales in FY19, driven by strong demand for gated and guarded industrial properties at its i-Park@Senai Airport City (SAC) and i-Park@Indahpura projects.

Tender for new contracts

AME clinched a construction contract in 4QFY20 from a new customer. Remaining construction and engineering order book of about RM300m will sustain its activities in FY21. It has submitted tenders worth RM470m to replenish its order book. Conservatively, we have assumed AME will secure RM100m p.a. new contracts in FY21-22E. We estimate that every RM100m of additional contracts will lift core EPS by 2.4% in FY21E.

Looking to expand land bank

We gather that AME is looking to expand its land bank in Johor and forming joint ventures for industrial property development in Klang Valley. It is currently negotiating for potential land purchase measuring about 100 acres. This will expand its remaining property development land bank of approximately 115 acres with gross development value of RM1.2bn currently. Its low net gearing of 20% currently allows AME to capitalise on the current property downturn to expand its land bank and support the expansion of its property division.

Among our top sector BUYs

We fine-tune our core EPS forecasts to reflect the delay in progress billings in FY20E to FY21E due to the MCO. Applying a narrower 40% discount to RNAV (50% previously), we lift our TP to RM1.84 from RM1.52 previously. We believe this is justified as the Construction Sector's average share price discount to RNAV narrowed to 32% currently. Maintain BUY on AME.

Earnings & Valuation Summary

FYE 31 Mar	2018	2019	2020E	2021E	2022E
Revenue (RMm)	341.3	339.0	323.0	448.4	406.3
EBITDA (RMm)	67.7	66.1	85.4	86.9	91.5
Pretax profit (RMm)	95.2	72.6	79.1	77.9	85.4
Net profit (RMm)	71.0	47.3	58.0	56.3	61.7
EPS (sen)	16.6	11.1	13.6	13.2	14.5
PER (x)	9.2	13.8	11.3	11.6	10.6
Core net profit (RMm)	42.9	31.5	53.7	56.3	61.7
Core EPS (sen)	10.0	7.4	12.6	13.2	14.5
Core EPS growth (%)	4.6	(26.6)	70.6	4.7	9.7
Core PER (x)	15.2	20.8	12.2	11.6	10.6
Net DPS (sen)	0.0	0.0	2.7	2.6	2.9
Dividend Yield (%)	0.0	0.0	1.8	1.7	1.9
EV/EBITDA (x)	11.3	11.6	7.4	7.5	6.4
Chg in EPS (%)			(3.9)	5.4	0.3
Affin/Consensus (x)			NA	NA	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Company Update

AME Elite

AME MK
Sector: Construction & Infra

RM1.53 @ 23 April 2020

BUY (maintain)

Upside 20%

Price Target: RM1.84

Previous Target: RM1.52



Price Performance

	1M	3M	12M
Absolute	39.1%	-15.5%	NA
Rel to KLCI	26.8%	-3.7%	NA

Stock Data

Issued shares (m)	427.1
Mkt cap (RMm)/(US\$m)	635.5/149.9
Avg daily vol - 6mth (m)	1.8
52-wk range (RM)	1.01-2.05
Est free float	29.3%
BV per share (RM)	1.45
P/BV (x)	1.1
Net cash/(debt) (RMm) (3Q20)	(133)
ROE (FY20E)	11.7%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

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

Source: Affin Hwang, Bloomberg

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

Outthink. Outperform.

Potential sales from enquiries

AME has received enquiries to purchase about RM100-150m worth of its properties and is working on generating new sales. Many are repeat customers looking to expand their operations and hence AME does not need to market its product aggressively, as they are familiar with AME's property products and services. We gather that new enquiries are mainly from the Electrical and Electronics (E&E) industries from Japan and China. A Europe-based company is also looking to expand its E&E plant in AME's i-Park@SAC project and is currently negotiating to purchase land and building from AME. Property unbilled sales of RM121m at end-9MFY20 will sustain property earnings in FY21.

Received approval to resume some operations

We understand that AME has received the approval from the Ministry of International Trade and Industries (MITI) to resume operations during MCO for its engineering and property development divisions. However, its construction division's application to resume operation was denied as AME is located in a red zone for Covid-19 infections. AME is appealing MITI's decision as some of its projects have achieved over 90% completion and its multinational companies have strict time lines to meet in commissioning their new plants and avoid supply chain disruptions.

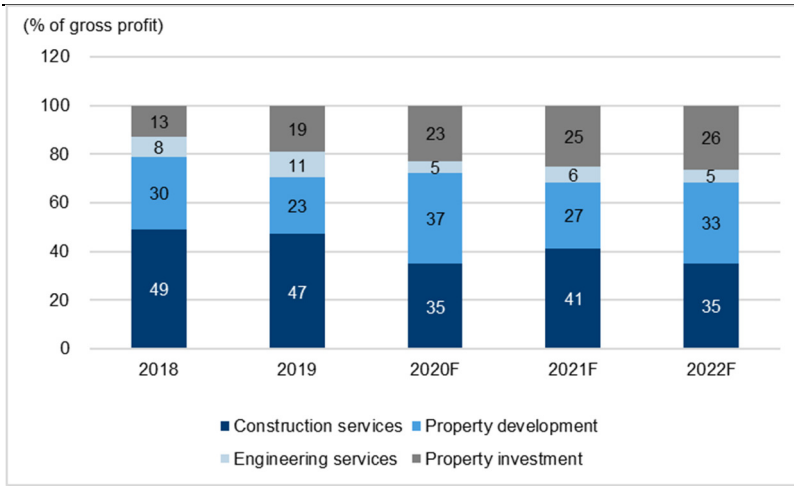
Likely sustain earnings despite MCO

We believe AME will likely remain profitable in 4QFY20 despite the MCO started on 18 March 2020. Its fixed cost is relatively low at about RM5.2m per month, of which cash cost is about RM3.6m per month. This is partly offset by recurring rental income of about RM2.8m per month from leasing its investment properties. Furthermore, it was able to clinch RM8m in property sales in 4QFY20 and will potentially recognise a fair-value gain on its new land bank in i-Park@SAC. However, construction and engineering operations were adversely affected by slow progress billings due to the festive season and MCO in 4QFY20.

Growing property investment income

AME is growing its recurring income base by expanding its investment property portfolio. It is looking to develop investment properties to be identified in i-Park@SAC Phase 3, which will comprise about 20% of total GDV of RM555m or about RM100m. The new investment properties will be developed within 5 years. We have not factored in any earnings contribution from potential new investment properties in our earnings forecasts. We expect its property investment division to contribute 23-26% 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

Among top small-cap sector BUYs

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.

Raise target price to RM1.84

We believe current CY20E PER of 12x is attractive compared to the construction sector weighted-average PER (excluding Gamuda, IJM, MRCB) of 15x. We lift our RNAV/share estimate marginally to RM3.07 from RM3.05 previously to reflect the estimated fair-value gain of RM6-8m for its new factory investment property and land bank. Applying a narrower 40% discount to RNAV (50% previously), we raise our 12-month TP to RM1.84 from RM1.52 previously. This is in line with the Construction Sector's average share price discount to RNAV narrowing to 32% from 38% over the past month. The 40% discount to RNAV applied to AME is higher than our construction sector average of 32% currently, given AME's relatively smaller size.

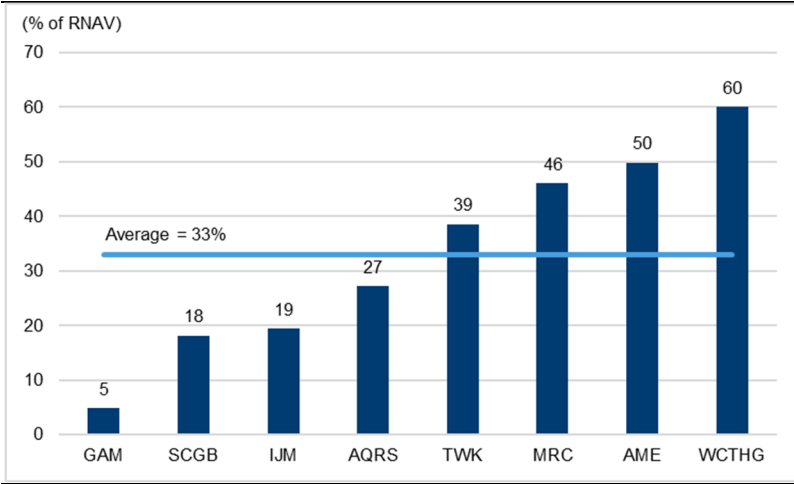
Fig 2: RNAV and target price

Segments	Stake (%)	RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 14x sustainable PAT of RM35m	100	490	490	0
Engineering @ PE 14x sustainable PAT of RM5m	100	70	70	0
Property development @ DCF (WACC 7.5%)	100	298	297	0
Property investment @ Market value	100	434	427	2
Net cash/(debt)		17	19	(9)
RNAV		1,309	1,303	1
No. of shares (m shrs)		427	427	0
RNAV/share (RM)		3.07	3.05	1
Target price at 40% discount to RNAV/share		1.84	1.52	21

Source: Affin Hwang estimates

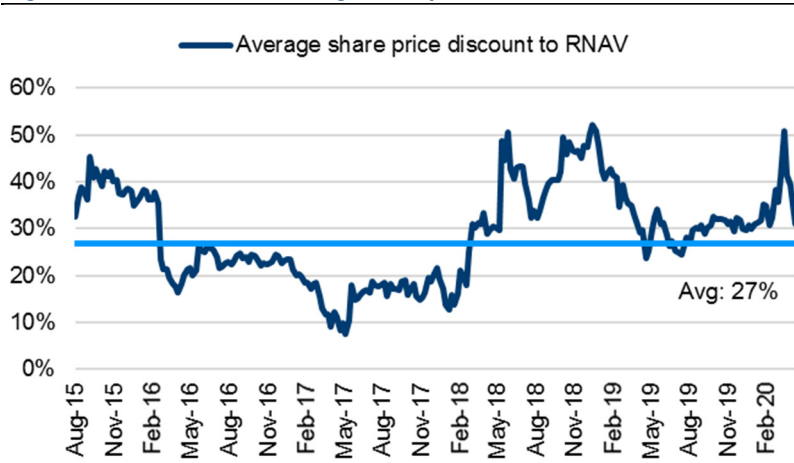
Outthink. Outperform.

Fig 3: Construction share price discount to RNAV



Source: Affin Hwang estimates

Fig 4: Construction Sector average share price discount to RNAV



Source: Affin Hwang estimates

Fig 5: Construction peer comparison

Company Name	Stock Code	Rating	Share Pr	TP	Mkt Cap	Year end	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)	RNAV/share	Sh Pr discount to RNAV	TP Discount to RNAV		
			(RM)	(RM)	(RMbn)		CY20E	CY21E	CY20E	CY21E	CY20E	CY20E	CY20E	CY20E	CY20E		
GAMUDA	GAM MK	SELL	3.21	2.04	8.1	Jul	13.9	15.0	(12.8)	(6.9)	12.8	1.0	6.9	3.7	3.30	3	40
UM CORP	IJM MK	SELL	1.65	1.24	6.0	Mar	29.5	28.3	(27.1)	4.2	11.2	0.5	1.8	1.8	2.06	20	40
MRCB	MRC MK	SELL	0.50	0.31	2.2	Dec	107.0	112.7	(159.6)	(5.0)	35.1	0.5	0.4	3.5	0.89	44	65
WCT	WCTHG MK	HOLD	0.50	0.37	0.7	Dec	10.4	6.9	(42.9)	44.7	10.3	0.2	2.0	3.4	1.24	60	70
SUNWAY CONSTRUCTION	SCGB MK	BUY	1.76	1.94	2.3	Dec	19.2	17.1	(11.3)	12.4	10.0	3.4	17.8	3.4	2.15	18	10
AMELITE	AME MK	BUY	1.53	1.84	0.7	Mar	12.0	10.9	8.4	9.8	7.3	1.0	8.3	1.7	3.07	50	40
GABUNGAN AQRS	AQRS MK	HOLD	0.84	0.78	0.4	Dec	10.6	10.8	14.0	(1.9)	10.1	1.3	7.3	4.8	1.12	25	30
PINTARAS	PINT MK	HOLD	2.65	2.33	0.4	Jun	8.3	8.8	8.6	(5.6)	3.5	1.2	14.9	6.8	NA	NA	NA
TALWORKS	TWK MK	BUY	0.80	1.02	1.6	Dec	18.4	24.4	76.2	(24.3)	13.0	1.6	8.9	8.3	1.27	37	20
HSS ENGINEERING	HSS MK	HOLD	0.43	0.32	0.2	Dec	24.8	23.2	574.3	6.8	9.7	1.0	3.9	0.0	NA	NA	NA
Average					22.5		18.3	18.4	(8.6)	(0.6)	12.1	1.2	4.1	3.7	32	39	
Avg ex Gamuda, MRCB, IJM					6.3		14.7	13.7	(2.4)	14.5	9.7	1.4	6.3	4.1	38	34	

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.

Outthink. Outperform.

AME Elite – FINANCIAL SUMMARY

Profit & Loss Statement

FYE31 Mar (RMm)	2018	2019	2020E	2021E	2022E
Revenue	341.3	339.0	323.0	448.4	406.3
Operating expenses	(273.6)	(272.9)	(237.6)	(361.5)	(314.8)
EBITDA	67.7	66.1	85.4	86.9	91.5
Depreciation	(5.6)	(5.4)	(5.7)	(6.1)	(6.5)
EBIT	62.1	60.7	79.7	80.8	85.1
Net int income/(expense)	(0.4)	(3.4)	(4.9)	(2.9)	0.4
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	79.1	77.9	85.4
Tax	(17.0)	(21.6)	(15.0)	(15.6)	(17.1)
Minority interest	(7.2)	(3.6)	(6.1)	(6.0)	(6.6)
Net profit	71.0	47.3	58.0	56.3	61.7
Core net profit	42.9	31.5	53.7	56.3	61.7

Balance Sheet Statement

FYE31 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	370.8	364.7	358.0
Total non-current assets	370.2	418.3	480.4	488.2	495.1
Cash and equivalents	109.8	102.5	332.5	314.7	377.3
Stocks	231.6	234.1	189.5	289.8	252.0
Debtors	142.5	134.3	131.8	158.4	143.6
Other current assets	3.4	4.3	4.3	4.3	4.3
Total current assets	487.3	475.1	658.1	767.2	777.1
Creditors	162.2	159.5	144.7	221.3	192.5
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	170.9	242.9	210.3
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 liabilities	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	619.6	664.6	714.0

Cash Flow Statement

FYE31 Mar (RMm)	2018	2019	2020E	2021E	2022E
PAT	71.0	47.3	58.0	56.3	61.7
Depreciation & Amortisation	5.6	5.4	5.7	6.1	6.5
Working capital changes	48.7	0.1	(18.7)	(50.3)	23.8
Others	(25.1)	(6.9)	6.1	6.0	6.6
Cashflow from operation	100.2	45.9	51.2	18.1	98.6
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 investing	(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)	0.4
Dividends paid	(10.3)	(10.0)	(11.6)	(11.3)	(12.3)
Others	(9.0)	5.0	116.0	2.9	(0.4)
Cash flow from financing	(51.0)	(12.2)	198.8	(15.9)	(16.0)
Free Cash Flow	83.7	22.4	31.2	(1.9)	78.6

Source: Affin Hwang estimates, company

Key Financial Ratios and Margins

FYE31 Mar (RMm)	2018	2019	2020E	2021E	2022E
Growth					
Revenue (%)	14.2	(0.7)	(4.7)	38.8	(9.4)
EBITDA (%)	18.9	(2.4)	29.3	1.7	5.3
Core net profit (%)	4.6	(26.6)	70.6	4.7	9.7
Profitability					
EBITDA margin (%)	19.8	19.5	26.5	19.4	22.5
PBT margin (%)	27.9	21.4	24.5	17.4	21.0
Net profit margin (%)	20.8	14.0	18.0	12.5	15.2
Effective tax rate (%)	17.9	29.8	18.9	20.0	20.0
ROA (%)	8.6	5.4	5.7	4.7	4.9
Core ROE (%)	12.7	8.1	10.5	8.8	9.0
ROCE (%)	11.6	9.9	10.6	8.7	8.5
Dividend payout ratio (%)	0.0	0.0	20.0	20.0	20.0

Liquidity

Current ratio (x)	1.9	2.0	3.8	3.2	3.7
Op. cash flow (RMm)	100.2	45.9	51.2	18.1	98.6
Free cashflow (RMm)	83.7	22.4	31.2	(1.9)	78.6
FCF/share (sen)	20.5	5.4	7.3	(0.4)	18.4

Asset management

Debtors turnover (days)	161.9	149.0	149.0	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

FYE31 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 intended for information purposes only and has been prepared by Affin Hwang Investment Bank Berhad (14389-U) ("the Company") based on sources believed to be reliable and is not to be taken in substitution for the exercise of your judgment. You should obtain independent financial, legal, tax or such other professional advice, when making your independent appraisal, assessment, review and evaluation of the company/entity covered in this report, and the extent of the risk involved in doing so, before investing or participating in any of the securities or investment strategies or transactions discussed in this report. However, such sources have not been independently verified by the Company, and as such the Company does not give any guarantee, representation or warranty (expressed or implied) as to the adequacy, accuracy, reliability or completeness of the information and/or opinion provided or rendered in this report. Facts, information, estimates, views and/or opinion presented in this report have not been reviewed by, may not reflect information known to, and may present a differing view expressed by other business units within the Company, including investment banking personnel and the same are subject to change without notice. Reports issued by the Company, are prepared in accordance with the Company's policies for managing conflicts of interest. Under no circumstances shall the Company, be liable in any manner whatsoever for any consequences (including but are not limited to any direct, indirect or consequential losses, loss of profit and damages) arising from the use of or reliance on the information and/or opinion provided or rendered in this report. Under no circumstances shall this report be construed as an offer to sell or a solicitation of an offer to buy any securities. The Company its directors, its employees and their respective associates may have positions or financial interest in the securities mentioned therein. The Company, its directors, its employees and their respective associates may further act as market maker, may have assumed an underwriting commitment, deal with such securities, may also perform or seek to perform investment banking services, advisory and other services relating to the subject company/entity, and may also make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The Company, its directors, its employees and their respective associates, may provide, or have provided in the past 12 months investment banking, corporate finance or other services and may receive, or may have received compensation for the services provided from the subject company/entity covered in this report. No part of the research analyst's compensation or benefit was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Employees of the Company may serve as a board member of the subject company/entity covered in this report.

Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

This report, or any portion thereof may not be reprinted, sold or redistributed without the written consent of the Company.

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