

Company Update

26 June 2020

AME Consortium Berhad

BUY

Resilience amid headwinds

Maintained

Share Price	RM1.69
Target Price	RM2.02

Results

Company Description

AME Elite Consortium Berhad provides real estate services. The Company offers property management, development, construction, and engineering solutions. AME Elite Consortium serves customers in Malaysia.

Stock Data

Bursa / Bloomberg code	5293 / AME MK
Board / Sector	Main / Construction & Materials
Syariah Compliant status	Yes
Issued shares (m)	427.12
Par Value (RM)	N/A
Market cap. (RMm)	721.82
52-week price Range	1.01-2.05
Beta (against KLCI)	N/A
3-m Average Daily Volume	0.79
3-m Average Daily Value [^]	1.21

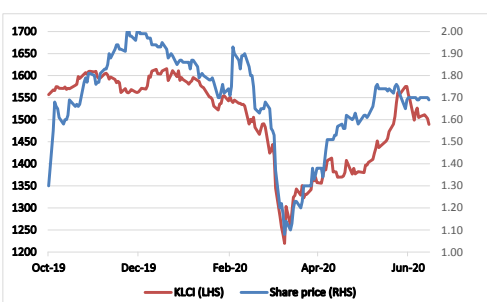
Share Performance

	1m	3m	12m
Absolute (%)	-2.9	37.4	--
Relative (%-pts)	-6.3	-25.3	--

Major Shareholders

Shareholder	%
Lee Chai	21.26
Kang Ah Chee	21.00
Lim Yook Kim	21.00

Historical Chart



Source: Bloomberg

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- **AME posted a reported net profit of RM14.8m for its 4QFY20 result as compared to a net profit of RM15.8m for its 4QFY19.**

- **Dividend declared.** The Group has declared a 3 sen interim dividend for its FY20, which was slightly above our forecast of 2.7 sen.

- **Subdued QoQ earnings.** The lower revenue/profit contributions from Construction (-25%/-59%) and Engineering (-8%/-107%) delivered a weaker revenue of RM98.1m (-7%) and operating profit of RM21.5m (-6%). The battered performance was caused by MCO started on 18 March as well as higher cost incurred to adhere SOP across all segments post MCO. Thus, adjusted net profit (excluding fair value gain) slid to RM8.6m (-42%) from RM14.8m.

- **Cheerful YoY performance.** The better yoy performance was due to revenue/profit improvements of Construction (+6%/+10%) and Property Investment & Management Services (+59%/+160%). The higher rental income was driven by additional units of factory leased by tenants and higher rental income generated from the workers' dormitories. In addition, the Group also achieved higher share of JV profit pursuant to better sales in its industrial properties. Overall, the Group's adjusted net profit improved to RM8.6m from adjusted net loss RM0.6m (excluding fair value gain).

- **12MFY20 below expectations.** The Group recorded higher revenue (+12% yoy) and operating profit (+22%) mainly driven by Property Development (topline: +114% / bottomline: +210%). The Group's operating profit elevated to RM93.4m, +22%, despite higher distribution (+21%) and administration (+18%) expenses. Moreover, the turnaround of share of JV profit (industrial properties sales) in FY20 also helped to lift the bottom line. As a result, FY20 adjusted net profit surged to RM50.3m, which rose 62%. We deem the Group's 12MFY20 result below our expectation, matching 88% of our full year net earnings forecast. Nevertheless, the Group's full year revenue of RM380.3m was within our forecast of RM369.5m.

Comment

- **Managing crisis effectively.** We are of the view that AME shall weather the COVID-19 crisis well on the back of its resilient business model. The Group managed to be profitable in 4QFY20 despite profits of its Construction and Engineering divisions slumped significantly to RM5.6m and net loss of RM0.1m respectively against 3QFY20's earnings. Property Investment & Management Services

performed relatively well to clinch profit of RM5.5m in this quarter. In addition, AME has successfully secured a deal to build Enics AG's first plant in SEA region as well as venturing into solar solution via JV with BaoZhou New Energy Technology Sdn Bhd during MCO period.

Earnings Outlook/Revision

- **We reduce our FY21F and FY22F net earnings forecasts by 8% respectively,** foreseeing slowing industrial property sales pertaining to cutting of capex by global MNCs as well as uncertainties arising from partial lockdown following 2nd wave of COVID-19. Also, the recent ruling of freezing on recruitment of foreign workers till year end could affect the rental income generated from the workers' dormitories under its property investment & management services segment.

Valuation & Recommendation

- **Maintain BUY with a slightly lower target price of RM2.02 (from RM2.14) following our earnings cut.** Our revised target price is now pegged at PE multiple of 13.5x FY21F EPS which is in line with -1SD of 10-year Bursa Malaysia Construction Index mean PER. We favour the Group for its: a) niche and defensive business model, 2) less reliant on government infrastructure projects amid current political uncertainty on the backdrop of competitive project bidding in view of limited job scope, and 3) commendable profit margin against other contractors.

Figure 1: Quarter Result

YEAR END MARCH	4Q20	4Q19	YoY	3Q20	QoQ	12M20	12M19	YoY
Construction	44.8	42.5	6%	60.0	-25%	185.2	233.7	-21%
Property development	22.6	12.6	79%	14.0	61%	92.3	43.1	114%
Engineering	21.3	8.0	166%	23.1	-8%	68.3	40.7	68%
Property Investment & Management Services	9.4	5.9	59%	8.9	6%	34.7	21.5	61%
Revenue	98.1	69.0	42%	106.0	-7%	380.5	339.0	12%
Cost of Sales	(70.9)	(43.8)	62%	(72.1)	-2%	(260.1)	(244.9)	6%
Gross profit	27.2	25.3	8%	33.9	-20%	120.3	94.1	28%
Other operating income	6.9	17.3	-60%	0.6	1050%	15.8	18.5	-14%
Distribution expenses	(2.5)	(1.2)	108%	(0.3)	900%	(4.6)	(3.8)	21%
Administration expenses	(9.7)	(8.9)	9%	(11.3)	-14%	(37.7)	(31.9)	18%
Operating Profit	21.5	32.3	-33%	22.9	-6%	93.4	76.6	22%
Finance cost	(1.7)	1.0	270%	(2.4)	-29%	(9.9)	(3.4)	191%
Share of JV	0.4	(0.8)	-150%	0.1	400%	5.3	(0.6)	983%
PBT	20.1	30.2	-33%	20.7	-3%	88.7	72.6	22%
Tax	(4.3)	(11.4)	-62%	(5.7)	-25%	(20.0)	(21.6)	-7%
PAT	15.8	18.8	-16%	15.0	5%	68.7	51.0	35%
Minority interest	1.0	3.0	-67%	0.2	488%	4.9	3.6	36%
Fair value gain	6.2	16.4	-62%	7.3	-15%	13.5	16.4	-18%
Net profit (Adjusted)	8.6	-0.6	1465%	14.8	-42%	50.3	31.0	62%
Gross margin	28%	37%		32%		32%	28%	
Operating margin	18%	21%		22%		21%	16%	
PBT margin	21%	44%		20%		23%	21%	
Net profit margin	9%	-1%		14%		13%	9%	
Tax rate	21%	38%		28%		23%	30%	
SEGMENT PROFIT								
Construction	5.6	5.1	10%	13.60	-59%	34.0	28.9	17%
Property development	7.1	7.4	-4%	1.80	297%	18.3	5.9	210%
Engineering	-0.1	2.0	-105%	1.47	-107%	5.3	4.7	13%
Property Investment & Management Services (Adjusted)	5.5	2.1	160%	6.30	-13%	21.3	15.8	35%
TOTAL	18.1	14.6	24%	23.17	-22%	78.9	55.3	43%
SEGMENT PROFIT MARGIN								
Construction	12%	12%		23%		18%	12%	
Property development	32%	59%		13%		20%	14%	
Engineering	0%	25%		6%		8%	12%	
Property Investment & Management Services (Adjusted)	58%	36%		71%		61%	73%	

Figure 2: Financial Summary

Year ending 31 March	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F
	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm	RM'm
Revenue	249.2	297.1	339.5	331.6	380.5	435.7	568.0
Operating profit/EBIT	38.0	70.8	93.6	78.1	93.4	89.8	119.0
PBT	41.2	77.1	98.7	74.1	88.7	90.1	118.8
PAT	32.4	59.7	81.7	52.5	68.7	69.4	91.5
Core Net profit	26.1	43.0	48.7	32.5	50.3	63.8	84.2
Growth (%)							
Revenue		19.2%	14.3%	-2.3%	14.8%	14.5%	30.4%
Operating profit		86.4%	32.2%	-16.6%	19.5%	-3.9%	32.6%
PBT		87.1%	27.9%	-24.9%	19.6%	1.6%	31.9%
PAT		84.1%	36.8%	-35.7%	30.8%	1.0%	31.9%
Net profit		64.7%	13.1%	-33.2%	54.7%	26.9%	31.9%
Margin (%)							
Operating profit	15.2%	23.8%	27.6%	23.6%	24.5%	20.6%	21.0%
PBT	16.5%	26.0%	29.1%	22.4%	23.3%	20.7%	20.9%
PAT	13.0%	20.1%	24.1%	15.8%	18.1%	15.9%	16.1%
Net profit	10.5%	14.5%	14.3%	9.8%	13.2%	14.6%	14.8%
ROE	10.7%	18.2%	18.8%	11.2%	8.2%	8.5%	10.3%
ROA	6.2%	7.5%	8.7%	5.5%	4.9%	5.1%	5.7%
EPS	0.08	0.14	0.17	0.11	0.13	0.15	0.20
BV/Share	0.71	0.77	0.93	1.02	1.63	1.76	1.92
P/B	2.4	2.2	1.8	1.7	1.0	1.0	0.9
P/E	22.2	12.1	9.7	14.8	12.6	11.3	8.6
Net gearing	-11%	43%	28%	26%	15%	8%	9%
Dividend yield	4.14%	1.78%	1.78%	0.71%	1.78%	1.77%	2.33%
Dividend payout	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
DPS (sen)	7.00	3.00	3.00	1.20	3.00	2.99	3.94

Source: Company, JF Apex

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JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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