

19 August 2020

Construction & Engineering | Construction

AME Elite Consortium (AME MK)

Buy

The Elite In Industrial Park Development; BUY

Target Price (Return): MYR2.22 (+36%)
Price: MYR1.63
Market Cap: USD166m
Avg Daily Turnover (MYR/USD) 1.60m/0.38m

- **Initiate coverage with a BUY rating and MYR2.22 TP, 36% upside with c.2% FY21F (Mar) yield.** We like AME Elite Consortium for its expertise and niche in industrial property development. For now, it is the only industrial property/construction play listed on Bursa Malaysia. Hence, the company is well-positioned to capture the potential influx of foreign investments arising from the ongoing US-China tensions – once economic growth picks up.
- **Relatively unperturbed by COVID-19.** Unlike other real estate segments, industrial property development is relatively unaffected by COVID-19 as it involves direct negotiation with local corporations and multinationals. AME is the go-to contractor for many manufacturers due to its ability to custom-build manufacturing facilities, on top of its established know-how, expertise, and technologies. Although the lockdown in 2Q20 delayed some negotiations, its deal flows largely remain intact. The industrial segment is also a bright spot as the supply of industrial properties in the pipeline is more favourable, compared to other sub-segments.
- **Expanding outside Johor.** Management is looking within and beyond Johor to expand its industrial park developments, and is also considering targeting the mass industrial segment. Its flagship industrial parks, under the i-Park brand, are of a standard rarely seen in Malaysia. We think the central region and Penang could be potential sites. It will be an opportunistic expansion strategy, given the lack of gated & guarded industrial parks available in Selangor and Penang, as well as rising demand for quality industrial space in Malaysia.
- **Another industrial REIT in the making.** Apart from development and construction, AME also provides its industrial tenants with workers' dormitories. Currently, the company has two dormitories and 34 industrial property assets (factories). The recurring income stream contributed MYR25.6m in EBIT or 32% of total EBIT in FY20. In the pipeline, there are two more blocks of workers' dormitories in i-Park @ Indahpura under construction. Currently, the investment property portfolio is worth about MYR500m. Management plans to grow the portfolio further, potentially listing the assets as a REIT in three years for value-unlocking.
- **Strong earnings momentum.** Since its listing at end-2019, AME has seen strong growth in both unbilled sales, and its construction & engineering orderbook. As of end-FY20, unbilled sales grew 104% YoY to MYR105.6m, while its construction orderbook grew 187% YoY to MYR309.3m. We believe the earnings momentum will continue, given that the construction tenderbook stood at MYR600m.

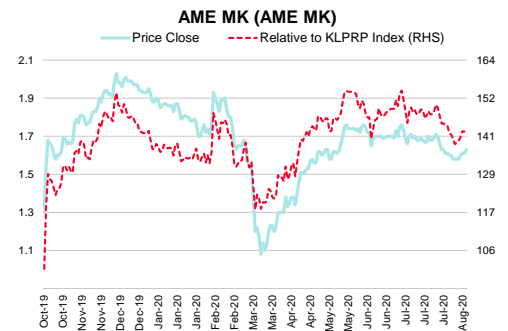
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.3)	(2.4)	(1.8)	(10.9)	0.0
Relative	10.9	(2.5)	(4.1)	8.1	0.0
52-wk Price low/high (MYR)				1.08 – 2.03	



Source: Bloomberg

Forecasts and Valuation	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Total turnover (MYRm)	339	380	361	463	534
Recurring net profit (MYRm)	37	56	56	74	85
Recurring net profit growth (%)	(22.7)	52.5	0.2	31.8	14.4
Recurring EPS (MYR)	0.09	0.13	0.13	0.17	0.20
DPS (MYR)	-	0.03	0.03	0.04	0.05
Recurring P/E (x)	18.94	12.42	12.39	9.40	8.22
P/B (x)	1.71	1.10	1.03	0.95	0.87
Dividend Yield (%)	na	1.8	1.8	2.5	3.1
Return on average equity (%)	12.2	12.3	8.6	10.5	11.1
Net debt to equity (%)	26.0	13.7	17.3	20.3	21.4

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
Malaysia	Recurring EPS	0.09	0.13	0.13	0.17	0.20
Construction & Engineering	EPS	0.11	0.15	0.13	0.17	0.20
AME Elite Consortium	DPS	-	0.03	0.03	0.04	0.05
AME MK	BVPS	0.95	1.48	1.58	1.72	1.87
Buy	Return on average equity (%)	12.2	12.3	8.6	10.5	11.1
	Return on average assets (%)	5.4	6.2	4.8	5.9	6.1
Valuation basis						
SOP	Valuation metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Recurring P/E (x)	18.94	12.42	12.39	9.40	8.22
Key drivers	P/B (x)	1.7	1.1	1.0	0.9	0.9
i. Beneficiary of US-China trade tensions;	Dividend Yield (%)	-	1.8	1.8	2.5	3.1
ii. Expansion in landbank and industrial parks in areas outside Johor.	EV/EBITDA (x)	10.54	8.59	9.72	7.79	7.06
Key risks	Income statement (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
i. Unexpected economic downturn;	Total turnover	339	380	361	463	534
ii. Unfavourable drastic turn in FDI policies.	Gross profit	94	120	106	153	176
	EBITDA	77	93	86	113	129
	Operating profit	77	93	86	113	129
	Net interest	(3)	(10)	(5)	(6)	(7)
	Pre-tax profit	73	89	81	107	122
	Taxation	(22)	(20)	(20)	(27)	(30)
	Reported net profit	47	64	56	74	85
	Recurring net profit	37	56	56	74	85
Company Profile						
AME Elite Consortium (AME) is involved in the construction of large manufacturing plants and industrial properties, with core expertise in the designing and building of industrial parks.						
	Cash flow (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Change in working capital	(12)	(146)	43	(75)	(51)
	Cash flow from operations	40	(83)	103	5	40
	Cash flow from financing activities	(14)	244	0	0	0
	Cash at beginning of period	110	102	192	189	175
	Net change in cash	26	160	103	5	40
	Ending balance cash	136	263	295	194	215
	Balance sheet (MYRm)	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Total cash and equivalents	102	192	189	175	182
	Tangible fixed assets	383	454	577	599	641
	Total investments	32	21	21	21	21
	Total other assets	3	4	4	4	4
	Total assets	893	1,151	1,203	1,319	1,443
	Short-term debt	29	22	22	22	22
	Total long-term debt	187	261	291	311	341
	Total liabilities	457	482	486	540	593
	Shareholders' equity	406	633	677	734	797
	Minority interests	30	35	40	46	52
	Total equity	437	669	716	779	849
	Total liabilities & equity	893	1,151	1,203	1,319	1,443
	Key metrics	Mar-19	Mar-20	Mar-21F	Mar-22F	Mar-23F
	Revenue growth (%)	(0.7)	12.2	(5.2)	28.5	15.3
	Recurring net profit growth (%)	(22.7)	52.5	0.2	31.8	14.4
	Recurrent EPS growth (%)	(22.7)	52.5	0.2	31.8	14.4
	Gross margin (%)	27.7	31.6	29.3	33.1	33.0
	Recurring net profit margin (%)	10.8	14.7	15.6	16.0	15.9
	Dividend payout ratio (%)	0.0	20.1	22.8	23.1	25.2

Source: Company data, RHB

Investment Thesis

An industrial property expert

AME is an integrated industrial property development one-stop solution provider. Unlike other developers that mainly focus on residential and commercial real estate, the company's expertise is in industrial properties, which is a largely untapped market. Its key subsidiaries – AME Construction, Asiamost, and AME Engineering – are all registered with the Construction Industry Development Board (CIDB) as Grade G7 contractors – the highest classification accorded by the board. AME's track record is well-reflected by the profile of the operators/tenants at its industrial park, whereby 86% of them are multinationals from the US and Asia.

AME's capabilities and know-how in the design-and-build of industrial properties is at the forefront. The company is able to facilitate the approval process from the authorities (to obtain foreign consent for overseas manufacturers), customise, and build the factories (typically) within a year, including renovation and retrofitting services. These are the types of services that many other developers are not able to provide. AME's industrial parks under the i-Park brand are all gated & guarded, and equipped with various amenities, such as recreational parks, CCTV surveillance, and workers' dormitories, which are essential for many manufacturers that rely heavily on labour.

On the other hand, a typical property developer would not be able to provide similar types of services and amenities. Developers such as Eco World (ECW MK, NR), Mah Sing (MSGB MK, BUY, TP: MYR0.91) and UEM Sunrise-Ascendas' business parks typically offer warehouses and mini factories that are of standard designs and features. These may not suit the needs of end-users from different industries.

AME currently has a few ongoing industrial projects, such as i-Park @ Indahpura Phase 3, i-Park @ SAC Phase 1 & 2, and the key driver over the next 2-3 years, i-Park @ SAC Phase 3, which was just started in early 2020.

Figure 1: Key industry players in the development of industrial parks

Company	Type of property development	Type of industrial development	Example of Industrial Park("IP")	Location of industrial park
SP Setia Berhad	Residential, commercial and industrial	Gated guarded and mixed industrial park	Setia Business Park I, Setia Business Park II, Taman Industri Jaya, Temasya IP	Johor, Selangor
Eco World Development Group Berhad	Residential, commercial and industrial	Gated guarded and mixed industrial park	Eco Business Park I, Eco Business Park II, Eco Business Park III, Eco Business Park V	Johor, Selangor
Mah Sing Group Berhad	Residential, commercial and industrial	Mixed industrial park	i-Parc @ Tanjung Pelepas, i-Parc2 @ Shah Alam, i-Parc3 @ Bukit Jelutong, M-Parc @ Permatang Tinggi	Johor, Selangor, Penang
UEM Sunrise Berhad	Residential, commercial and industrial	Specialised and gated guarded industrial park	Nusajaya Tech Park, Bio-Xcell Biotechnology Park	Johor
United Malayan Land Berhad	Residential, commercial and industrial	Specialised and gated guarded industrial park	Iskandar Halal Park	Johor
AME Elite Consortium Berhad	Industrial	Gated guarded and mixed industrial park	i-Park @ SiLC, i-Park @ Indahpura, i-Park @ SAC, SME City and District 6	Johor
Crescendo Corporation Berhad	Residential, commercial and industrial	Mixed industrial park	Nusa Cemerlang IP, Taman Perindustrian Cemerlang	Johor
Gromutual Berhad	Residential, commercial and industrial	Mixed industrial park	Tropika IP, Ayer Hitam IP, Taman Perindustrian Bukit Gambir	Johor
WB Land Sdn Bhd	Industrial	Gated guarded industrial park	Frontier IP	Johor

Source: NAPIC

Figure 2: Façade of a typical factory in i-Park @ SAC



Source: RHB

Figure 3: One of the entrances to i-Park @ SAC



Source: RHB

Figure 4: Recreational park at i-Park @ SAC



Source: RHB

Figure 5: Recreational park at i-Park @ SAC



Source: RHB

Relatively unperturbed by COVID-19

AME was relatively unaffected by the lockdowns in 2Q20, as its sales are not entirely reliant on project launches and the opening of sales galleries. During the Movement Control Order (MCO) period, management was still busy negotiating deals with foreign and local manufacturers via virtual meetings. AME is the go-to contractor for many multinationals and local corporations due to its ability to customise the building of manufacturing plants and facilities. Having said that, the signing of contracts was delayed slightly due to travel restrictions.

On 16 Jun – just after the MCO – AME announced that it is constructing a 10,000sqm floor space high-performance/high-volume industrial electronics factory for Switzerland-based electronics manufacturing services (EMS) player Enics AG in i-Park @ SAC. This is Enic's first manufacturing site in South-East Asia, and it is expected to be completed in early 2021. We understand that the factory will be held as an investment property, which would be a new addition to AME's existing industrial asset portfolio.

In July, a month after the MCO, Netherlands' based HQ Pack commissioned AME to expand its existing facility in i-Park @ Indahpura. The 60,000sqf integrated facility is targeted for completion in 2H21.

More favourable demand-supply mechanism in the industrial segment

Unlike the residential and commercial property markets, which are experiencing a supply glut, the industrial segment is in a bright spot. The supply of industrial properties looks more favourable, as many developers have been aggressively focusing on residential and commercial properties over the past years.

According to data from the National Property Information Centre (NAPIC), the decline in incoming supply of industrial properties (which include warehouses and other properties in business parks) is more severe when compared to the fall in the supply of residential properties. The drop in the incoming supply of residential properties is understandable, given the oversupply conditions seen since 2015-2016. However, for the industrial segment, the supply has been relatively lower in the past, and the products being offered in the market may not be able to meet manufacturers' needs.

Figure 6: Incoming supply of industrial properties and residential properties

	Industrial properties						Residential properties					
	2014	2015	2016	2017	2018	2019	2014	2015	2016	2017	2018	2019
Selangor	3,691	3,954	1,389	1,327	1,053	1,013	165,124	151,738	119,982	121,555	110,284	103,286
% change YoY		7%	-65%	-4%	-21%	-4%		-8%	-21%	1%	-9%	-6%
Johor	2,340	3,124	2,133	1,839	1,676	1,305	145,616	129,418	103,455	80,354	70,178	59,836
% change YoY		34%	-32%	-14%	-9%	-22%		-11%	-20%	-22%	-13%	-15%
Pulau Pinang	232	292	283	158	176	293	67,108	82,837	50,315	44,046	49,543	43,123
% change YoY		26%	-3%	-44%	11%	66%		23%	-39%	-12%	12%	-13%
Malaysia	11,264	11,206	6,901	5,675	4,917	4,343	769,788	766,582	511,090	480,892	467,091	443,161
% change YoY		-1%	-38%	-18%	-13%	-12%		0%	-33%	-6%	-3%	-5%

Source: NAPIC

Opportunities to expand geographically, and to other mid-tier industrial segments

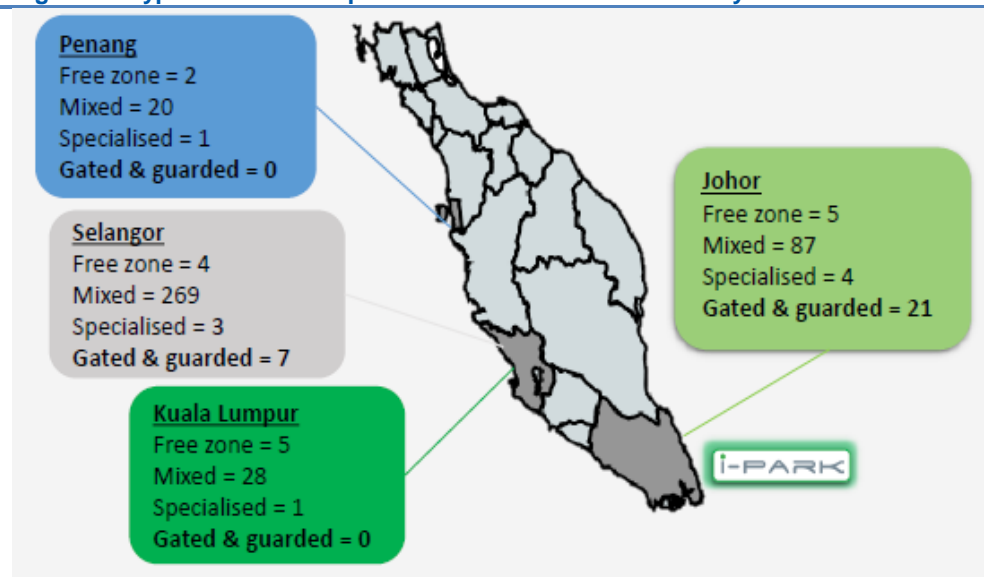
AME has allocated MYR69m of its IPO proceeds for land acquisitions or JVs to expand its industrial property development within 36 months since its listing in end-2019. While management has evaluated several parcels via outright acquisitions, and/or JVs, nothing has been firmed thus far. Management is looking to expand within Johor, as well as other regions outside the state, including the Klang Valley or Penang, as these areas lack integrated gated & guarded industrial spaces. Many of the established industrial parks in Peninsular Malaysia also lack workers' dormitories, so we think AME can play a vital role in complementing the needs of these industrial parks.

Leveraging on its experience and track record, as well as its strong brand equity, management is also looking to explore the mass industrial segment. We think this is a strategic move, as the mid-tier/mass industrial segment is also a big market, especially for local corporations that plan to expand and upgrade facilities. The wider product offerings would also meet the requirements of some multinationals which have a lower budget for capacity expansion.

For the existing i-Park @ SAC Phase 3, some small parcels of land will be allocated to build standard factories. While this is different from AME's usual business model, the standard facilities are mainly targeted at companies looking for immediate relocation, especially when the border reopens.

As industrial property development is sensitive to land costs, we think the new landbank outside Johor will have to be in strategic areas, ie close to airports or sea ports, with good accessibility, and more importantly, at a reasonable price. We believe land costs will likely be capped at MYR80.00psf, so that the factories can be priced competitively, and be economically viable for manufacturers.

Figure 7: Types of industrial parks in selected Peninsular Malaysia states



Source: Economic Planning Unit, MIDA, State Development Corp, Smith Zander

Strong recurring income stream, and potentially another industrial REIT in the making

Besides the revenue from property development and construction, AME also has a growing income stream from its portfolio of industrial properties, which are currently worth about MYR500m. The pool of assets include 34 factory units held under its investment properties, 15 units held under inventory, and two workers' dormitories located at i-Park @ Indahpura and i-Park @ SAC. The risk for tenancy withdrawal is relatively low, in our opinion, as industrial tenants typically have their fixed facilities in place – so relocation is not easy.

In FY20, recurring income grew 62% YoY to MYR25.6m at the EBIT level (or 32% of total EBIT in FY20), from MYR15.8m in FY19. We believe the contribution from the investment property portfolio will continue to grow – especially from the workers' dormitories – due to increasing demand from industrial tenants within the industrial parks. We understand that the two existing dormitories, i-Stay @ Indahpura and i-Stay @ SAC, currently have occupancy rates of 95% and 81%. In the pipeline, given the already-high occupancy, AME will build two more blocks of workers' dormitories in i-Park @ Indahpura, which will increase the total number of beds to 8,474 in FY22 from 5,778 currently. Upon completion in Oct 2021, we estimate that the new blocks could add another MYR5-6m to the current total dormitory revenue of MYR9.6m in FY20.

AME will also continue to have new additions of factories or industrial properties. The number of factories held as investment properties has increased to 34 in FY20, from 27 last year. However, two of the factories will be sold, as tenants were previously granted the option to buy. In FY21, there will be a few new additions, including the recently-completed 150,000sqf warehouse in the Senai Airport City free zone. The building is currently 70-80% leased out as storage space for AME's existing clients.

We understand that the lease tenure for industrial properties is typically 3 + 3 + 4 years, with a 10% step-up in every renewal. As for the workers' dormitories, management is looking to raise rates by about 10% this year for the older dormitories, while the upcoming dormitories will see 10% higher rates than the current average, given the better facilities.

Given the speed of AME's asset portfolio expansion so far, we reasonably believe that the company will be able to reach the MYR1bn mark (in market value) in 3-4 years. By then, the time should be ripe for a listing of its assets as a REIT, as part of its value-unlocking efforts. This would be a significant re-rating catalyst for the stock in future.

Figure 8: Workers' dormitory at i-Park @ SAC



Source: RHB

Figure 9: One of the rooms in the workers' dormitories



Source: RHB

Figure 10: Workers' dormitory at i-Park @ Indahpura



Source: RHB

Figure 11: Tight security at workers' dormitory entrance



Source: RHB

Valuations & Recommendation

Initiate coverage with a BUY rating and MYR2.22 TP

We value AME based on SOP:

- i. 50% discount to RNAV for the property development division;
- ii. 13x P/E for the construction & engineering division, based on FY21 earnings estimates;
- iii. DCF methodology with a discount rate of 7% for the property investment division.

Our assumptions for DCF valuations:

- i. Risk-free rate: 2.90% (in-house assumption);
- ii. Market risk premium: 5.55% (in-house assumption);
- iii. Market returns: 8.45% (i) + (ii)
- iv. Beta: 1.2, as we deem the industrial property business to be more sensitive to changes in market conditions;
- v. Discount period of 20 years;
- vi. Cost of equity: 9.6%, (ii) * (iv) + (i)

Note that there are no Malaysian listed companies comparable to AME, as most of the listed developers focus on residential and commercial property projects. For some that have industrial projects, their overall exposure is considered minimal, as this segment possibly contributes less than 15% of their total portfolio GDV.

In the construction & engineering division, there are also no listed contractors that similarly specialise in constructing factories and warehouses. Most listed contractors focus on civil/infrastructure works, while some are primarily involved in high-rise residential towers and purpose-built commercial buildings such as office towers, hotels, and shopping malls.

Therefore, our choice of valuation for each division takes into consideration the following factors:

Construction & engineering division: We ascribe a P/E of 13x, which is very much in line with the current valuations of some specialist contractors (ie contractors that focus on specific segments). For this segment, the comparative peers would be Sunway Construction (SCGB MK, NEUTRAL, TP: MYR2.14), Kerjaya Prospek (KPG MK, BUY, TP: MYR1.31), and Econpile (ECON MK, BUY, TP: MYR0.74). Although the segment that these companies focus on is different from AME's, given their specific niche, we think their valuations are a fair benchmark for the company's construction & engineering division.

Property development division: Although the industrial property development division warrants a higher discount to RNAV, as buyers of this type of property are more specifically-targeted, and products are not for the mass market (hence the lower turnaround time), given the scarcity of listed industrial players on Bursa Malaysia, we think a lower discount to RNAV of, say 50%, is justifiable for AME. This is also supported by the company's track record in the industry, as well as its management capabilities, product quality and client profile. The industrial segment, as we mentioned earlier, is also less affected by the prevailing supply glut experienced by the residential and commercial segments.

Property investment division: We apply the DCF methodology to discount back the recurring income from this segment, with 5% initial growth for the first five years, and 3% for the remaining 15 years. We believe these assumptions are reasonable, as management will likely expand its asset portfolio more aggressively to strengthen the recurring earnings base during the initial years after listing. Our discount period of 20 years also take into account the long-term lease tenures for industrial properties (3 + 3 + 4 years), with a step-up of 10% every three years. Our 7% discount rate also reflects the lower earnings risk from these investment properties. The discount rates for REITs under our coverage are typically 5-6%.

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Figure 12: RNAV estimates for the property development division

Projects	Location	Landbank (acres)	Remaining GDV (MYRm)	Effective interest	NPV @ 9.6% (MYR m)
Completed					
i-Park @ SILC	Johor	12.3	15	100%	4.6
District 6	Johor	7.6	59	100%	20.7
i-Park @ Indahpura (Ph 1 & 2)	Johor	104.8	133	100%	46.6
Ongoing					
i-Park @ Indahpura (Ph 3)	Johor	85.4	88	50%	15.4
i-Park @ Senai Airport City (Ph 1 & 2)	Johor	98.1	178	80%	49.8
The Jacaranda	Johor	13.9	15	80%	4.2
i-Park @ Senai Airport City (Ph 3)	Johor	76.6	425	80%	119.0
i-Park @ Indahpura (Plot 108)	Johor	15.0	109	100%	38.2
Unbilled sales					35.0
Total			1,022		333.4
Net asset for property development					175.5
Total RNAV					508.9
Discount to RNAV					50%
Discounted RNAV					254.5

Note: the GDVs for the projects have excluded the value of investment properties

Source: Company data, RHB

Figure 13: SOP valuation

SOP Valuations	Valuation basis	Equity value (MYRm)
Property development	50% discount to RNAV	254.5
Construction & engineering	@ 13x PE	370.5
Property investment	DCF @ 7% discount rate	413.5
- Net debt		-91.4
Total SOP		947.0
No. of shares (m)		427.1
TP (MYR)		2.22

Source: Company data, RHB

Figure 14: Peer comparison for property development (as of 17 Aug 2020)

	FYE	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x) FY20F	P/E (x) FY21F	EPS Growth (%) FY20F	EPS Growth (%) FY21F	P/BV (x) FY20F	P/CF(x) FY20F	ROE (%) FY20F	DY (%) FY20F	RNAV per share (MYR)	Discount to RNAV	Rec
Sime Darby Property	Dec	0.63	0.88	4,285	18.6	12.5	(34.7)	48.8	0.4	7.9	2.4	3.2	2.50	-75%	Buy
UEM Sunrise	Dec	0.41	0.70	1,838	14.1	14.0	(49.9)	0.5	0.2	2.4	1.8	0.0	2.80	-86%	Buy
Matrix Concept^	Mar	1.75	2.22	1,460	6.4	7.2	(5.1)	(11.0)	0.8	4.2	13.5	6.3	3.41	-49%	Buy
Mah Sing	Dec	0.71	0.91	1,712	11.5	10.4	(29.5)	10.5	0.5	2.6	4.4	3.5	2.08	-66%	Buy
UOA Dev	Dec	1.58	1.80	3,106	10.6	12.4	(29.2)	(14.8)	0.6	4.3	5.8	7.0	3.27	-52%	Neutral
Eastern & Oriental^	Mar	0.41	0.45	580	16.5	12.3	(117.5)	34.9	0.3	2.9	2.0	2.5	2.27	-82%	Neutral
Paramount	Dec	0.77	0.93	473	16.9	8.5	(64.9)	97.9	0.3	1.1	38.9	2.6	3.71	-79%	Neutral
Tambun Indah	Dec	0.52	0.59	225	8.7	6.2	(37.8)	39.8	0.3	3.9	4.0	3.8	2.38	-78%	Neutral
Hua Yang^	Mar	0.26	0.26	90	22.3	13.6	89.3	64.1	0.2	5.6	0.7	0.0	2.65	-90%	Neutral
Sector Avg					10.7	9.6	(14.2)	12.1							

Note: ^FY20-21 valuations refer to those of FY21+22

Source: Company data, RHB

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Figure 15: Peer comparison for construction (as of 17 Aug 2020)

	FYE	Price (MYR/s)	Target (MYR/s)	Mkt Cap (MYRm)	P/E (x)		EPS Growth (%)		P/BV(x)	P/CF(x)	ROE (%)	DY (%)	Rec
					FY20F	FY21F	FY20F	FY21F	FY20F	FY20F	FY20F	FY20F	
Sunway Construction	Dec	1.80	2.14	2,321	31.9	15.2	(37.1)	110.3	3.5	(60.3)	11.4	1.6	Buy
MRCB	Dec	0.52	0.62	2,272	17.7	16.2	180.1	9.2	0.2	2.1	1.4	4.3	Buy
Kerjaya Prospek	Dec	1.04	1.31	1,276	12.4	9.2	(26.0)	35.1	1.1	3.7	9.4	2.5	Buy
Econpile	Jun	0.60	0.74	796	47.8	14.5	(34.8)	229.6	1.9	27.5	4.1	0.4	Buy
HSL	Dec	0.91	1.23	497	15.1	9.9	(40.5)	52.7	0.6	3.5	3.9	1.2	Buy
Muhibbah Engineering	Dec	0.81	1.10	392	5.0	4.0	107.6	24.2	0.3	1.5	6.8	5.0	Buy
Pintaras	Jun	2.29	3.14	380	10.0	7.2	(0.6)	39.8	1.1	51.3	11.5	4.4	Buy
Gabungan AQRS	Dec	0.72	1.33	355	17.7	8.1	(50.4)	117.2	0.7	9.2	3.9	0.0	Buy
Gadang^	May	0.41	0.60	299	6.8	4.5	5.2	51.8	0.5	19.4	6.6	2.6	Buy
MGB	Dec	0.73	0.58	364	28.8	12.4	(5.7)	132.9	0.8	11.2	2.7	0.0	Buy
Gamuda	Jul	3.38	3.68	8,496	16.5	12.0	(28.4)	37.9	1.0	41.3	6.1	1.8	Neutral
IJM Corp^	Mar	1.33	1.93	4,830	21.0	10.3	(39.1)	103.3	0.5	(6.9)	2.4	1.9	Neutral
Kelington Group	Dec	1.06	1.14	340	33.9	18.4	(58.9)	84.0	2.0	9.9	6.1	0.7	Neutral
Kimlun	Dec	0.77	0.80	262	10.6	7.5	(59.2)	40.8	0.4	3.9	3.4	1.9	Neutral
George Kent^	Jan	0.80	0.50	422	11.1	8.7	(7.9)	27.2	0.8	(13.8)	7.5	0.0	Sell
Sector Avg					15.6	10.4	(23.8)	50.5					

Note: ^FY20-21 valuations refer to those of FY21+22

Source: Company data, RHB

Figure 16: Regional peer comparison for industrial property developers (as of 14 Aug 2020)

Company	Bloomberg Ticker	Country	FYE	Price (LC)	Market cap (USDm)	P/E (x) 1-yr fwd	P/E (x) 2-yr fwd	P/B (x) 1-yr fwd	Div yield 1-yr fwd	ROE (%) 1-yr fwd	EV / EBITDA (x)
Bekasi Fajar Industrial Estate Tbk PT	BEST U Equity	Indonesia	Dec	122	79.2	10.9	5.7	0.3	6.8%	2.4	7.4
Surya Semesta Internusa Tbk PT	SSIA U Equity	Indonesia	Dec	356	112.6	21.0	28.8	0.4	1.0%	1.2	5.6
Puradelta Lestari Tbk PT	DMAS U Equity	Indonesia	Dec	236	764.9	14.7	14.7	1.8	6.5%	12.1	14.4
Kawasan Industri Jababeka Tbk PT	KJIA U Equity	Indonesia	Dec	142	198.9	9.6	8.0	0.5	2.1%	5.6	10.5
Lippo Cikarang Tbk PT	LPCK U Equity	Indonesia	Dec	795	143.3	4.5	4.1	0.2	n.a.	-	-
WHA Corp PCL	WHA TB Equity	Thailand	Dec	3.34	1,608.2	19.2	16.5	1.7	2.8%	8.9	28.3
Amata Corp PCL	AMATA TB Equity	Thailand	Dec	13.4	460.6	11.8	10.2	1.0	2.6%	9.2	15.7
Frasers Property Thailand PCL	FPT TB Equity	Thailand	Dec	11.2	836.8	10.8	11.9	0.8	4.0%	7.3	21.4

Source: Bloomberg

Financial Overview

Strong earnings momentum in FY22

Earnings in FY21 will likely see flat growth due to the impact of COVID-19, as construction works for some industrial buildings were delayed or halted during the MCO period.

Overall, we estimate FY21 and FY22 earnings to grow 0% and 32% YoY, underpinned by MYR105.6m in unbilled sales and its MYR309.3m outstanding construction orderbook (including engineering works). Note that quarterly revenue for the property development division could be lumpy, as revenue recognition depends on the timing of its sales. Revenue from land sales, and customised construction of factories will be recognised progressively according to billings, while the sale of completed factories at industrial parks should be recognised only upon completion of the transactions.

We expect FY21 profit margins to be lower than FY20's levels due to temporary hiccups in construction during the MCO period, and the fixed costs that the company had to bear as a result – especially in 1QFY21. However, margins should improve in FY22 as construction works normalise, in addition to the maiden contribution from its new dormitories.

Dividend policy. AME has a 20% dividend payout policy, where at least 20% of its net profit (minus fair value gain on investment properties) will be distributed as dividends to shareholders. In FY20, the company declared its maiden DPS of 3 sen, translating to a payout of 22-23%, and dividend yield of about 2%. Given its net gearing of only 0.14x, coupled with the sustainable recurring income from its investment property portfolio, a more generous payout is not unmanageable.

Margin breakdown for the three divisions

Construction & engineering. This division typically yields a gross margin of 15-20% and PBT margins of around 10% or in the low teens. This is slightly better than some other specialist contractors, such as Sunway Construction, Kerjaya Prospek, and Econpile.

Property development. This segment contributes around 50% in gross margins, which is significantly higher than normal residential and commercial developments. We think the high margins are partially due to the low land costs that AME has enjoyed in the past. We believe these margins will likely be kept around the same levels, given management's prudent strategy in landbank acquisition, as land costs and location are top priorities. In addition, given its specialisation in the construction of industrial properties, construction works for both external and internal jobs are more efficient, and procurement costs for building materials can be managed effectively.

Property investment. This division yields the highest margins – around 75% – at the gross level. This is much higher compared to some asset owners or REITs, which typically have net property income margins of 60-70%. We attribute the strong margin to the low construction cost of AME's investment properties and, hence, the resulting rental yield is fairly favourable to the company.

Key Risks

Key risks to our earnings forecasts and valuations include:

- i. **A drastic change in the global growth outlook, and worse-than-expected second wave of COVID-19 infections.** As AME's customers are mainly industrial players and manufacturers, demand from these buyers will be very much dependent on the global economic environment. A negative change in the growth outlook should affect capital investments of manufacturers, and may lead to lower local and foreign direct investments;
- ii. **Inability to secure new contracts for orderbook replenishment** – almost 70% of AME's total revenue is contributed by the construction & engineering services division. Unless global economic conditions worsen unexpectedly, it is crucial for the company to be able to secure sufficient new construction contracts to maintain earnings and growth momentum going forward;
- iii. **Delays in construction works** – any delays are likely to derail the company's earnings. As the nature of the business relies heavily on labour and building materials, any shortage or hiccup in the value chain, unfavourable weather conditions, or adverse soil conditions should affect work flow. Hence, billings from the construction works and property development division may be slower than expected.

Company Overview

Historical background

AME was incorporated in Aug 2018, but AME Construction commenced its construction business in 1995. Now, AME is a construction and property group with core expertise in the building of customised large manufacturing plants, as well as the design-and-build of industrial parks. This is complemented by its offerings in engineering services and property investment, as well as management services in Malaysia.

AME has been involved in the development of industrial parks in Johor since 2011. Between 2011 and 2016, it completed three industrial parks with a total GDV of MYR766m. These are the i-Park @ SiLC, District 6, and SME City. Currently, its ongoing developments are i-Park @ SAC Phase 1 & 2 (GDV: MYR717m), as well as i-Park Indahpura Phase 3 under the Axis AME IP JV. i-Park @ SAC Phase 3 has just started in 1Q20. This is a 77-acre plot, located next to Phase 1 & 2 acquired in 2019.

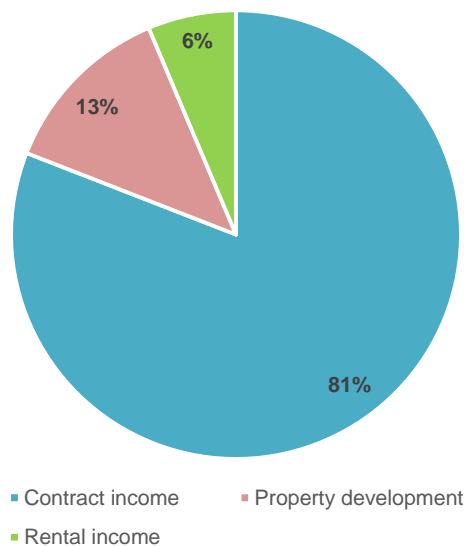
Business overview

AME is involved in four business segments:

- i. Industrial property development;
- ii. Construction;
- iii. Engineering;
- iv. Property investment and management services.

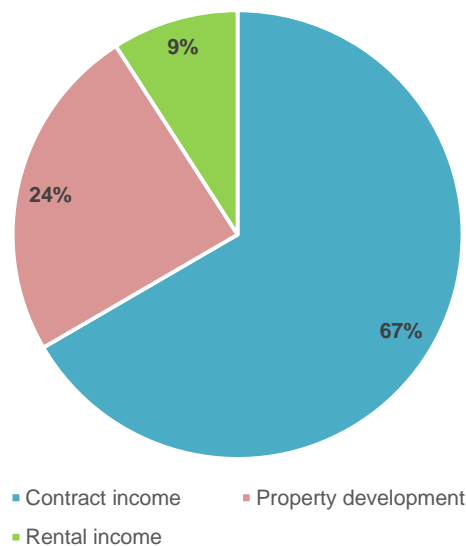
In FY20, about 66% of the company's revenue was derived from contract income, which comprises construction and engineering jobs. Industrial park development contributed 24%, while property investment assets made up the remaining 9%.

Figure 17: Revenue breakdown in FY19



Source: Company

Figure 18: Revenue breakdown in FY20



Source: Company

Figure 19: AME's project locations



Source: Company data

Industrial property development

AME has three key ongoing projects, which are all located in Johor:

- i. **i-Park @ Indahpura Phase 3.** This project is undertaken by the JV company – Axis AME IP (50:50). This phase is to be built with larger detached factories compared to the factory sizes seen in Phase 1 & 2. The industrial land in Phase 3 is subdivided into plots of different sizes, and will be left vacant, until sold or leased to customers or tenants. So far, the company has sold (or leased) 80% of the units, and the project is left with MYR110m in GDV.
- ii. **i-Park @ SAC.** This is AME's third and latest i-Park development project, occupying an area of 189 acres, to be developed in three phases. Phase 1 and 2 have a land size of 112 acres. The project is located at Senai Airport City, which is next to the Senai Desaru Expressway. i-Park @ SAC is to be built with various types of factories, workers' dormitories, and sports and recreational facilities. There are also plans to build a clubhouse, with a swimming pool, game courts and a gym. Five blocks of workers' dormitories were built in 1Q19, and commenced operations in 2Q19. As at 4QFY20, AME has sold/leased 82% of the units in Phase 1 and 2, and the remaining GDV is MYR373m.

The company has kicked off the development of Phase 3 in i-Park @ SAC early this year. This is a 76.6-acre site adjacent to Phase 1 and 2. The development will include 36 units/plots of 1 ½ storey detached factories. In 3QFY20, AME sold a 7-acre plot, and is now waiting for the award of the construction contract. Phase 3 currently still has a balance GDV of MYR533m.
- iii. **i-Park @ Indahpura (Plot 108).** This is a 15-acre site that AME acquired shortly after its listing. The land is adjacent to the existing i-Park @ Indahpura, with ready infrastructure that allows for a quick turnaround to generate sales. Thus far, 30% of the site has been sold/leased, whereby two detached factories are currently under development. The project still has a remaining GDV of MYR109m.

Construction of large manufacturing plants and industrial buildings

AME has completed the construction of about 200 manufacturing plants and industrial buildings over the past 20 years. AME Construction is registered with CIDB as a Grade G7 contractor – the highest classification accorded by the board – whereby the company is allowed to tender for construction contracts of unlimited value.

The construction of customised large manufacturing plants is for various industries, including steel, oleochemicals, oil & gas, electrical & electronics, consumer products, food and beverage, logistics, and automotive. This type of construction work typically involves multiple structures such as factory buildings, process plants, fabrication yards, storage and warehousing facilities, and utility sub-stations, which may occupy a lot of space.

AME Construction undertakes construction works for the internal industrial park projects. In addition, the unit offers retrofitting and renovation services to buyers/tenants for the ready-built factories, to better suit their business functions. The same services are also provided to its external clients.

Provision of engineering works and services

AME also provides steel engineering works, precast concrete works, and mechanical & electrical (M&E) engineering services to external clients, as well as for internal construction jobs. Given the group's expertise in industrial properties, the provision of these services is mainly for factories and warehouses, although AME has provided M&E engineering services for residential and commercial buildings in the past.

Both AME Engineering and Asiamost are registered with CIDB as Grade G7 contractors and, consequently, are allowed to tender for steel engineering and precast concrete works, as well as fire protection system contracts of unlimited value. Asiamost Engineering, however, is registered with CIDB as a G3 contractor. As such, it can tender for contracts valued at not more than MYR1m for M&E engineering services. Since 2010, the company has delivered and completed engineering works and services with contract values of MYR3-16m.

Property investment and management services

The division is mainly involved in the leasing of industrial properties that AME has developed and owned, as well as the rental and management of workers' dormitories.

Currently 34 factories are held under investment property, and eight out of the 15 factories held as inventory, have been rented out. The tenure for leasing contracts and tenancy agreements are 1-10 years (the tenure for leasing contracts are typically longer). The step-up in rental rates are typically at around 10% upon tenancy renewal every three years.

AME has also been renting out its workers' dormitories to the customers and tenants of its industrial parks. The company currently has two operational workers' dormitories, with a 5,778-bed capacity, at i-Park @ Indahpura and i-Park @ SAC. In the pipeline, is the expansion of the workers' dormitory in i-Park @ Indahpura, by adding two more blocks. Upon completion in FY22, this will add 2,696 beds into the total dormitory portfolio. The lease tenure for workers' dormitories is 1-2 years, with an option to renew for another 1-2 years.

Senior Management Team

AME is led by a group of management personnel which is very experienced in the construction industry:

Kelvin Lee Chai, Group Managing Director. Lee has about 34 years of experience in the construction field, and seven years of experience in property development. He is responsible for the company's overall business direction, strategic planning, and monitoring of daily on-site operations. In 1993, Kelvin founded AME Construction, and in 1994, together with three executive directors (Lim Yook Kim, Kang Ah Chee, and Lee Sai Boon), established Asiamost, a company that provides M&E engineering services for buildings. In 1997, Kelvin, together with Lim and Kang, set up Amsun Capital for the provision of heavy construction equipment and machinery hiring services. In 2008, he co-founded AME Engineering.

Lim Khai Wen, Managing Director of AME Engineering. Lim obtained a Master of Science in International Business Management from the University of East London. He joined AME Construction in 2007, and was appointed to its board of directors in 2013. He is responsible for the overall operations, business development and strategic planning for the company's engineering division. He has about 10 years of working experience in the construction industry.

Kang Koh Wei, Director of AME Construction. Kang graduated with a Bachelor of Engineering (Civil) from Queensland University of Technology, Australia. He joined AME Construction as a Project Engineer in 2007 and was then appointed as Site Manager in 2011, and Project Director in 2013. He is currently responsible for contract and project management for the company's construction division.

Gregory Lui Poh Sek, Group Financial Controller. Lui joined the company in 2016. Prior to this, he worked at Price Waterhouse, Oriental Assemblers, Iskandar Regional Development Authority, Dialog Engineering Singapore, and Edaran Tan Chong Motor (Selatan). He is now overseeing the company's overall financial matters, including accounting, taxation, corporate finance and treasury functions.

Law Han Meng, Project Director of AME Construction. Law joined the company in 1996. He has about 28 years of experience in the construction industry. Law is currently responsible for the management of construction projects. He supervises the project team and monitors the execution of projects to ensure compliance with requirements of the contracts, licenses, approved project plans and specifications. He is also involved in project planning, project scheduling, and providing input for tender exercises. He has 28 years of experience in the construction industry.

Razal bin Ahmad, Deputy Managing Director in the M&E division. Razal has about 25 years of experience in M&E works, including 22 years in the construction industry. He joined Asiamost in 1996, and now manages and leads the company's heads of departments (Asiamost). Razal is also involved in the operation of business, including strategic business planning, business development, budget control, and sales & marketing.

Teo Kian Jin, Project Director of AME Construction. Teo joined the company in 2007. He has about 36 years of experience in the construction industry. Teo is now responsible for the management of project operations, implementation of quality control procedures within the company, and providing technical specifications in the tender documents. After he graduated with Bachelor of Science (Civil & Structural Engineering) from Cardiff University in 1982, Teo worked at Singapore's Housing & Development Board, Long Hock Huat Construction, and Syarikat Lian Mee Engineering.

Lim Pei Shi, Director (property development division) and alternate director to Lim Yook Kim. Lim joined AME Development in 2011. She is currently responsible for the property development division's sales and marketing, including conducting presentations, planning and organising marketing events. She is also involved in the negotiation of commercial terms, including pricing and technical specifications, and liaising with the project management team on the completion and delivery of properties.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-08-18			

Source: RHB, Bloomberg

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