

Company Update

27 August 2020

# AME Consortium Berhad

**BUY**

*Slowly but surely*

**Maintained**

<b>Share Price</b>	<b>RM1.69</b>
<b>Target Price</b>	<b>RM2.02</b>

## Results

- **AME posted a reported net profit of RM5.3m for its 1QFY21 result as compared to a net profit of RM13.1m for its 1QFY20.**
- **1QFY21 below street and in-house expectations.** The Group's 1QFY21 result accounts for 8.2%/9.0% of in-house /consensus estimates mainly due to core segments, i.e. the Construction and Engineering faced operational disruptions as affected by the movement control order (MCO).

## 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)	777.35
52-week price Range	1.01-2.05
Beta (against KLCI)	N/A
3-m Average Daily Volume	1.11
3-m Average Daily Value <sup>^</sup>	1.89

## Comment

- **Subdued QoQ earnings.** The Construction and Engineering recorded losses of RM1.5m and RM2.1m respectively, which dragged down the overall operating profit to RM5.7m (-68% QoQ). Positively, Property Investment & Management Services delivered a double-digit growth amounted to RM7.0m (+28% QoQ) which buffered the loss-making units as well as Property Development segment (-68% QoQ). The subdued performance was caused by the CMCO and RMCO which troubled the construction progress. Thus, net profit of the Group (excluding fair value gain) slid to RM5.3m (-39% QoQ) from RM8.6m.
- **Despairing YoY performance.** The disappointing operating profit (-74% YoY) mainly caused by loss making segments (Construction & Engineering) and Property Development (-67% YoY) despite higher rental income from Property & Dormitories (+39% YoY). In addition, the Group also achieved higher share for its JV profit (+81% YoY) pursuant to better sales in its industrial properties. Overall, the Group's net profit slid to RM6.6m (-66% YoY) from adjusted net profit RM19m (excluding fair value gain).

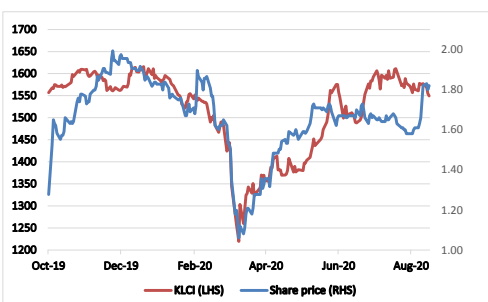
## Share Performance

	1m	3m	12m
Absolute (%)	7.7	4.0	--
Relative (%-pts)	10.5	-3.0	--

## Major Shareholders

	%
Lee Chai	21.38
Kang Ah Chee	21.00
Lim Yook Kim	21.00

## Historical Chart



Source: Bloomberg

## Research Team

**03-87361118, ext. 754**

**chhow@jfpex.com.my**

- **Nimble business strategy.** We are of the view that AME is well-prepared for any negative economic shock resulting from the COVID-19 pandemic. The Group still recorded a positive bottom line despite a substantial dropped in major segments namely Construction and Engineering. Recurring income derived from the rental of property and dormitories acts as a saviour under current economic shock due to its sustainability characteristics. Moving forward, the Group plans to expand its worker dormitories aggressively to reassure the business model is much more resilient and effective.
- **Benefiting from intensified trade diversion.** The famed i-Park Industrial Parks of the Group in Johor is capitalizing the prevailing trend of MNCs relocation pursuant to supply chain diversification after the incident of Covid-19 which was originated in China and protracted US-China trade tension.

Besides, we believe Malaysia will be benefited greatly from Japan government's intention to encourage Japanese corporation to shift their productions out of China.

- **Potential lower FDI inflow due to relatively unattractive corporate tax rates.** Indonesia has implemented tax reforms in which corporate income tax will be reduced to 22% from 25% for 2020 and 2021, and will be further cut to 20% in 2022. Besides, the 8% corporate tax cut by India which was announced in 2019 has already seen some positive outcomes as technology behemoth Google and Facebook are planning to invest nearly USD10.2 billion in India. On top of that, famed iPhone assemblers Wistron and Foxconn have already started productions of iPhone to entitle for the 10% corporate tax cut for new manufacturing firms. Notably, Foxconn is planning to invest USD1 billion in India for extending its existing assembly plant to cater for the strong local demand. In a nutshell, the lower tax rates introduced by these nations would lure MNCs away from Malaysia.

#### Earnings Outlook/Revision

- **We reduce our FY21F and FY22F net earnings forecasts by 34.1% and 10.2% respectively,** after adjusting lower on our assumptions for orderbook replenishment.

#### Valuation & Recommendation

- **Maintain BUY with an unchanged target price of RM2.02 following our earnings cut.** Our revised target price is now pegged at higher PE multiple of 14x CY21F (from 13.5 PE) which is in line with -1SD of 10-year Bursa Malaysia Construction Index mean PER. We peg our valuation to CY21 instead of FY21 considering the impact of MCO & CMCO in 1<sup>st</sup> half of CY2020 which caused exceptional profit drop as well as quicker than expected economic recovery post CMCO.

**Figure 1: Quarter Result**

YEAR END MARCH	1Q21	1Q20	YoY	4Q20	QoQ
Construction	14.7	40.0	-63%	44.8	-67%
Property development	24.3	36.5	-33%	22.6	8%
Engineering	6.9	11.8	-41%	21.3	-67%
Property Investment & Management Services	8.7	6.0	45%	9.4	-7%
Revenue	54.7	94.3	-42%	98.1	-44%
Cost of Sales	(40.9)	(63.1)	-35%	(70.9)	-42%
Gross profit	<b>13.8</b>	<b>31.2</b>	-56%	<b>27.2</b>	-49%
Other operating income	0.8	0.3	N/A	6.9	N/A
Distribution expenses	(0.6)	(1.2)	N/A	(2.5)	N/A
Administration expenses	(8.0)	(8.9)	N/A	(9.7)	N/A
<b>Operating Profit</b>	<b>6.0</b>	<b>21.4</b>	-72%	<b>21.5</b>	-72%
Finance cost	(1.4)	(3.5)	N/A	(1.7)	N/A
Share of JV	2.0	1.1	81%	0.4	N/A
<b>PBT</b>	<b>6.6</b>	<b>19.0</b>	-66%	<b>20.1</b>	-67%
Tax	(0.6)	(4.5)	N/A	(4.3)	N/A
<b>PAT</b>	<b>6.0</b>	<b>14.5</b>	-59%	<b>15.8</b>	-62%
Minority interest	0.7	1.4	N/A	1.0	N/A
<b>PATAMI</b>	<b>5.3</b>	<b>13.1</b>	-60%	<b>14.8</b>	-65%
Fair value gain	0.0	0.0	N/A	6.2	N/A
<b>Net Profit (Adjusted)</b>	<b>5.3</b>	<b>13.1</b>	-60%	<b>8.6</b>	-39%
Gross margin	25%	33%		28%	
Operating margin	10%	23%		18%	
PBT margin	12%	20%		21%	
Net profit margin	10%	14%		9%	
Tax rate	9%	24%		21%	
<b>SEGMENT PROFIT</b>					
Construction	(1.5)	7.1	-121%	5.6	-126%
Property development	2.3	6.9	-67%	7.1	-68%
Engineering	(2.1)	2.8	-175%	(0.1)	N/A
Property Investment & Management Services (Adjusted)	7.0	5.0	39%	5.5	28%
TOTAL	5.7	21.9	-74%	18.1	-68%
<b>SEGMENT PROFIT MARGIN</b>					
Construction	-10%	18%		13%	
Property development	9%	19%		32%	
Engineering	-30%	24%		-1%	
Property Investment & Management Services (Adjusted)	80%	84%		58%	

**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	337.0	359.4	522.7
Operating profit/EBIT	38.0	70.8	93.6	78.1	77.9	65.4	107.5
PBT	41.2	77.1	98.7	74.1	75.1	67.2	107.9
PAT	32.4	59.7	81.7	52.5	58.9	51.7	83.0
Core Net profit	26.1	43.0	48.7	32.5	40.8	47.6	76.4
<b>Growth (%)</b>							
Revenue		19.2%	14.3%	-2.3%	1.6%	6.6%	45.5%
Operating profit		86.4%	32.2%	-16.6%	-0.3%	-16.0%	64.3%
PBT		87.1%	27.9%	-24.9%	1.3%	-10.5%	60.5%
PAT		84.1%	36.8%	-35.7%	12.1%	-12.1%	60.5%
Net profit		64.7%	13.1%	-33.2%	25.3%	16.8%	60.5%
<b>Margin (%)</b>							
Operating profit	15.2%	23.8%	27.6%	23.6%	23.1%	18.2%	20.6%
PBT	16.5%	26.0%	29.1%	22.4%	22.3%	18.7%	20.6%
PAT	13.0%	20.1%	24.1%	15.8%	17.5%	14.4%	15.9%
Net profit	10.5%	14.5%	14.3%	9.8%	12.1%	13.2%	14.6%
ROE	10.7%	18.2%	18.8%	11.2%	8.1%	7.8%	12.4%
ROA	6.2%	7.5%	8.7%	5.5%	4.7%	4.7%	6.8%
EPS	0.08	0.14	0.17	0.11	0.13	0.11	0.18
BV/Share	0.71	0.77	0.93	1.02	1.57	1.43	1.44
P/B	2.4	2.2	1.8	1.7	1.1	1.2	1.2
P/E	22.2	12.1	9.7	14.8	13.3	15.2	9.4
Net gearing	-11%	43%	28%	26%	14%	8%	22%
Dividend yield	4.14%	1.78%	1.78%	0.71%	1.78%	1.32%	2.12%
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	2.23	3.58

Source: Company, JF Apex

## JF APEX SECURITIES BERHAD – CONTACT LIST

### JF APEX SECURITIES BHD

**Head Office:**

6<sup>th</sup> Floor, Menara Apex  
Off Jalan Semenyih  
Bukit Mewah  
43000 Kajang  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 8736 1118  
Facsimile: (603) 8737 4532

**PJ Office:**

15<sup>th</sup> Floor, Menara Choy Fook On  
No. 1B, Jalan Yong Shook Lin  
46050 Petaling Jaya  
Selangor Darul Ehsan  
Malaysia

General Line: (603) 7620 1118  
Facsimile: (603) 7620 6388

### DEALING TEAM

**Head Office:**

Kong Ming Ming (ext 3237)  
Shirley Chang (ext 3211)  
Norisam Bojo (ext 3233)

**Institutional Dealing Team:**

Zairul Azman (ext 746)  
Siti Nur Nadhirah (ext 743)  
Nur Nadia (ext 741)

**PJ Office:**

Mervyn Wong (ext 363)  
Azfar Bin Abdul Aziz (Ext 822)  
Joanne Tan Hui Bin (Ext 111)

### RESEARCH TEAM

**Head Office:**

Lee Chung Cheng (ext 758)  
Lee Cherng Wee (ext 759)  
Nursuhaiza Hashim (ext 752)  
How Chi Hoong (ext 754)

## 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

## JF APEX SECURITIES BERHAD – DISCLAIMER

Disclaimer: The report is for internal and private circulation only and shall not be reproduced either in part or otherwise without the prior written consent of JF Apex Securities Berhad. The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this report.

Opinions, estimates and projections in this report constitute the current judgment of the author. They do not necessarily reflect the opinion of JF Apex Securities Berhad and are subject to change without notice. JF Apex Securities Berhad has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

JF Apex Securities Berhad does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against JF Apex Securities Berhad. JF Apex Securities Berhad may from time to time have an interest in the company mentioned by this report. This report may not be reproduced, copied or circulated without the prior written approval of JF Apex Securities Berhad.

Published & Printed By:  
**JF Apex Securities Berhad** (47680-X)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)