

AME Elite Consortium Bhd

Industrial park specialist

- **AME Elite Consortium Bhd (AME)** is regarded as an industrial park specialist that involves in industrial park development, leasing of industrial properties and managed workers' dormitories.
- **Capitalising on trade diversion with companies relocating their manufacturing facilities amid the on-going US-China trade war. Property investment & management services segment provide sustainable long term earnings visibility.**
- **We initiate coverage on AME with a BUY call and fair value of RM2.29, based on 13.0x P/E pegged to its forward FY22f EPS of 17.6 sen.**

Investment Highlights

- **Established niche industrial park player.** We like AME for its position as a niche integrated construction player, specialised in industrial parks tenanted by multinational corporations across the globe which represents approximately 86.0% of clientele in i-Park @ Indahpura. The property investment & management services segment complements the industrial parks through rentals from industrial properties and workers dormitory will provide long term earnings visibility.
- **Expansion of industrial park development.** AME currently owns 4 industrial parks in Johor, supported by the in-house construction and engineering segment. Apart from the existing expansion (via several phases) in Johor, AME is actively seeking for land banking activities at the other states of Peninsular Malaysia via joint ventures (JV) to replicate their success at Johor.
- **Capitalising on trade diversion.** Over the years, multinational companies (MNCs) are re-locating their businesses to avoid the implementation of tariffs from the US-China trade war. We view AME i-Parks that are well equipped with comprehensive infrastructures as one of the standout industrial parks to capitalise on the rising FDI.

Financial highlights

FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	341.3	339.0	380.3	388.3	450.1
EBITDA	95.8	82.0	99.8	97.1	112.5
PATMI - Core	71.0	47.3	67.9	63.9	75.1
PATMI - Reported	78.2	51.0	68.6	64.4	75.6
Revenue growth (%)	14.2%	-0.7%	12.2%	2.1%	15.9%
Core PATMI growth (%)	23.1%	-33.3%	43.3%	-5.8%	17.4%
Core EPS (sen)	16.6	11.1	15.9	15.0	17.6
P/E (x)	11.7	17.5	12.2	13.0	11.0
DPS (sen)	-	-	3.0	3.0	3.8
Dividend yield (%)	0.0%	0.0%	1.5%	1.5%	1.9%
P/B (x)	2.1	1.9	1.2	1.2	1.1
ROE (%)	17.9%	10.8%	10.2%	9.0%	9.7%
Net Gearing (%)	27.8%	26.0%	13.7%	18.0%	17.0%

Source: Company & M+ Online

Initiation Coverage

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BUY

Share price	RM1.94
Target price	RM2.29
Previous TP	-
Capital upside	18.0%
Dividend return	1.5%
Total return	19.6%

Company profile

Principally involved in construction of customised large manufacturing plants and design, build and development of industrial parks

Stock information

Bursa Code	5216
Bloomberg ticker	AME MK
Listing market	MAIN
Share issued (m)	427.1
Market Cap (m)	882.6
52W High/Low	2.05 / 1.01
Est. Free float	26.5
Beta	0.4
3-mth avg vol ('000)	1,025.3
Shariah compliant	Yes

Major shareholders

Lim Yook Kim	20.7
Lee Chai	20.4
Kang Ah Chee	20.3

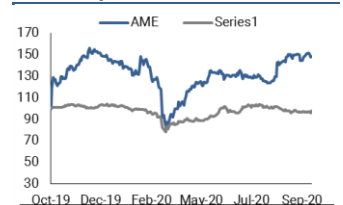
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	2.1	14.1	51.9
Relative	0.4	18.7	50.0

Earnings snapshot

FYE (Dec)	FY19	FY20f	FY21f
PATMI (m)	67.9	63.9	75.1
EPS (sen)	15.9	15.0	17.6
P/E (x)	12.2	13.0	11.0

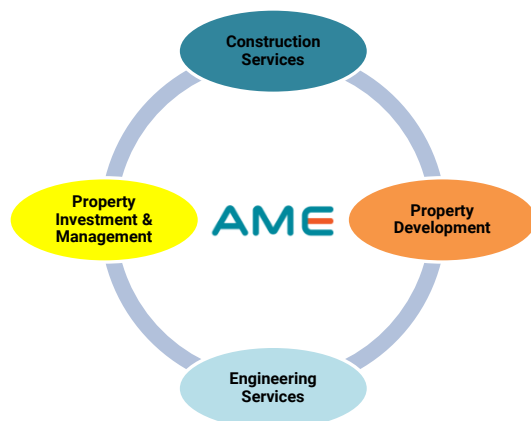
Relative performance chart



Company Background

- **More than 20 years of experience in the construction industry.** Started off in 1995, AME Construction Sdn Bhd, a subsidiary of AME Elite Consortium Bhd (AME) involved in the design and construction of large customised manufacturing plants and industrial buildings in Johor. A year later, the group commenced the mechanical & electrical engineering before expanding into the steel engineering in 2008.
- **Expansion in progress.** In 2011, AME launched two industrial parks – i-Park @ SiLC and i-Park @ Indahpura, whilst SME City was launched in 2013. In 2017, AME launched i-Park @ SAC. The combined area of the group’s industrial parks measures approximately 439.1-ac. Following the completion of its industrial parks, AME also offers property investment and management through rental and management services for workers’ dormitories and facilities.
- **Extensive experience over the years, equipped with strong manufacturing capabilities.** To-date, AME has completed over 200 manufacturing plants and industrial buildings of various sizes in the Peninsular Malaysia for various industries. AME possesses two steel structure lines with a combined capacity of 20,700 tonnes per annum and two precast concrete lines with a combined capacity of 27,600 m³ per annum.
- **Established market presence.** Based on AME’s construction segment of having delivered RM233.7m in revenue in FY19, the group commands 2.5% market share in the industrial construction segment in Malaysia. AME also commands a 0.3% market share for the Malaysia industrial park segment in FY19. We also note that AME is backed by strong clientele base with multinational corporations across the globe represents approximately 86.0% of clientele in i-Park @ Indahpura.
- **Recognition of competence.** AME has bagged several awards including the ASEAN Property Awards 2019: Innovative Developer, ASEAN Property Awards 2019: Best Industrial Development and FIABCI World Prix d’Excellence Awards 2019 World Silver Winner for Industrial Category among others.

Business Model



Source: Company & M+ Online

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- **Construction services.** The construction segment is AME's core business, making up 55.8% or RM185.2m of the total group revenue in FY20. The construction segment involves the construction of large manufacturing plants and industrial properties. Together with RM6.5m contract secured in 1QFY21, AME total outstanding orderbook of RM199.1m will provide earnings visibility over the next 18 months. For FY21, we have assigned an orderbook replenishment of RM150.0m, backed by the tenderbook of RM520.0m.
- **Engineering services.** The engineering services segment contributed RM19.5m, representing 5.9% of the group's total revenue. The engineering services segment revolves around the manufacturing and supply of (i) steel structures (ii) precast concrete products, and (iii) mechanical & electrical engineering works for both external and in-house construction projects. The aforementioned segment complements AME's core business, resulting in greater efficiency through cost management, logistics and quality.
- AME operates both steel structures and precast concrete production lines with an annual production capacity of 20,700 tonnes and an annual production capacity of 32,600m³ respectively. Together with RM4.3m contract secured in 1QFY21, AME engineering services outstanding orderbook of RM70.7m will provide earnings visibility over the next 2 years.

Outstanding construction & engineering services orderbook as of Jun-2020

Projects	Location	Commencement	Completion	Total contract value (RM m)	Balance contract value (RM m)
Construction Services					
Single storey warehouse and a two storey factory unit and warehouse with a six storey office block	Selangor	3Q2019	2Q2021	253.3	199.1
Engineering Services					
Precast works for train depot expansion	Singapore	2Q2019	3Q2021	17.4	14.3
Others	-	-	-	185.5	56.4
Total				456.2	269.8

Source: Company

- **Property development.** The property development segment makes up to RM92.3m, representing 27.8% of the group's total revenue. To-date, AME has completed four industrial park projects, namely i-Park @ SiLC, District 6, i-Park @ Indahpura and SME City (50%-owned), all located at Johor. In the meantime, AME is undertaking the expansion of four projects, namely; Phase 3 of i-Park @ Indahpura and Phase 1-3 of i-Park @ Senai Airport City (i-Park @ SAC), The Jacaranda, Plot 108 of i-Park @ Indahpura.
- As of 1QFY21, unbilled sales stood at RM82.2m to be recognised upon the progressive completion of the projects, while a total of RM1.5bn of gross development value (GDV) is in the pipeline till 2025. We note that AME balance land bank stands at approximately 106.0-ac that will sustain the future developments over the next 3-4 years.

Industrial parks



Source: Company

- **Property investment & management services.** The property investment and management services segment that generates recurring income has delivered consistent growth over the years (FY17-FY20). In FY20, the aforementioned segment contributed RM34.6m, representing 10.4% of the group's total revenue. To-date, 35 units of the industrial properties (3 at i-Park @ SiLC, 2 at District 6, 15 at i-Park @ Indahpura and 15 at i-Park SAC) with tenancy period ranges between 2-10 years are leased to third party. All 35 units collectively contribute an aggregate monthly rental income of approximately RM2.0m for FY20.
- AME also develop, own and rent workers' dormitories at their technology parks. Services provided include maintenance of lifts and elevators, exterior building walls and mechanical & electrical systems. As of 1QFY21, AME manages 5,778 beds comprising 3,206 beds at i-Park @ Indahpura (97.0% occupancy rate) and 2,572 beds at i-Park @ SAC (90.0% occupancy rate).

Outlook

- **Expansion of industrial park development.** AME intends to strengthen its position in Malaysia's industrial park development in line with the Malaysian Government's effort in pursuing the Industry 4.0 initiative. Apart from the existing expansion in Johor, AME is actively seeking for land banks at the other states of Peninsular Malaysia or undertake the expansion via joint ventures (JV) to replicate their success at Johor.
- **Strengthen and build core portfolio of workers' dormitories.** The existing and future workers' dormitories are placed close to their work place – being one of the key selling points for the units in the industrial parks. A total of RM25.0m in CAPEX was allocated to expand i-Stay @ Indahpura workers' dormitories which will bring additional approximately 2,700 beds is expected to be completed in 2H2021. Consequently, AME will manage a total of 8,474 beds, upon completion.

- **Diversification into renewable energy.** Recall back in June 2020, AME has formed a JV with Baozhou New Energy Technology Sdn Bhd (BNET) to provide one-stop solar energy solutions to corporations in Peninsular Malaysia. With the JV still in early stage, we reckon that there will be no contribution until FY22f. The diversification into solar energy is also part of AME effort to bring additional value to industrial plants and buildings in existing i-Parks.
- **Benefitting from trade diversion.** We reckon that demand for industrial properties will remain stable, premised to the rising foreign direct investment (FDI). Already, Malaysia FDI recorded an increase of +3.1% YoY to RM31.7bn in 2019. Over the years, multinational companies (MNCs) are re-locating their businesses in order to steer away from the impact from US-China trade war. We view AME i-Parks that are well equipped with comprehensive infrastructures stand out industrial parks to attract the rising FDI.

Financials

- AME has recorded stable core net profit within the range of RM47.0-71.0m that was supported by the existing four core businesses over the years (FY17-FY20).
- For FY21f, we expect bottomline to be mildly lower, falling 5.9% YoY to RM63.9m, despite potential increase of 2.1% YoY to RM388.3m in revenue. The margins contraction is mainly due to weaker construction and engineering services segments that reported operating losses in 1QFY21, impacted by the Movement Control Order (MCO). Nevertheless, we reckon that a recovery is largely in the cards in subsequent quarters as work orders gradually resume.
- Moving into FY22f, we foresee that both top and bottomline will pick up, rising 15.9% YoY and 17.4% YoY to RM450.1m and RM75.1m respectively as operations should normalise by then. Meanwhile, we reckon that gearing levels will remain manageable, below 50.0% for both FY21f and FY22f.

Valuations

- At RM1.94, AME is trading at PERs for FY21f and FY22f of 13.0x and 11.0x, respectively. We assigned a P/E multiple of 13.0x to FY22f EPS of 17.6 sen, arriving at a fair value of RM2.29. We note that there are no direct peers listed on Bursa Malaysia. The assigned target P/E represents a slight premium to the average of 9.0x-11.0x of small-medium capitalisation construction companies listed on Bursa Malaysia. The premium is justifiable due to AME niche integrated business model.
- We also note that AME has implemented a dividend policy of minimum 20.0% payout from net profit, barring any unforeseen circumstances. For FY20, AME has declared an interim dividend of 3.0 sen per share. Moving forward, we have imputed an assumption pay out of 3.0 sen and 4.0 sen in FY21f and FY22f respectively.

Peers comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue (RM 'm)	Net Income (RM 'm)
					FY20	FY21			
AME Elite Consortium Bhd	MAIN	Mar	1.94	828.6	13.0	11.0	1.5	388.3	63.9
Gromutual Bhd	MAIN	Dec	0.25	93.9	10.5	-	-	44.9	9.0
Bina Puri Holdings Bhd	MAIN	Dec	0.09	76.8	-	-	-	402.2	-15.7
Crescendo Corporation Bhd	MAIN	Jan	0.90	252.4	13.2	-	3.3	240.9	19.2
Avg ex-AME Elite Consortium Bhd					11.8	-	3.3	229.3	4.1

* In view of AME's niche business, there is no direct peers listed on Bursa Malaysia

** The above companies have exposure in the development on industrial properties

Source: Company & M+ Online

Investment risks

- **Dependence on the foreign direct investment in Malaysia.** A change in government policy that is unfavorable to foreign investors will hinder the sales of their units in the industrial park. Existing tenants might also not renew their contracts upon expiry.
- **Land banking replenishment for future development projects.** Sourcing of new landbanks is no easy feat to cater for relatively large scale property and construction projects, taking into account of the pricing and geographical location of the land.
- **Failure to meet targeted orderbook replenishment.** The majority of projects are awarded after a highly competitive bidding process, subjected to certain criteria such as the contractor track record, technical capabilities, suitability of equipment and registration grades.

Financial Highlights

Income Statement						Balance Sheet					
FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f
Revenue	341.3	339.0	380.3	388.3	450.1	Cash	109.8	102.5	191.8	177.3	198.3
EBITDA	95.8	82.0	99.8	97.1	112.5	Receivables	78.4	94.4	86.2	90.4	98.6
EBIT	90.2	76.6	93.3	90.2	104.8	Inventories	231.6	234.1	357.8	386.6	391.5
Net finance income/ (cost)	(0.4)	(3.4)	(10.0)	(10.1)	(10.8)	PPE	77.3	95.4	100.6	105.3	111.1
Associates & JV	5.5	(0.6)	5.3	5.8	6.8	Others	360.4	367.0	417.5	455.9	501.9
Profit before tax	95.2	72.6	88.7	85.9	100.8	Assets	857.5	893.4	1,153.9	1,215.7	1,301.4
Tax	(17.0)	(21.6)	(20.0)	(21.5)	(25.2)	Debts	219.7	215.8	283.2	305.7	329.8
Net profit	78.2	51.0	68.6	64.4	75.6	Payables	150.6	138.2	144.6	138.6	139.5
Minority interest	7.2	3.6	0.8	0.5	0.5	Others	91.5	102.6	58.3	59.4	60.4
Core earnings	71.0	47.3	67.9	63.9	75.1	Liabilities	461.8	456.7	486.2	503.7	529.7
Exceptional items	-	-	-	-	-	Shareholder's equity	369.1	406.4	633.9	685.0	744.0
Reported earnings	71.0	47.3	67.9	63.9	75.1	Minority interest	26.6	30.3	33.8	26.9	27.7
						Equity	395.7	436.7	667.6	711.9	771.7
Cash Flow Statement						Valuation & Ratios					
FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f	FYE Mar (RM m)	FY18	FY19	FY20	FY21f	FY22f
Profit before taxation	95.2	72.6	88.7	85.9	100.8	Core EPS (sen)	16.6	11.1	15.9	15.0	17.6
Depreciation & amortisation	5.6	5.4	6.5	6.9	7.7	P/E (x)	11.7	17.5	12.2	13.0	11.0
Changes in working capital	14.6	(17.5)	117.7	147.1	19.3	DPS (sen)	-	-	3.0	3.0	3.8
Share of JV profits	(5.5)	0.6	(5.2)	-	-	Dividend yield	0.0%	0.0%	1.5%	1.5%	1.9%
Taxation	(17.4)	(16.2)	(14.4)	(20.0)	(22.5)	BVPS (RM)	0.93	1.02	1.56	1.67	1.81
Others	(26.6)	(16.7)	(13.4)	(15.0)	(15.0)	P/B (x)	2.1	1.9	1.2	1.2	1.1
Operating cash flow	100.2	45.9	(40.1)	(89.3)	52.1	EBITDA margin	28.1%	24.2%	26.2%	25.0%	25.0%
Net capex	(43.1)	(48.2)	(63.0)	(54.2)	(98.5)	EBIT margin	26.4%	22.6%	24.5%	23.2%	23.3%
Others	(11.0)	7.6	19.3	25.0	-	PBT margin	27.9%	21.4%	23.3%	22.1%	22.4%
Investing cash flow	(54.1)	(40.6)	(43.7)	(29.2)	(98.5)	PAT margin	22.9%	15.0%	18.0%	16.6%	16.8%
Changes in borrowings	(31.2)	(3.9)	67.4	22.5	24.0	Core PAT margin	20.8%	14.0%	17.8%	16.5%	16.7%
Issuance of shares	0.3	-	107.6	-	-	ROE	17.9%	10.8%	10.2%	9.0%	9.7%
Dividends paid	(10.3)	(10.0)	-	(12.8)	(16.0)	ROA	8.3%	5.3%	5.9%	5.3%	5.8%
Others	(14.4)	6.2	1.5	-	-	Net gearing	27.8%	26.0%	13.7%	18.0%	17.0%
Financing cash flow	(51.0)	(12.2)	178.5	104.0	67.4						
Net cash flow	(4.9)	(6.9)	94.7	(14.5)	21.0						
Forex	-	-	-	-	-						
Others	-	-	-	-	-						
Beginning cash	90.2	85.3	78.4	173.2	158.7						
Ending cash	85.3	78.4	173.2	158.7	179.7						