CLSA

AME ELITE

RM2.48 - BUY

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Please click here for our voting matrix.

Initiating coverage

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5 August 2021

Malaysia
Property

Reuters	AMEE.KL
Bloomberg	AME MK
Priced on 4 August 2021	
KLSE Comp @ 1,491.3	
12M hi/lo	RM2.75/1.58
12M price target	RM3.00
±% potential	+21%
Shares in issue	427.1m
Free float (est.)	29.3%
Market cap	US$251m
3M ADV	US$0.5m
Foreign s'holding	4.0%

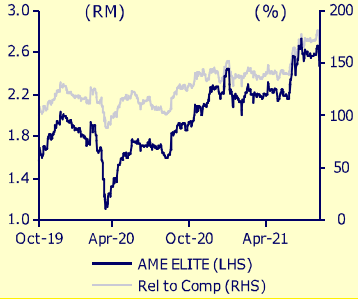
Major shareholders
Lim Yook Kim 20.0%
Lee Chai 19.7%

Blended ESG Score (%)*	
Overall	79.7
Country average	70.7
GEM sector average	67.5

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	(5.3)	12.7	54.0
Relative	(2.7)	20.1	62.8
Abs (US$)	(6.6)	9.7	54.2



Source: Bloomberg

Growing industrial expert

One of a kind developer in Malaysia and a proxy to industrial growth

AME ELITE stands out as a clear reopening proxy given its niche in industrial properties with a particular focus on attracting manufacturing facility set-ups. Its expertise in construction and engineering services allows the business to capitalise on value engineering alternatives for its customers and helps it command a superior margin. While it derives earnings growth from strong contract wins, it is also preparing to unlock value via a shariah-compliant REIT listing targeted for 1H22. We initiate coverage with a BUY rating and a SOTP-derived target price of RM3.00.

Specialising in a value-added services

Different from other listed developers (which mainly focus on residential projects), AME specialises in integrated industrial property development. Notably, there are no direct comparable peers in Malaysia given its niche. Its expertise allows the business to capitalise on value-added services such as building customisation for clients, which are 90% MNCs, allowing it to command superior margins. We expect the company to see a 3-year Cagr of 20% till FY24CL.

Ambitious sales, order-book and acquisition targets

In addition to land-banking, AME's technical know-how allows for scalable growth via potential JV developments and an increased variety of value-added services. In the near-term, we view AME's FY22 sales target of RM200m positively (up 40% YoY) and note the upcoming land acquisition may provide further upside to this target. On construction, we expect near-term growth to stem from contract wins, and order-book replenishment, which should normalise at RM200m/year by FY24CL.

Two-pronged growth from within and beyond

Sizeable recurring income is generated via the leasing of industrial units (c.20% allocated from industrial parks) and worker dormitories. Growth will stem from upcoming units for the proposed land acquisition alongside ongoing dormitory expansion (which has strong demand). We also see AME unlocking value from its property investments via a shariah-compliant REIT listing slated for 1H22.

Initiate coverage with a BUY rating and RM3.00 target price

We initiate coverage of AME with a BUY rating and a SOTP-derived RM3.00 target price implying 22% upside. We are positive on its growth trajectory post-FY22, with stronger contract wins. Catalysts for the stock include it being a proxy reopening play facilitating additional foreign demand as well as a potentially higher-than-expected REIT listing valuation (our valuation implies a yield of 5%) which should command a scarcity premium given its shariah status.

Financials

Year to 31 March	20A	21A	22CL	23CL	24CL
Revenue (RMm)	380	461	258	487	518
Net profit (RMm)	51	46	38	75	80
EPS (sen)	11.9	10.8	9.0	17.5	18.8
CL/consensus (2) (EPS%)	-	-	-	-	-
EPS growth (% YoY)	-	(8.8)	(16.8)	94.1	7.8
PE (x)	20.9	22.9	27.6	14.2	13.2
Dividend yield (%)	1.2	1.6	1.2	2.0	2.4
PB (x)	1.7	1.6	1.5	1.4	1.3
ROE (%)	9.7	7.1	5.6	10.3	10.3
Net debt/equity (%)	13.7	(3.3)	(5.0)	2.2	7.6

Source: www.clsa.com

For important disclosures please refer to page 28.

evalu@tor The Global Equities Database

Financials at a glance

Year to 31 March	2020A	2021A	2022CL	(% YoY)	2023CL	2024CL
Profit & Loss (RMm)						
Revenue	**380**	**461**	**258**	***(44)***	**487**	**518**
Cogs (ex-D&A)	(260)	(351)	(182)		(348)	(369)
Gross Profit (ex-D&A)	**120**	**109**	**76**	***(30.6)***	**139**	**149**
SG&A and other expenses	(20)	(21)	(13)		(25)	(26)
Op Ebitda	**100**	**88**	**63**	***(28.8)***	**114**	**123**
Depreciation/amortisation	(7)	(7)	(8)		(7)	(7)
Op Ebit	**93**	**82**	**55**	***(32.3)***	**107**	**116**
Net interest inc/(exp)	(10)	(5)	(4)		(5)	(6)
Other non-Op items	(8)	(4)	4		4	4
Profit before tax	**75**	**72**	**54**	***(24.9)***	**106**	**114**
Taxation	(20)	(22)	(13)		(25)	(27)
Profit after tax	**55**	**51**	**41**	***(18.4)***	**80**	**87**
Minority interest	(5)	(4)	(3)		(6)	(6)
Net profit	**51**	**46**	**38**	***(16.8)***	**75**	**80**
Adjusted profit	**61**	**51**	**38**	***(25.1)***	**75**	**80**
Cashflow (RMm)	**2020A**	**2021A**	**2022CL**	***(% YoY)***	**2023CL**	**2024CL**
Operating profit	**93**	**82**	**55**	***(32.3)***	**107**	**116**
Depreciation/amortisation	7	7	8	*13.4*	7	7
Working capital changes	(109)	41	81	*98.3*	(18)	(12)
Other items	(31)	1	(17)		(30)	(33)
Net operating cashflow	**(40)**	**130**	**126**	***(2.9)***	**66**	**77**
Capital expenditure	(11)	(38)	0		0	0
Free cashflow	**(51)**	**92**	**126**	***36.8***	**66**	**77**
M&A/Others	(33)	38	(100)		(100)	(100)
Net investing cashflow	**(44)**	**1**	**(100)**		**(100)**	**(100)**
Increase in loans	67	(36)	-		-	-
Dividends	(13)	(17)	(13)		(21)	(26)
Net equity raised/other	124	5	0		0	0
Net financing cashflow	**179**	**(48)**	**(13)**		**(21)**	**(26)**
Incr/(decr) in net cash	95	83	13	*(83.7)*	(55)	(48)
Exch rate movements	19	(3)	0		0	0
Balance sheet (RMm)	**2020A**	**2021A**	**2022CL**	***(% YoY)***	**2023CL**	**2024CL**
Cash & equivalents	192	271	285	*5*	230	182
Accounts receivable	86	94	53	*(43.8)*	100	107
Other current assets	366	320	208	*(34.9)*	295	312
Fixed assets	101	132	124	*(5.8)*	117	110
Investments	365	344	447	*30.1*	551	654
Intangible assets	0	0	0		0	0
Other non-current assets	44	31	31	*0*	31	31
Total assets	**1,154**	**1,192**	**1,148**	***(3.7)***	**1,323**	**1,395**
Short-term debt	22	21	25	*15.3*	25	25
Accounts payable	145	147	75	*(49.1)*	191	202
Other current liabs	31	60	60	*0*	60	60
Long-term debt/CBs	261	226	223	*(1.5)*	223	223
Provisions/other LT liabs	27	25	25	*0*	25	25
Shareholder funds	634	675	700	*3.8*	753	808
Minorities/other equity	34	38	41	*7.7*	46	52
Total liabs & equity	**1,154**	**1,192**	**1,148**	***(3.7)***	**1,323**	**1,395**
Ratio analysis	**2020A**	**2021A**	**2022CL**	***(% YoY)***	**2023CL**	**2024CL**
Revenue growth (% YoY)	-	21.1	(44.0)		88.7	6.5
Ebitda margin (%)	26.3	19.2	24.4		23.4	23.7
Ebit margin (%)	24.6	17.7	21.4		21.9	22.4
Net profit growth (%)	-	(8.8)	(16.8)		94.1	7.8
Op cashflow growth (% YoY)	-	nm	(2.9)		(47.4)	16.7
Capex/sales (%)	2.9	8.2	0.0		0.0	0.0
Net debt/equity (%)	13.7	(3.3)	(5.0)		2.2	7.6
Net debt/Ebitda (x)	0.9	-	-		0.2	0.5
ROE (%)	9.7	7.1	5.6		10.3	10.3
ROIC (%)	19.9	14.4	12.9		28.4	30.0

Source: www.clsa.com

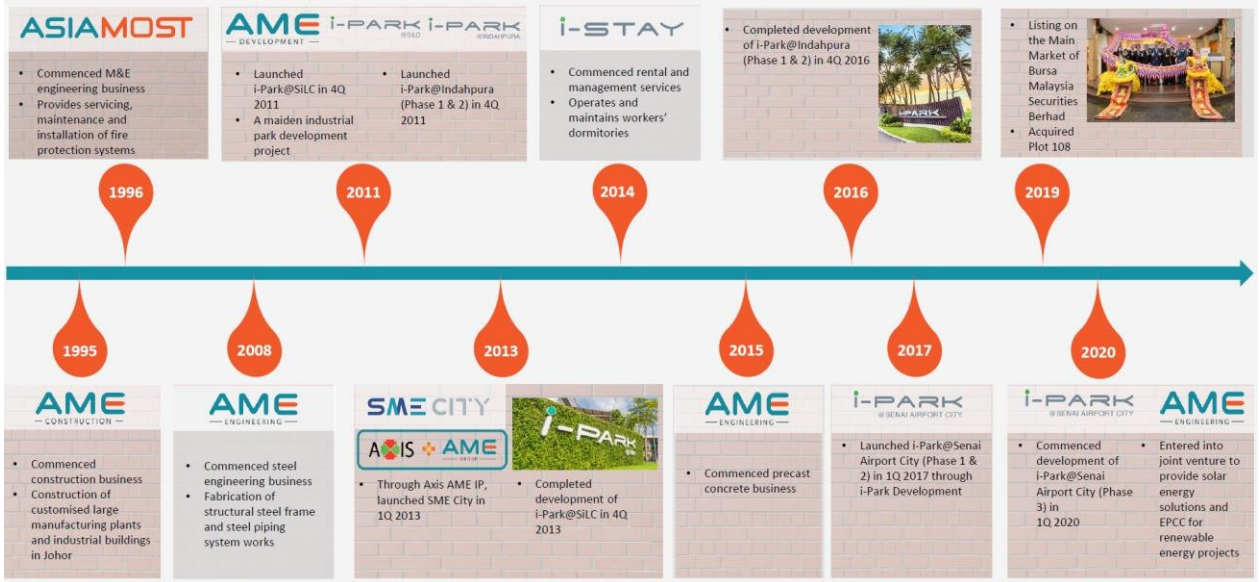
An integrated industrial property developer with over-25 years of construction experience

Growing industrial expert

AME Elite Consortium Berhad (AME) was established as a pure construction service provider in 1995 and has evolved to an integrated industrial space solutions provider, with operations such as the development of industrial parks, the sale and lease of industrial units (factories and warehouses), management and rental of worker dormitories (to complement its industrial parks), as well as designing and constructing large industrial buildings and manufacturing plants. We would note that this is a niche service in Malaysia, with no directly comparable peers as other developers are mostly specialised in developing residential properties.

Figure 1

AME has 25 years of experience in being part of the country's industrialisation



Source: Company

Optimism largely from growth prospects

Why AME is a BUY and deserves attention

Our bullishness on AME is predicated on the following key reasons:

- Business model with a pricing advantage
- Ambitious acquisition pipeline
- Growing recurring income stream
- Stronger contract wins expected
- Value unlocking via a planned REIT listing

Challenges mostly stem from the pandemic

Key challenges

On the other hand, downside risks to our optimism include a potential delay in contract awards (for both the construction and property development segments) from a prolonged pandemic and delay in economic recovery. Further delays in international border reopening (which we expect should take place in 2022) also makes it more difficult for international clients to lock in contracts to purchase its industrial properties.

Business model with a pricing advantage

A niche with no direct comparable peer in the country

As opposed to other developers which are focused mainly on residential and commercial projects, AME is an integrated industrial property developer which provides one-stop solutions for its clients. There are no direct comparable peers within Malaysia for the company, given its expertise in construction and engineering services allowing the business to capitalise on value engineering alternatives for industrial customers. The strategic location of the industrial parks (nearby connecting highways, airport, and the Singapore 2nd Link Expressway) as well as its facilities and amenities are key factors in attracting both local as well as MNCs to setup their production plants within the industrial parks.

Experienced management to drive the company

The company's experienced management team with in-depth industry know-how allows it to facilitate the approval process with authorities (coordinates with third-parties for business registrations, licenses and permits), customise and construct (including renovation and retrofitting services) factories typically within a year. The company is owner-run (by Mr. Lee) with family members taking up a number of Board seats, though the Board is comprised of 50% independent directors, more than the 1/3 listing rule. Notably, Mr. Lee was instrumental in transforming AME which started in 1995 as a construction provider to the company it is today, which has now delivered over 200 customised industrial units.

In-house construction and engineering arm to support the development business

Construction work is typically done in-house, while certain projects which have less urgency in terms of timeline (e.g. worker dormitories) are occasionally outsourced to optimise its manpower. Its construction arm also bids for external projects with a tender book of close to RM600m as of 4QFY21.

Figure 2

Land-bank detail as of FY21

	Type of development	Acres	Units	% Sold/ Leased	Commencement/ completion (CY)	Total/ Est. Total (RM'm)	Sold (RM'm)	Balance (RM'm)	Unbilled (RM'm)
Completed									
i-Park @ SiLC	Industrial factory (gated & guarded)	12.3	19	100	4Q 2011/ 4Q 2013	80	65	15	
District 6	Industrial factory with office	7.6	6	83	2Q 2014/ 3Q 2015	86	13	73	
i-Park @ Indahpura (Phase 1 & 2)	Industrial factory, commercial development and dormitory (gated & guarded)	104.8	64	95	4Q 2011/ 4Q 2016	600	361	239	
SME City	Industrial factory and commercial development	40	86	100	1Q 2013/ 2Q 2015	192	192		
Ongoing									
i-Park @ Indahpura (Phase 3)	Industrial factory (gated & guarded)	85.4	35	95	1Q 2013/ 2023	456	395	61	
i-Park @ Senai Airport City (Phase 1 & 2)	Industrial factory, commercial development and dormitory (gated & guarded)	98.1	51	94	1Q 2017/ 2025	717	375	342	26
The Jacaranda	Commercial development (retail shops)	13.9	48	83	1Q 2019/ 2021	68	53	15	14
i-Park @ Senai Airport City (Phase 3)	Industrial factory (gated & guarded)	76.6	36	22	1Q 2020/ 2025	555	152	403	24
i-Park @ Indahpura (Plot 108)	Industrial factory (gated and guarded)	15	2	100	2Q 2020/ 4Q 2021	120	56	64	
	Total	453.7	347			2874	1662	1212	64

Source: CLSA, Company

Proven track record with over 90% of its tenants being multinationals

The success of the industrial parks can be seen in its proven track record in attracting investments and businesses with close to 90% of its tenants being multinationals (MNC). During FY21, right from the onset of the pandemic and border closures, the company still managed to lock in RM140m in sales (from RM146m YoY), comprising of both new and existing investors seeking expansion.

The i-Park industrial parks are all gated and guarded, equipped with amenities such as recreational parks, CCTV surveillance and worker dormitories. Furthermore, its current developments are enhanced by the availability of quality worker dormitories (MNCs generally place high importance towards quality) for rent which essentially reduces tenants' hassle of finding housing for its workers as well as reduces logistics issues.

Figure 3

Remaining industrial land bank (acre)

	Johor	Others
AME	237*	0
Mah Sing	21	0
Sunway	0	0
UEM Sunrise	382	0
SP Setia	118	0
Eco World	754	360
Sime Darby Property	225	1173

Source: CLSA, company data. *Includes proposed SiLC land acquisition

Other listed developers tend to focus on residential property

Other listed property developers generally do not focus on developing such industrial products as their focus remains on residential and commercial projects. Our channel checks with other developers reveal it is not as easy to replicate the success of AME's industrial development given its clientele network (and track record) alongside its expertise in designing and construction capabilities.

AME generates stronger margins relative peers

AME is able to garner superior property development net margins in the double digits in comparison to peers which typically command net margins in the single digits (e.g. Sime Darby Property and Eco World). It offers value-added services whereby it offers building customisation and systems to improve the quality of its products while optimising costs. Its steel engineering and precast production facilities are located in Taman Teknologi, Johor, allowing it to customise structures in an off-site factory and provide just-in-time delivery.

Further development opportunities to arrive from potential JVs

In terms of scalability, more development opportunities will arise from potential partnerships with companies such as Sime Darby Property and SP Setia which have stated their willingness to potentially JV with other parties in developing their industrial land-banks. These potential JVs provide a win-win environment for both parties as the JV would be able to leverage on AME's expertise while the other party would able to contribute capital and land-banks. Furthermore, this provides an avenue for AME to expand its exposure to other regions such as Klang Valley.

Entered JV to develop solar energy systems, and potentially bidding for LSS in the future

To further enforce its integrated services, the company entered into a 51:49 JV with Baozhou New Energy Technology (BNET) (in June 2020) to provide one-stop solar energy solutions to corporations in its industrial parks. In this partnership, BNET provides the technological expertise in solar energy (including panels and solar tracking systems). Over the long run, the company plans to bid for external projects and potentially even bid for Malaysia's large scale solar (LSS) programmes.

Stronger contract wins expected

Its construction order-book should normalise at RM200m/year

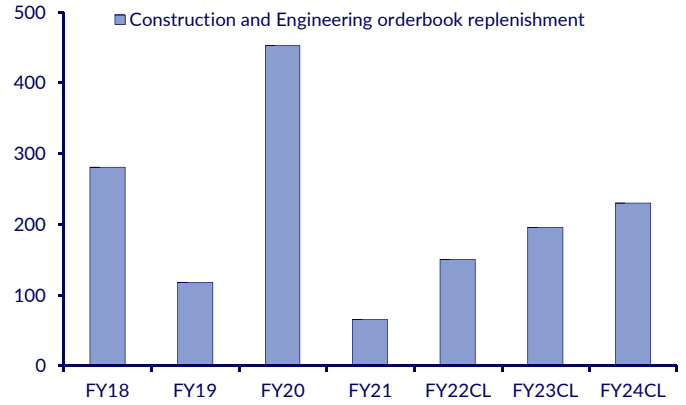
As of 4QFY21, AME has a remaining construction and engineering order-book contract value of RM147.6m in relation to its construction and engineering services, translating to a 0.7x cover ratio. The company has an RM585m construction tender book and RM65m in its engineering tender book, whereby RM44m of the total has been secured as of 1Q22. Post-pandemic, the company expects its order-book replenishment to normalise at RM200m/year on average, and a stark rise from RM52m in FY21. We expect contracts to come through in the coming year or so as the economy reopens from the accelerated vaccinations carried out coupled with potential backlog demand.

FY22 sales target of RM200m (+40% YoY) maintained despite the current movement restrictions

On the property development segment, unbilled sales stood at RM64m (as of 4Q21) and management remains active in negotiating deals with foreign and local clients despite the ongoing challenging operating environment. The company is maintains its FY22 sales target of RM200m for the property development segment (without the SiLC land acquisition) despite tighter movement restrictions which began in June. This target represents a growth of over 40% in comparison to both FY21 and FY20 and we view this positively as it showcases the growing interest in its products. Notably, 2MFY22 saw new sales of RM60m, with c.RM60m in bookings in its pipeline.

Figure 4

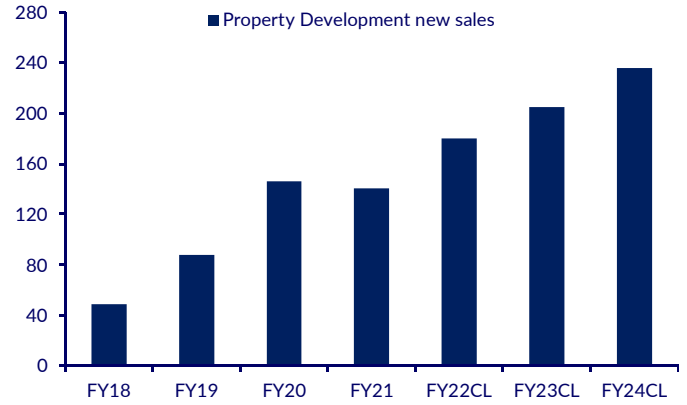
Construction and engineering order-book replenishment



Source: CLSA, Company

Figure 5

Property development new sales



Source: CLSA, Company

More approved investments for the country in 1Q2021

Industrial construction activity is influenced by the nation's economic development and growth in manufacturing and investment activities. Interestingly, it was reported by the Malaysian Investment Development Authority that 1Q2021 approved investment more than doubled to RM58.8bn from manufacturing projects in comparison to RM25.9bn YoY. The majority of these investments were in the electric and electronics sector, forming c.80% of the investments.

A potential beneficiary of trade diversion

Furthermore, the US-China trade war has incentivised international companies (eg. iRobot, Bissell, Cricut and SONOS) to reroute production arms away from China to other Southeast Asian (SEA) countries such as Malaysia, Singapore, Thailand, Philippines, and Vietnam. We believe Malaysia will benefit from the trade war given its strategic location with international air and sea connectivity, its supply of skilled labour with English and Mandarin-speaking capabilities and government incentives.

Ambitious acquisition pipeline

Proposed land-bank acquisition to replenish land-bank pipeline for c.7 years

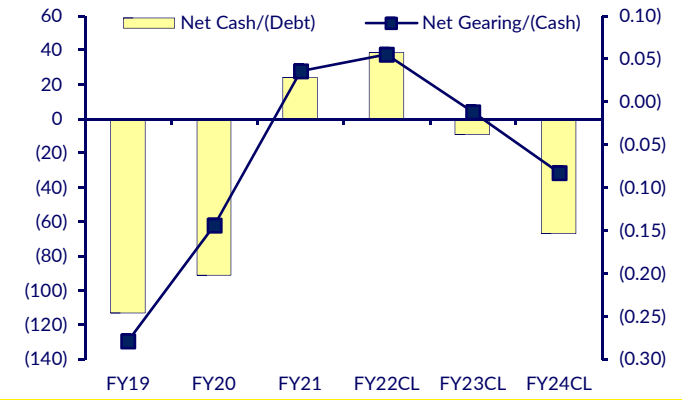
Given the success of its existing land bank, AME has been on the lookout for acquisitions. AME entered a conditional sale and purchase agreement with UEM Sunrise (UEMS) in Dec 2020 for the proposed acquisition of 72 freehold industrial plots in SiLC Phase 3, measuring up to 169.8 acres (or 7.4m sqft) of land for a consideration of RM434.3m (or c.RM59 psf). The estimated GDV from this land is RM1.5bn, replenishing its development pipeline for c.7 years. Upon the completion of the acquisition, AME would have 237.2 acres of remaining land-bank.

Expect a minor impact on its balance sheet as the land will be paid in tranches

The payment structure of the proposed acquisition will be a progressive structure over 3-4 years and is unlikely to create a dent on its immediate balance sheet position. For illustrative purposes, our pro-forma calculation implies that AME's immediate balance sheet position to turn to net gearing of 0.12x (from a net cash of 0.06x as of 4Q21) if the transaction is paid in tranches over four years.

Figure 6

Balance sheet



Source: CLSA, Company

Figure 7

Proposed SiLC land acquisition

Source: Company

Marketing efforts for the proposed land acquisition can be carried out

In the meantime while waiting for the deal to be concluded, AME is allowed to carry out marketing activities for this land. Our channel check with UEMS reveals that this SiLC land was initially earmarked to be sold as plots, but the company had decided to sell the entire land to AME to hasten its monetisation process. The land parcel represents the last of UEMS' SiLC land which is a 1.3k acre freehold industrial land located North-West of Iskandar Puteri and is the only full-fledged managed freehold business park in the region.

Close to RM3bn in of GDV to be monetised upon the completion of the acquisition

With regards to its remaining development to be monetised, AME has 62.9 acres (est. balance GDV of RM1.2bn) of remaining developable land bank with 53.5 acres in Senai Airport City (SAC) and 9.4 acres in Indahpura. This has yet to impute the potential GDV of the SiLC land from UEMS which is expected to provide and additional GDV of c.RM1.5bn. We expect the company to remain on the lookout for other land bank to expand its presence or even potentially JV with other developers for further projects.

Plans to grow its core business out of Johor

Given the success of its industrial park developments in Johor, AME plans to replicate its business model in other regions. The Group is no stranger to operations outside Johor as its Construction arm has presence in Selangor. We remain confident on AME's expansion prospects given the extensive experience gained over the years from its industrial development.

Growing recurring income stream

Property investment and management provides for recurring income

Another key contributor to earnings is the property investment and management segment which provides for recurring income to the company, forming c.30% to bottom-line. AME's flexible leasing services for ready or customised industrialised units within the industrial parks enables its clients to hasten expansion over a short period of time.

Significant growth in assets under management over the years

Currently, there are 28 investment property units leased and 11 inventory units leased while waiting to be sold. This is a stark improvement from just 9 units and 3 units respectively, from back in FY16. The industrial units are typically not standardised units, and instead customised to meet the specifications of the customers. Those which are heavily customised typically garner a longer lease term (with potentially better rates) and upon the completion of the lease term, the customisations will be removed for the units to be repurposed. Currently, there is an equal split between lease tenures of less than 5 years and more than 5 years.

Growth in assets from new industrial parks

With regards to prospects, AME typically allocates at least 20% of its industrial park to be used as leased units for recurring income. As such, near-term growth will stem from the upcoming SiLC land acquisition. Furthermore, AME plans to further enhance the offerings to its dormitories which may include transportation arrangements to and from the industrial parks to surrounding areas such as shopping malls and public amenities. Services such as welfare management, food catering and other ancillary services are also in consideration.

Figure 8

Number of units as of end-FY

	FY16	FY17	FY18	FY19	FY20	FY21
Investment properties						
- i-Park at SiLC	3	3	3	3	3	3
- i-Park @ Indahpura	5	8	8	8	8	8
- District 6	1	2	2	2	1	1
- i-Park @ Senai Airport City	-	12	14	14	22	16 (3 CIP)
Total investment properties	9	25	27	27	34	28
Inventory units						
- i-Park @ Indahpura	8 (3 leased)	4 (3 leased)	4 (4 leased)	4 (4 leased)	3 (3 leased)	3 (3 leased)
- District 6	5	4	4	4	4 (1 leased)	4 (3 leased)
- i-Park @ Senai Airport City			1 (1 leased)	7 (3 leased)	8 (4 leased)	8 (5 leased)
Total inventory units	13	8	9	15	15	15
Workers' dormitories						
- i-Park @ Indahpura	1	1	1	1	1	1
- i-Park @ Senai Airport City				1	1	1
- i-Park @ Indahpura (new)						1 (CIP)
- i-Park @ Senai Airport City (new)						1 (Land)
Total workers' dormitories	1	1	1	2	2	4
Total units	23	34	37	44	51	47

Source: CLSA, Company. Investment properties: being investment properties held for lease. Inventory units: being completed industrial properties held for sale.

Two worker dormitories under management

This segment also houses two worker dormitories catering to industrial park tenants under the brand name i-Stay, present in both Indahpura and SAC. The i-Stay at SAC currently has a capacity of 186 units (2,014 beds) with an occupancy rate of 95% while the i-Stay at Indahpura has 229 units (2,519 beds) with an occupancy rate of 97%.

Two additional worker dormitories in the pipeline; we expect a strong take-up

Dormitory expansion is expected to take place in both Indahpura (2,662 beds by end-2021) and SAC (tentatively c.2,000 beds by end-2022, pending further updates). We expect the upcoming i-Stay at Indahpura dormitory extension to contribute additional yearly revenue of RM7.5m assuming full occupancy (full impact only in FY23 as it is targeted to be complete by 3Q/4QFY22) in comparison to a current revenue base of c.RM12m as of FY21. We expect both of these upcoming dormitories to achieve full utilisation shortly after the completion given the strong interest garnered from existing tenants. The tenure of dormitory tenancies goes up to 5 years and we believe there should be no problem in tenancy renewals as the dormitories are there to complement the tenants of the factories in the industrial parks.

Figure 9

Details of existing worker dormitories

i-Park at Indahpura		i-Park at Senai Airport City	
Capacity	2,519 beds	Capacity	2,014 beds
No. of units/beds	229 units (max. 11 beds each)	No. of units/beds	1) Type 1: 170 units (max. 11 beds each) 2) Type 2: 16 units (max. 9 beds each)
Avg. size per unit	881.5 sq ft	Avg. size per unit	1) Type 1: 1,161.5 sq ft 2) Type 2: 841.9 sq ft
Commenced	Phase 1 - January 2014 Phase 2 - April 2015	Commenced	Phase 1 - May 2019 Phase 2 - July 2019
Term of tenancy	1 – 5 years	Term of tenancy	1 – 3 years
Avg. rental per unit	RM2,475 per month	Avg. rental per unit	1) Type 1: RM2,633 2) Type 2: RM2,322
Occupancy rate	97%	Occupancy rate	95%

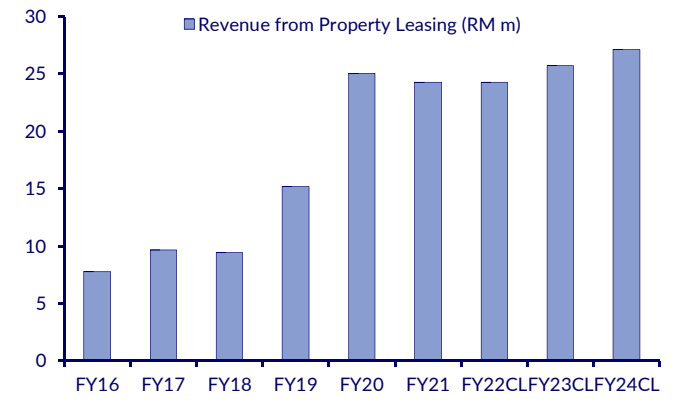
Source: CLSA, Company

Rentals earned is based on units rented and not beds

Notably, the income generated from dormitories come from the rental of units i.e. rental charged will remain constant regardless of the number of beds occupied. This is a positive for the company given the increasing emphasis placed towards the quality of workers' accommodation in Malaysia which discourages accommodation units to be overcrowded (therefore increasing demand for more units) especially with the ongoing pandemic. Furthermore, the housing ministry is drafting out guidelines to disallow low-cost housing including apartments and flats to be used as accommodation and hostels for workers.

Figure 10

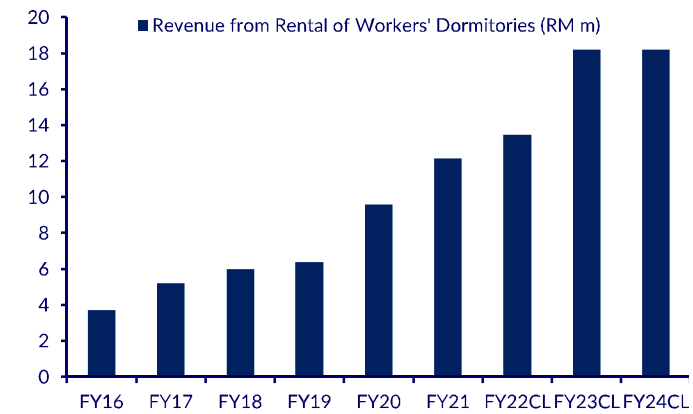
Property leasing revenue



Source: CLSA, Company
*We have assumed the addition of 2 leased units in both FY23 and FY24

Figure 11

Rental of worker dormitory revenue



Source: CLSA, Company
*Growth in revenue forecast to stem from upcoming dormitory expansion

Shariah-compliant REIT listing next year

Value unlocking via a planned REIT listing

AME announced its intention for a proposed REIT establishment and listing back in Dec 2019, with the composition of industrial properties yet to be identified. Currently, the value of its industrial properties, inventory units, and workers' dormitories stands at c.RM500m as of FY21, from only RM177m back in FY16. The planned REIT listing is expected to take place sometime in 1H2022 and is targeted to be shariah compliant. We believe the entity should be able to garner a strong interest, given its exposure towards the industrial sector which is much more resilient than the commercial (facing the oversupply environment and ongoing pandemic) and retail market (hit by the ongoing pandemic) in Malaysia. Furthermore, its shariah compliant status would also allow it to command a scarcity premium amongst its peers, similar to Axis REIT which is its closest peer.

Figure 12

Valuation of existing property investment assets (RM, m) provided by the company

	FY16	FY17	FY18	FY19	FY20	FY21
Investment properties (market value)	84.36	171.85	237	278.8	344.27	325.6
Inventory units (cost)	66.19	48.95	55.35	85.52	92.87	104.5
Workers' dormitories (cost)	26.05	25.59	25.42	57.64	59.66	71.83*
Total	176.6	246.39	317.77	421.96	496.8	501.93

Source: CLSA, Company. *Including a construction in progress in Indahpura and new land at Senai Airport City for building dormitories in the near future.

We expect upside to our valuation upon listing

We currently value the property investment segment at RM540m, which represents a combination of the market value of its investment properties and the cost value of its inventories leased and workers' dormitories (including estimated Capex of dormitory expansions). As such, there will be a potential upside towards this value upon the listing which reflects the market value of the assets and growth plans. Our segment valuation implies a 5% yield rate on FY23 earnings based on the current pipeline assets (in comparison to the implied yield of 4% based on our in-house Axis REIT target price) which we deem is fair given its smaller size. The proceeds of this listing would allow AME to further strengthen its balance sheet for future industrial land acquisitions while allowing investors to directly invest in its REIT assets. The REIT is expected to grow its assets via the acquisition of AME's future industrial parks leased units as well as external acquisitions of industrial units.

Expect ongoing improvements in ESG disclosure

Environmental, social and governance (ESG)

AME has established a comprehensive sustainability governance structure in FY21 to facilitate transparency and accountability on delivering its sustainability commitments. Prior to this, all sustainability-related matters were governed by the management team. Looking ahead, the company plans to improve its disclosures which we note has already seen an improvement in its second annual sustainability statement since listing.

Figure 13

AME sustainability governance structure

Board of Directors	The Board will provide a general oversight of the Group's sustainability performance and determine AME's strategic direction in sustainability.
Sustainability Steering Committee (SSC)	Reports directly to the Board. It is a dedicated sustainability committee put in place to take charge of the planning and integration of sustainability initiatives into the Group's business strategies and operations
Sustainability Working Group (SWG)	The day-to-day management of the sustainability matters resides with the SWG. The SWG is assigned to implement the sustainability strategy and initiatives, perform data gathering, track sustainability progress and report sustainability progress and performance to the SSC.

Source: CLSA, Company

AME has identified 12 out of the 17 United Nations Sustainable Development Goals of relevance to its business. The company carries out its sustainability commitment when providing strategic direction based on three pillars: i) Economic; ii) Environmental; and iii) Social considerations.

Almost all materials and equipment are sourced locally

In addressing Economic, it recognises its responsibilities to its shareholders to drive sustainable long-term growth in its business while creating employment opportunities for the local communities. Notably, it procures most of its materials and equipment from local suppliers, constituting 98% of purchases in FY21 (99.5% in FY20). It has also put in place strict anti-corruption and anti-bribery policies to address fair practice and adherence to applicable law, rules and regulations.

Development adheres to Malaysia's Green Building Index

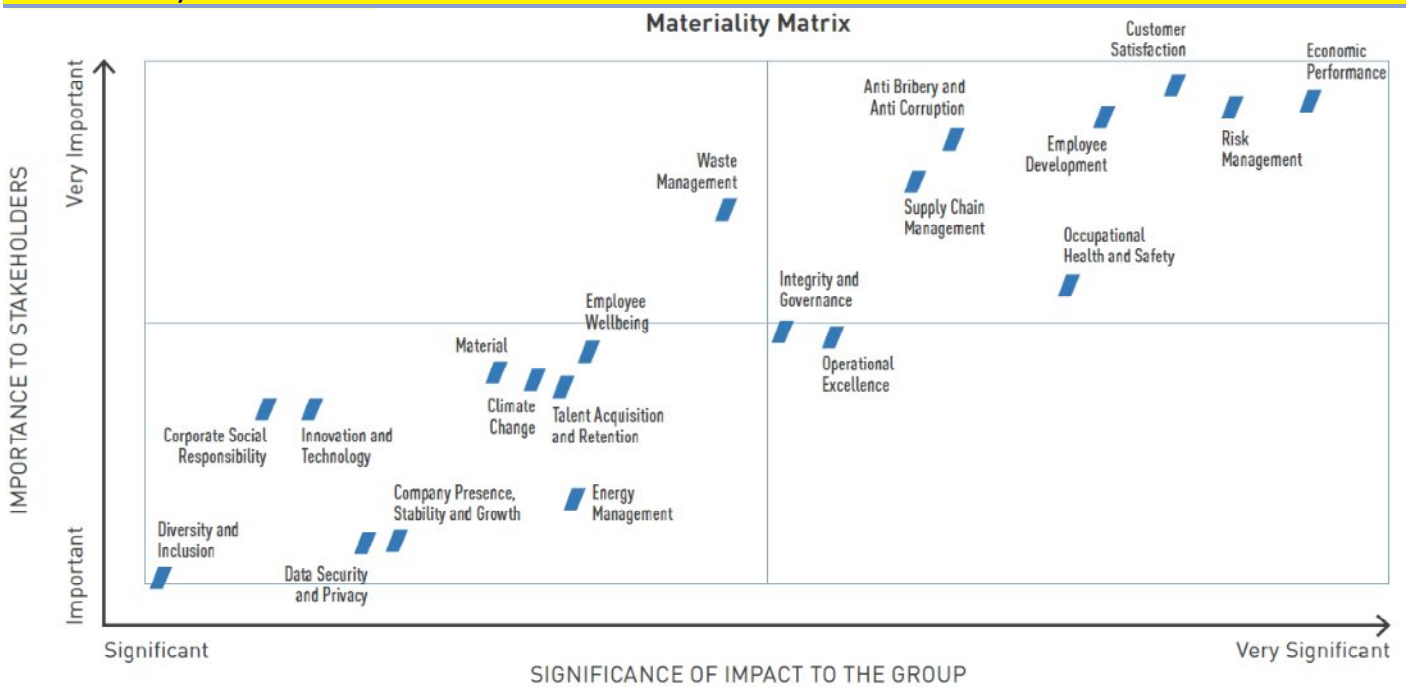
With regards to Environmental, the development, planning and management of i-Park industrial parks are aligned to its sustainability principles to promote a green and conducive environment (e.g. promoting natural lighting and ventilation), while upholding the Green Building Index standards across its development. The Green Building Index is Malaysia's industry recognised green rating tool for buildings to promote sustainability. Notably, c.15-20% of i-Park projects are catered to greenery. The company also manages the waste and effluent of its industrial parks through its Environment Management Plan Report and takes remedial action where necessary. Taking it a step further, AME filters its potential clients by taking into consideration the environmental impacts of the businesses.

Zero LTI recorded in FY21 and FY20

In terms of Social, the company places importance towards the health and safety of its employees. It provides ongoing training (on average of 3.9 hours of monthly training in FY21) for its engineering and construction staffers to ensure high levels of safety at work sites. The construction and engineering divisions are OHSAS 18001 Occupational Health and Safety Management System certified and successfully recorded zero Lost Time Injury (LTI) with 3.3m man hours in FY21 (also recorded zero LTI in FY20).

Figure 14

AME's materiality matrix



Source: Company

Figure 15

AME's ESG score summary

	Discipline 18%	Transparency 18%	Independence 18%	Responsibility 18%	Fairness 18%	CG	ES	Total score
AME	83	75	50	100	100	82	62	80
Country average	63	80	56	64	90	71	70	71

Source: CLSA. Note: CG = corporate governance.

In-house CG score above average largely due to it not being a government-controlled entity

The average corporate governance scoring for AME appears to be above the country average largely on the responsibility category. Note that this is mostly due to it not being a government-controlled entity, which would have dragged its score down to 47 (from 100). The Independence scoring is on the lower end due to it having a female representation of 25% (2 out of 8) on the Board. On this matter, the company has taken steps to increase the representation by appointing 2 female Alternative Directors to be groomed to assume larger responsibilities in the future. The company is shariah compliant, and will remain as such in the upcoming bi-annual review in November given that its cash and debt positions against total assets are below the 33% threshold.

ES score below average due to lack of certain disclosures

AME's total score is largely supported by the higher weightage of CG scores. Meanwhile, its ES scoring appears to be slightly lower than the country average due to lack of disclosures e.g. carbon reduction emission targets, energy usage, and water usage.

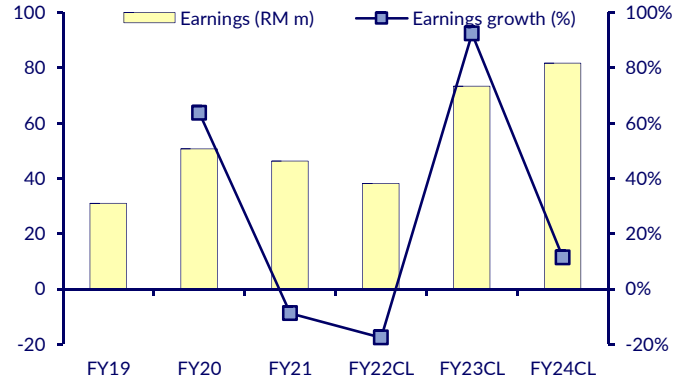
Earnings growth trajectory to stem from stronger targeted contract wins

Financials and forecasts

We project AME to register core earnings of RM38.4m (down 16.8% YoY) in FY22, RM74.6m (up 94.1% YoY) in FY23 and RM80.5m (up 7.8% YoY) in FY24, implying a 3-year Cagr of 20%. We conservatively expect 22CL to register rather weak earnings given ongoing movement restrictions which have caused construction progress disruptions alongside muted order-book replenishment, specifically in its construction arm. Nonetheless our estimates for 22CL are conservative and will see upside if construction work resumes and contracts are won earlier than expected (expecting order-book and unbilled sales to take place closer to 4QFY22). Meanwhile our 23CL earnings jump stems from more normalised operations from order-book replenishment normalising and a much stronger unbilled sales.

Figure 16

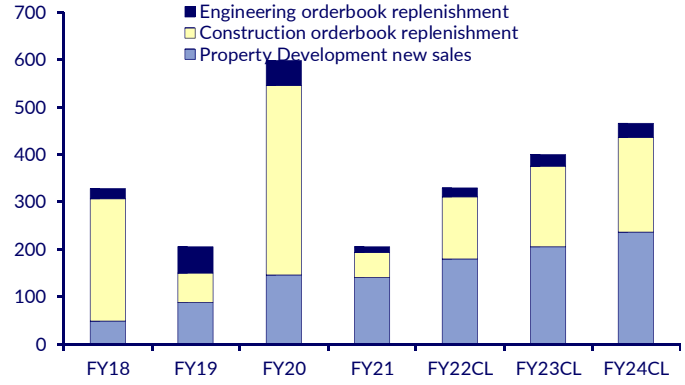
Earnings growth



Source: CLSA, Company

Figure 17

Order-book and sales replenishment



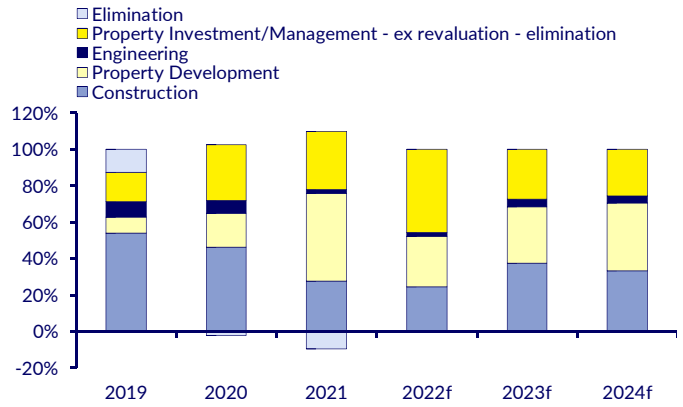
Source: CLSA, Company

Strong balance sheet with a net cash position

The company has a strong balance sheet, achieving a net cash position of 0.06x as of 4Q21, from a net gearing peak of 0.45x in FY17. We view its balance sheet position positively as it allows the company to undertake more projects and fund land-banking exercises. On dividends, AME has a dividend policy to distribute at least 20% of net profit attributable to its shareholders less fair value gains on investment properties. Based on its current share price, AME's yield may not be a draw factor for the stock but we would note the upcoming REIT listing would provide investors an avenue for such investment (ie. a strong recurring yield model).

Figure 18

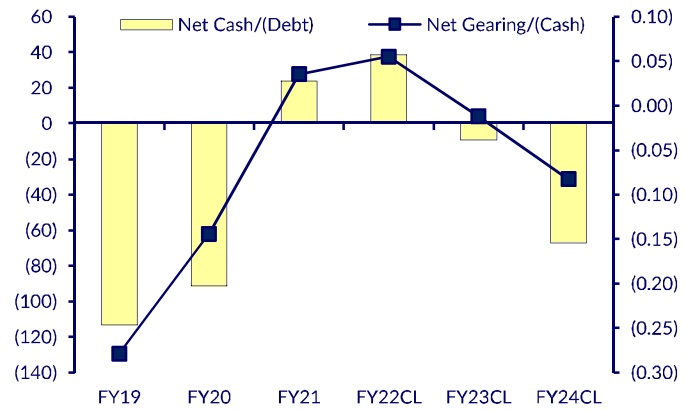
Segmental core PBT estimates as a proportion total PBT



Source: CLSA, Company

Figure 19

Net gearing



Source: CLSA, Company

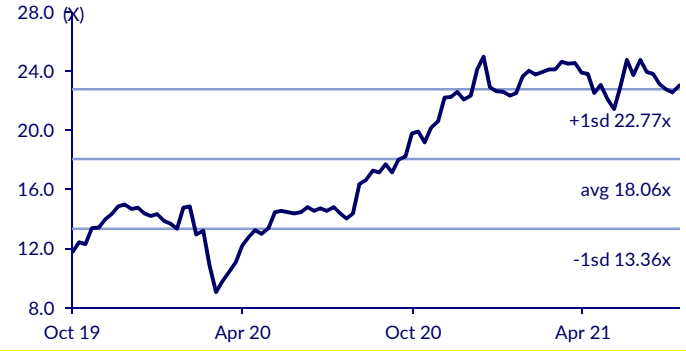
Our implied valuation is fair, and in-line with the blended sector average

Initiating with a BUY and an RM3.00 target price

We initiate coverage with a BUY rating and an SOTP-derived target price of RM3.00, implying 22% upside to its current share price. We value it using SOTP to reflect the various operations within the business. Our target price implies a forward FY23 PE of 14x, which is -0.5 std. below its mean since listing due to strong earnings growth expectations. We deem this valuation fair as it also reflects the blended average of the REIT (20x), property (13x) and construction (14x) Indices' five-year forward PE bands. The property investment division forms the most sizeable valuation portion, and should see further upside upon a REIT listing in 1H22. The property development segment is valued based on an RNAV valuation while the construction segment is valued based on a conservative 11x PE multiple (-1 std. of the construction sector's five-year mean).

Figure 20

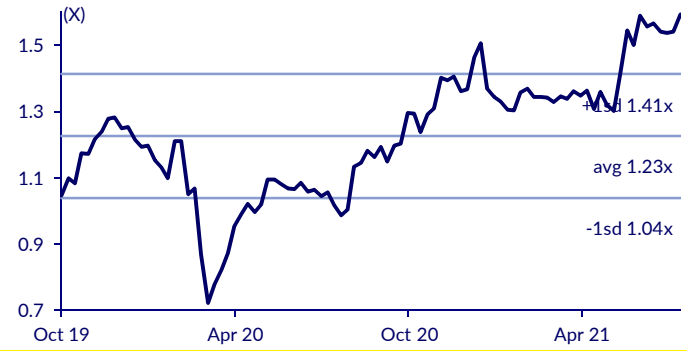
Forward PE bands since listing



Source: CLSA.

Figure 21

Forward P/BV band since listing



Source: CLSA.

There are no directly comparable peers within Malaysia for the company, given its niche expertise in the industrial property space allowing it to garner strong interest from clients, with MNCs forming close to 90% of its industrial park tenants. Its integrated value-added services such as recommendations and customisations for its clients, garners a superior margin in comparison to both construction and property developer peers (net margin of double-digits as opposed to single-digits). The upward trend on P/E band contrary to peers is largely due to its improving outlook which we expect to be further supported by a 3-year earnings Cagr of 20% till FY24CL.

Potential upside to stem from higher-than-expected REIT listing value and stronger contract wins

Potential near-term upside to our target price may arise from a REIT listing valuation being higher than ours (taking place in 1H22) coupled with stronger-than-expected replenishment of its property unbilled sales and construction order-book. We believe its current share price is valuing all its existing assets and has yet to impute a meaningful value for the upcoming SiLC land acquisition (which we expect to do well) and potential upside from the upcoming REIT listing valuation.

Property investment and management forms the largest portion at 43%

Figure 22

SOTP-derived valuation		
Segment	**Value**	**Valuation based on**
Construction and Engineering	357.0	11x PE
Property Investment and Management	549.8	A combination of market value and cost
Property Development	373.1	RNAV
	1279.8	
Share base	427.1	
Target price	3.00	

Source: CLSA, Company

Serval valuations used to value underlying division

Valuation methodology

Given exposure to different businesses throughout the development value chain, our SOTP-derived target uses various methodologies to value its underlying divisions. Our valuation methodology of each division is as follows:

i) Property development: We value this segment based on RNAV by summing shareholders' funds (ie. book value) and the NPV of future profit of the developers' land-bank (COE of 8%). This valuation method is essentially a P/BV valuation, which takes into accounts future profits from land-bank development, which we believe is relevant for the sector.

ii) Property investment: We use the market value of investment properties while inventory and worker dormitories are valued at cost alongside the estimated Capex for the two upcoming dormitory expansions. Our segment valuation of RM540m implies a 5% yield rate on FY23 earnings based on its current pipeline assets (in comparison to an implied yield of 4% based on our in-house Axis REIT target price) which we believe is justified given its exposure to the industrial sector coupled with a scarcity premium of being shariah compliant.

We see this as being more at the conservative end given its plans to grow the REIT business both through its industrial park development and inorganically external acquisitions. The proceeds would of the listing would allow AME to raise funds for future industrial land acquisitions while allowing investors to directly invest into its REIT.

iii) Construction and engineering: We value this segment based on a conservative 11x PE multiple which is just below -1 std. of the 5-year mean of the construction sector, due to its relatively small exposure. Nonetheless, we would note that it is able to register stronger margins (relative to the construction sector), supported by its value-added integrated services provided by its industrial sales.

Proposed bonus, warrants and ESOS issuance

Proposals to be completed by end-2021

To improve the trading liquidity of its shares, the company proposed a 1-for-2 bonus issue of shares, the issuance of 1-for-3 free warrants, and ESOS of up to 10% of the total issued shares. The EGM will be held on 26 August 2021 to obtain the approval of its shareholders and the proposals are expected to be completed by 4Q21.

Warrants to be issued at a premium

The exercise price of the warrants will be determined by the Board at a later date upon receiving the relevant approvals, after taking into account a premium ranging from 10% to not more than 30% to the 5-day VWAP preceding the price-fixing date.

ESOS conversion to not exceed 10% of total issued shares

The proceeds are expected to be utilised for the working capital requirements of the company.

Meanwhile on the proposed ESOS, the maximum number of new AME shares to be allotted should not exceed in aggregate 10% of its total issues shares. The proposed ESOS shall be in force for a period of five years from the date implemented, subject to any extensions up to 10 years. The exercise price shall either be at a premium or at a discount of not more than 10% to the 5-day VWAP preceding the date of offer.

Figure 23

Pro-forma effects of these proposals

	Number of shares (m)	RM (m)	Note
Issued share capital	427.115	620.140	
Shares to be issued pursuant to the Proposed Bonus Issue of Shares	213.558	-	The Bonus Shares will be issued as fully paid, at nil consideration and without capitalisation of the Company's reserves.
	640.673	620.140	
Shares to be issued assuming full exercise of the Warrants	142.372	284.743	Based on the indicative exercise price of Warrants of RM2.00 per Warrant, which represents a premium of approximately 16.28% to the TEBP of RM1.72 calculated based on the 5-day VWAP of AME Shares up to and including the LPD of RM2.58.
	783.044	904.883	
Shares to be issued assuming full exercise of the ESOS Options	78.304	121.372	Based on the illustrative exercise price of the ESOS Options of RM1.55 per ESOS Option, which represents a discount of approximately 9.88% to the TEBP of RM1.72 calculated based on the 5-day VWAP of AME Shares up to and including the LPD of RM2.58.
	861.349	1026.255	

Source: CLSA, Company

We do not expect any immediate dilutive effect from the proposals

We do not expect the overall exercise to have any immediate dilutive effect towards our fair value as the bonus issue is merely an increase in share base while both the warrants and ESOS issuance will depend on the amount exercised over a five-year period (warrants will likely issued at a premium).

Investment risks

Prolonged international border closures

Contract negotiations may be impacted by international border closures

As with other businesses, the ongoing pandemic has led to economic disruptions for AME as some potential contracts have ended up being delayed for both industrial and construction projects. We expect contract negotiations with foreign clients to remain impacted until international borders are reopened, as clients typically want to view the site in person before locking in a contract. Nonetheless management remains active in negotiating potential contracts and has received positive responses from domestic and foreign clients.

Strict operating environment during movement restrictions

Impacted progressive billing recognition from movement restrictions

The ongoing Full Movement Control order has resulted in construction work being halted, therefore rendering a lack of progressive billing recognition. If such movement restrictions are prolonged (given the increasing number of cases in the country) or even re-implemented, earnings will continue to be impacted. On a more positive note, the government is targeting the country to achieve herd immunity by year-end, whereby there should be easing movement restrictions.

Order-book replenishment impacted by the pandemic

Inability to replenish external construction and M&E (mechanical and engineering) order-book

The construction and M&E order-book have yet to see significant replenishment recently, which is understandable given the current operating environment. As these segments contribute a sizeable portion to earnings (specifically construction), earnings visibility in the near-term may be impacted. Note earnings derived from these segments are based on contract awards which will be recognised over the construction period of over 1-2 years (depending on the project). We highlight management is still actively bidding on tenders and has a success rate of 20%-30% historically.

AME started out as a pure construction services provider

Company background

AME was established back in 1995 as a pure construction services provider and has expanded to become an integrated industrial property provider. Its core expertise lies in the construction and engineering of customised large manufacturing plants, design-and-build of industrial parks, as well as property investment and management services in Malaysia. The company is led by a high-quality team, with top management having experience in the industry ranging from 27-49 years.

Figure 24

Key management personnel		
Kelvin Lee Chai	Group Managing Director	Mr Lee has around 37 years of experience in the construction industry and around 10 years of experience in property development. He is also the founder of AME Construction and was instrumental in expanding the business to what it is today. As the Group Managing Director, he is responsible for the business growth and direction, strategic corporate planning and the overall operations and management of the Group.
Lee Sai Boon	Executive Director	Mr Lee has around 27 years of experience in construction and around 10 years in property development. Mr Lee oversees our property development division and M&E services division. He plays an important role in negotiations for land acquisition as well as the planning of development projects
Lim Yook Kim	Executive Director	Mr Lim has around 47 years of experience in the construction industry and around 10 years in property development.
Kang Ah Chee	Executive Director	Mr Kang has around 49 years of experience in the construction industry and around 10 years in property development. Mr Lim and Mr Kang Ah Chee, both are responsible for the on-site operations and activities carried out by the construction and engineering division.
Lim Khai Wen	Executive Director of AME Engineering	Mr Lim Khai Wen is responsible for the overall operation, business development and strategic planning of the Group's engineering division. He has around 13 years of working experience in the construction industry.
Kang Koh Wei	Director of AME Construction	Mr Kang Koh Wei is responsible for contract and project management of the Group's construction division.
Gregory Lui Poh Sek	Group Financial Controller	Mr Gregory Lui was appointed as the Group Financial Controller in November 2016. He is overseeing our Group's overall financial matters including accounting, taxation, corporate finance and treasury functions.
Law Han Meng	Project Director of AME Construction	Mr Law Han Meng is responsible for the management of the construction projects undertaken by the company. He has around 31 years of experience working in the construction industry.
Razal bin Ahmad	Managing Director of Asiamost	Mr Razal manages and leads all the heads of departments of the company. He has around 28 years of experience in mechanical and electrical works including approximately 25 years in the construction industry.

Source: CLSA, Company

Ventured into property development in 2011 through its maiden i-Park project

The company ventured into the property development segment in 2011 through its maiden i-Park project at Indahpura. It has benefitted from the synergistic relationship with its in-house construction and engineering services segments given its ability to deliver high-quality industrial buildings in a cost effective and timely manner. AME has completed projects such as i-Park at SiLC, i-Park and at Indahpura (Phase 1 and 2), SME City, and District 6 which are all located in Johor. Currently, ongoing projects include i-Park at Indahpura (Phase 3 and Plot 108), i-Park at SAC (Phases 1-3) and The Jacaranda (located at SAC). With that, the company also has a portfolio of investment properties and expanded its offerings to include the management of workers' dormitories within the industrial parks.

The bulk of its revenue stems from its property development and construction segments

AME derives bulk of its revenue from the property development and construction segments which formed c.82% of FY21 revenue. The two segments are somewhat inter-linked as construction works are typically carried out in-house, and sales from the industrial units are split between these segments depending on the terms of the contracts (though typically placed under property development). Meanwhile, the Engineering and Property Investment segments made up the remaining 10% and 8% of revenue, respectively. However, we note that the Property Investment segment contributes c.30% of the company's PBT given its ability to derive margins of over 60% while the rest of the divisions have margins of below 20%.

Key business segments:

i) Property Development – sale or lease of industrial factory units

ii) Construction – construction of large manufacturing plants and industrial properties

iii) Engineering – includes steel engineering works, precast concrete works and M&E engineering services

iv) Property Investment and Management Services – rental and management of industrial properties and workers' dormitories

Property development carries out the development of its industrial parks

Property development

The segment carries out the development of industrial parks which comprises of industrial buildings developed for manufacturing activities e.g. pharmaceutical products, consumer electronics and home appliances. Within it, its industrial buildings are either sold or leased to customers. It is also marketed to investment holding companies, REITs and/or individuals who lease it to tenants.

AME offers two types of industrial properties to its customers and tenants:

i) Customised properties: Plots of land allocated for such units are left vacant until sold or leased with approvals obtained for stand standard designs of industrial buildings. Once sold or leased, the customers have the option of customising both the interior and exterior of the building, including the height, structures, floor layouts, fittings and fixtures.

ii) Ready-built properties: Properties are completed with manufacturing and office spaces and are typically turnkey properties.

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

i-Park at Indahpura

Figure 25

View of i-Park at Indahpura

Source: Company

Figure 26

View of i-Park at Indahpura

Source: Company

i-Park at Indahpura is AME's second i-Park development

This is AME's second i-Park development project and is located in Bandar Indahpura, a township within Iskandar Malaysia and the corridor of Kulai District, Johor. It is located approximately 7km from Singapore 2nd Link Expressway, 8km from North-South Highway and Senai Desaru Highway, 11km from Senai International Airport, and 33km from Johor Bahru Customs, Immigration and Quarantine complex. The strategic location as well as its facilities and amenities are key factors in attracting both local as well as MNCs to setup their production plants within the industrial parks.

Spans c.200 acres

The entire industrial park spans across c.200acres of land, with Phase 1 & 2 of the development spanning across 104.8 acres (total of RM600m GDV) completed back in 2016. The completed Phase 1 & 2 comprises of 64 saleable units of 11/2 storey semi-detached and detached factories, with built-ups ranging from 12ksqft all the way to 150k sqft. As of now, 79% of the units have been sold, 16% leased, and 9% available for sale.

Worker dormitories situated next to the industrial park

The development comes with 5 blocks of workers' dormitories, situated just next to the industrial park. The dormitories are aimed at providing a comfortable, safe, and convenient living environment for the tenants of the industrial park. As the existing dormitories are almost fully occupied, AME is adding 2 additional blocks which would be completed by 2021.

Currently developing Phase 3 via its 50:50 JV

Currently, the group is developing Phase 3 of the industrial park through its JV entity, Axis AME IP, a 50:50 JV with Axis IE Sdn Bhd. The industrial land in Phase 3 spans across 85.4 acres (total GDV of RM456m) and is earmarked to be completed in 2025. To recap, the JV had previously developed SME City (fully sold, RM192m GDV) spanning across 40 acres which was completed back in 2015, an industrial park located adjacent to i-Park at Indahpura.

It is also developing a 15-acre plot

AME is also developing Plot 108 which is 100% owned and comes with ready infrastructure, allowing for quick turnaround of land to generate sales. The development spans across 15 acres (total GDV RM120m), comprising of 2 units targeted to be completed by 2021.

i-Park at SAC

Figure 27

View of i-Park at SAC

Source: CLSA, Company

Figure 28

View of i-Park at SAC

Source: CLSA

i-Park @ SAC is AME's third i-Park development

i-Park at SAC is AME's third and latest i-Park development and is located at SAC, next to the Senai-Desaru Expressway. It is located approximately 3km from North-South Highway, 4km from Senai-Desaru Expressway, 5km from Singapore 2nd Link Expressway, 6km from Senai International Airport and 20km from Johor Bahru CIQ Complex. It retains the key features of its previous i-Park developments such as being a freehold gated guarded industrial park, security features, well-managed landscaping, dormitories, and recreational amenities, amongst others.

Spans 175 acres

The entire industrial park spans across 174.7 acres of land, with Phase 1 & 2 of the development spanning across 98.1 acres (total of RM717m GDV) launched back in 2017 while Phase 3 spans across 76.6 acres (total of RM555m GDV) and was launched in 2020. Phase 1 & 2 comprises of 51 saleable units of 11/2 storey semi-detached factories and detached factories, with built-ups ranging from 12ksqft all the way to 233k sqft and 48 retail shops while Phase 3 comprises of 36 units of 11/2 storey detached factories.

Worker dormitories situated just next to the industrial park

The project also comes with 5 blocks of workers' dormitories, situated just next to the industrial park. As with the other dormitories in Indahpura, facilities such as sheltered walkways, thumb print or facial scan access system, convenience store, automated laundry shop and park gymnasium, the dormitories will be providing a comfortable, safe, and convenient living environment for the tenants of the industrial park. The company is planning to develop additional dormitories by end-2022 (tentatively).

Also developing a commercial hub

Within SAC, the Group is also developing a commercial hub known as The Jacaranda which is targeted to complete in 2021. The Jacaranda spans across 14 acres of land commanding an est. GDV of RM68m. It is expected to complement and increase the attractiveness of i-Park at SAC by having a variety of retail shops and offices right next to the industrial lots.

Figure 29

Illustration of the Jacaranda

Source: Company

Construction

Over 25 years of experience in the construction industry

AME has over 25 years of experience in designing and constructing customised large manufacturing plants and industrial buildings. AME's construction arm has successfully delivered over 200 customised industrial buildings and customised manufacturing plants of various sizes in Malaysia, meeting the strict regulations by major organisations of both local and international. Its technical know-how and design expertise alongside experience in undertaking projects as the main contractor allow for the offering of wide range construction services from planning and scoping, design, construction and post-construction maintenance. Notably, the construction arm is registered with the Construction Industry Development Board (CIDB) as a Grade G7 contractor, the highest classification accorded by CIDB, allowing it to tender for contracts of unlimited value.

Its construction arm is a Grade G7 contractor

The construction of large manufacturing plants is catered to various industries such as oleo chemical, steel, oil and gas, electronic and electronics, food and beverage, consumer products, logistics and automotive. These plants may comprise multiple structures such as fabrication yards, factory buildings, process plants, storage and warehousing facilities, office buildings and other supporting amenities (e.g. electrical substations and guard houses) which may occupy a large areas of space.

Provides construction work for industrial developments

With regards to construction of industrial buildings, AME provides construction services to its industrial park development projects. Furthermore, tenants of its ready-built products (and external clients) are also provided the option of retrofitting and renovation services to better suit their needs. Notably, the Group has engaged in more complexed construction projects in terms of building design, layout and structure since 2010 to allow the generation of larger contract values.

Engineering

Engineering arm is also a Grade G7 contractor

AME provides steel engineering works, precast concrete works and M&E engineering services to complement its construction projects as well as cater to the external customers. In addition to its core focus on industrial properties, the company also provides its M&E services to residential and commercial buildings e.g. hotels and serviced residences. Its subsidiaries, AME Engineering and Asia most are Grade G7 contractors, allowing it to tender for steel engineering works, precast concrete works, and fire protection system contracts of unlimited value.

Property investment and management services

Property investment and management segment houses its leased assets

This segment involves the leasing of the industrial properties developed and owned by AME, including the rental and management of workers' dormitories. AME currently has 28 industrial units held under as investment properties while 11 out of the 15 unsold inventory units are being leased out. The tenancy agreement and leasing contracts typically ranges up to 10 years.

Over five years of experience in the rental and management of worker dormitories

AME has over 5 years of experience in the rental and management of workers' dormitories in Johor, catered to the customers and tenants of its industrial parks. Currently, the Group has two workers' dormitories with a total capacity of 4,533 beds (2,519 beds in i-Park at Indahpura and 2,014 beds in i-Park at SAC). The Group is expanding its i-Park at Indahpura dormitory by 2 blocks which is expected to add 2,662 beds by end 2022.

Figure 30

Industrial facility for leasing in i-Park at SAC

Source: Company

Figure 31

Industrial facility for leasing in i-Park at SAC

Source: Company

Figure 32

i-Stay at Indahpura

Source: Company

Figure 33

i-Stay at SAC

Source: Company

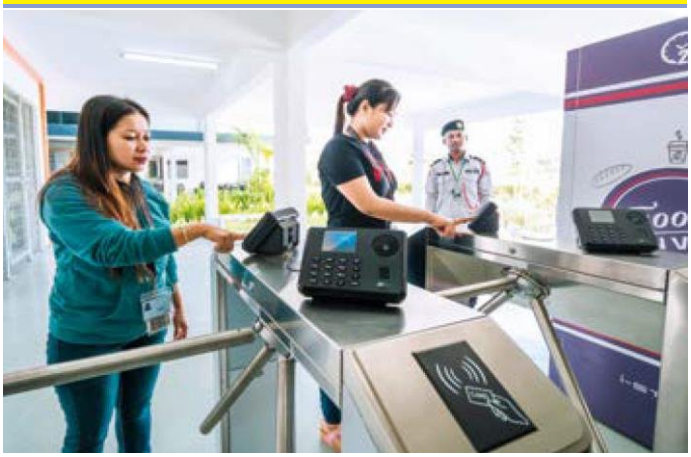
Figure 34

Artist's impression of the upcoming i-Stay expansion at Indahpura

Source: Company

Figure 35

Automated entrances to worker dormitories



Source: Company

Valuation details

We value it using the SOTP method to reflect the various operations within the business. The most sizeable portion stems for its Property Investment division valued based on a combination of market value and cost (implies a forward yield of 5%) which should see further upside upon its listing in 1H2022. Meanwhile, the Property Development segment is valued based on a RNAV valuation while the Construction segment is valued based on a 11x PE multiple.

Investment risks

A prolonged pandemic and delay in economic recovery would pose risks to the company's outlook as the construction and M&E orderbooks have yet to see significant replenishments. Furthermore, international border closures would make it more difficult for international clients to lock in contracts to purchase its industrial properties. Nonetheless, we expect a more normalised outlook looking in the next financial year

Figure 36

Peer/customer matrix

	Ticker	Result (FY0)	Country	Mkt cap (US$bn)	3M ADT (US$m)	PE (x)	PB (x)	Div yld (%)	ROE (%)	Net debt/ equity (%)	EPS growth (% YoY)
						FY1	FY1	FY1	FY1	FY1	FY1
Peers											
AME ELITE	AME MK	Mar-21	Malaysia	0.3	0.5	16.5	1.5	1.7	9.0	38.2	17.2
Eco World	ECW MK	Oct-20	Malaysia	0.5	0.6	10.4	0.6	4.3	4.2	59.7	46.7
IOI Properties	IOIPG MK	Jun-20	Malaysia	1.5	0.2	9.7	0.3	1.7	3.4	50.9	44.6
Mah Sing	MSGB MK	Dec-20	Malaysia	0.5	1.7	13.6	0.5	4.2	6.1	(12.9)	-
Sime Darby Property	SDPR MK	Dec-20	Malaysia	1.0	0.2	20.3	0.4	2.6	2.2	26.2	55.4
SP Setia	SPSB MK	Dec-20	Malaysia	1.0	0.8	22.4	0.3	1.0	1.5	68.8	1,326.0
Sunway	SWB MK	Dec-20	Malaysia	2.0	1.5	33.6	1.1	1.0	2.8	44.2	(36.4)
UEM Sunrise	UEMS MK	Dec-20	Malaysia	0.4	0.2	30.8	0.3	0.5	0.9	26.5	-
Average						**19.7**	**0.6**	**2.2**	**3.8**	**37.7**	**242.2**
Median						**18.4**	**0.5**	**1.7**	**3.1**	**41.2**	**45.7**

Based on latest reported numbers from IBES for non-covered stocks and from CLSA analyst models for covered stocks. Source: CLSA, IBES

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Detailed financials

Profit & Loss (RMm)

Year to 31 March	2020A	2021A	2022CL	2023CL	2024CL
Revenue	**380**	**461**	**258**	**487**	**518**
Cogs (ex-D&A)	(260)	(351)	(182)	(348)	(369)
Gross Profit (ex-D&A)	**120**	**109**	**76**	**139**	**149**
Research & development costs	-	-	-	-	-
Selling & marketing expenses	(5)	(4)	(2)	(3)	(4)
Other SG&A	(31)	(26)	(18)	(35)	(37)
Other Op Expenses ex-D&A	15	9	7	14	14
Op Ebitda	**100**	**88**	**63**	**114**	**123**
Depreciation/amortisation	(7)	(7)	(8)	(7)	(7)
Op Ebit	**93**	**82**	**55**	**107**	**116**
Interest income	4	4	6	5	4
Interest expense	(14)	(10)	(10)	(10)	(10)
Net interest inc/(exp)	(10)	(5)	(4)	(5)	(6)
Associates/investments	5	4	4	4	4
Forex/other income	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-
Asset revaluation/Exceptional items	(13)	(7)	-	-	-
Profit before tax	**75**	**72**	**54**	**106**	**114**
Taxation	(20)	(22)	(13)	(25)	(27)
Profit after tax	**55**	**51**	**41**	**80**	**87**
Preference dividends	-	-	-	-	-
Profit for period	**55**	**51**	**41**	**80**	**87**
Minority interest	(5)	(4)	(3)	(6)	(6)
Net profit	**51**	**46**	**38**	**75**	**80**
Extraordinaries/others	0	0	0	0	0
Profit avail to ordinary shares	51	46	38	75	80
Dividends	0	(17)	(13)	(21)	(26)
Retained profit	51	29	26	53	55
Adjusted profit	**61**	**51**	**38**	**75**	**80**
EPS (sen)	11.9	10.8	9.0	17.5	18.8
Adj EPS [pre excep] (sen)	14.2	12.0	9.0	17.5	18.8
Core EPS (sen)	11.9	10.8	9.0	17.5	18.8
DPS (sen)	3.0	4.0	3.0	5.0	6.0

Profit & loss ratios

Year to 31 March	2020A	2021A	2022CL	2023CL	2024CL
Growth (%)					
Revenue growth (% YoY)	-	21.1	(44.0)	88.7	6.5
Ebitda growth (% YoY)	-	(11.6)	(28.8)	81.3	7.8
Ebit growth (% YoY)	-	(12.7)	(32.3)	93.4	8.7
Net profit growth (%)	-	(8.8)	(16.8)	94.1	7.8
EPS growth (% YoY)	nm	(8.8)	(16.8)	94.1	7.8
Adj EPS growth (% YoY)	nm	(15.3)	(25.1)	94.1	7.8
DPS growth (% YoY)	-	33.5	(25.1)	66.7	20.0
Core EPS growth (% YoY)	nm	(8.8)	(16.8)	94.1	7.8
Margins (%)					
Gross margin (%)	31.6	23.7	29.4	28.5	28.8
Ebitda margin (%)	26.3	19.2	24.4	23.4	23.7
Ebit margin (%)	24.6	17.7	21.4	21.9	22.4
Net profit margin (%)	13.3	10.0	14.9	15.3	15.5
Core profit margin	13.3	10.0	14.9	15.3	15.5
Op cashflow margin	(10.5)	28.2	49.0	13.6	14.9
Returns (%)					
ROE (%)	9.7	7.1	5.6	10.3	10.3
ROA (%)	5.9	4.9	3.6	6.6	6.5
ROIC (%)	19.9	14.4	12.9	28.4	30.0
ROCE (%)	12.3	11.3	7.9	14.0	13.3
Other key ratios (%)					
Effective tax rate (%)	26.6	30.0	24.0	24.0	24.0
Ebitda/net int exp (x)	10.0	16.4	14.5	24.0	21.2
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-
Dividend payout (%)	25.3	37.0	33.3	28.6	31.8

Source: www.clsa.com

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Balance sheet (RMm)

Year to 31 March	2020A	2021A	2022CL	2023CL	2024CL
Cash & equivalents	192	271	285	230	182
Accounts receivable	86	94	53	100	107
Inventories	366	320	208	295	312
Other current assets	-	-	-	-	-
Current assets	**644**	**686**	**546**	**625**	**600**
Fixed assets	101	132	124	117	110
Investments	365	344	447	551	654
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other non-current assets	44	31	31	31	31
Total assets	**1,154**	**1,192**	**1,148**	**1,323**	**1,395**
Short term loans/OD	22	21	25	25	25
Accounts payable	145	147	75	191	202
Accrued expenses	-	-	-	-	-
Taxes payable	0	0	0	0	0
Other current liabs	31	60	60	60	60
Current liabilities	**199**	**228**	**159**	**275**	**287**
Long-term debt/leases/other	261	226	223	223	223
Convertible bonds	-	-	-	-	-
Provisions/other LT liabs	27	25	25	25	25
Total liabilities	**486**	**480**	**407**	**523**	**535**
Share capital	620	620	620	620	620
Retained earnings	14	54	80	133	188
Reserves/others	0	0	-	0	0
Shareholder funds	**634**	**675**	**700**	**753**	**808**
Minorities/other equity	34	38	41	46	52
Total equity	**668**	**712**	**741**	**800**	**861**
Total liabs & equity	**1,154**	**1,192**	**1,148**	**1,323**	**1,395**
Total debt	283	248	248	248	248
Net debt	91	(24)	(37)	18	66
Adjusted EV	819	729	615	572	523
BVPS (sen)	148.4	157.9	163.9	176.4	189.2

Balance sheet ratios

Year to 31 March	2020A	2021A	2022CL	2023CL	2024CL
Key ratios					
Current ratio (x)	3.2	3.0	3.4	2.3	2.1
Growth in total assets (% YoY)	-	3.3	(3.7)	15.2	5.5
Growth in capital employed (% YoY)	-	(9.3)	2.2	16.2	13.3
Net debt to operating cashflow (x)	(2.3)	-	-	0.3	0.8
Gross debt to operating cashflow (x)	(7.1)	1.9	2.0	3.7	3.2
Gross debt to Ebitda (x)	2.8	2.8	3.9	2.2	2.0
Net debt/Ebitda (x)	0.9	-	-	0.2	0.5
Gearing					
Net debt/equity (%)	13.7	(3.3)	(5.0)	2.2	7.6
Gross debt/equity (%)	42.4	34.8	33.4	31.0	28.8
Interest cover (x)	7.0	8.7	6.1	11.3	12.1
Debt cover (x)	(0.1)	0.5	0.5	0.3	0.3
Net cash per share (sen)	(21.4)	5.6	8.7	(4.1)	(15.4)
Working capital analysis					
Inventory days	514.4	356.6	529.3	263.8	299.9
Debtor days	82.8	71.5	104.2	57.4	72.7
Creditor days	203.0	151.6	222.4	139.3	194.2
Working capital/Sales (%)	72.7	45.0	49.1	29.6	30.2
Capital employed analysis					
Sales/Capital employed (%)	50.1	66.9	36.7	59.6	56.0
EV/Capital employed (%)	107.9	105.9	87.5	70.0	56.5
Working capital/Capital employed (%)	36.4	30.1	18.0	17.6	16.9
Fixed capital/Capital employed (%)	13.3	19.1	17.6	14.3	11.9
Other ratios (%)					
PB (x)	1.7	1.6	1.5	1.4	1.3
EV/Ebitda (x)	8.2	8.3	9.8	5.0	4.3
EV/OCF (x)	(20.4)	5.6	4.9	8.6	6.7
EV/FCF (x)	(16.1)	7.9	4.9	8.6	6.7
EV/Sales (x)	2.2	1.6	2.4	1.2	1.0
Capex/depreciation (%)	166.4	558.8	0.0	0.0	0.0

Source: www.clsa.com

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Cashflow (RMm)

Year to 31 March	2020A	2021A	2022CL	2023CL	2024CL
Operating profit	93	82	55	107	116
Operating adjustments	(5)	(2)	(1)	(1)	(2)
Depreciation/amortisation	7	7	8	7	7
Working capital changes	(109)	41	81	(18)	(12)
Interest paid / other financial expenses	-	-	-	-	-
Tax paid	(20)	(22)	(13)	(25)	(27)
Other non-cash operating items	(6)	25	(4)	(4)	(4)
Net operating cashflow	(40)	130	126	66	77
Capital expenditure	(11)	(38)	0	0	0
Free cashflow	(51)	92	126	66	77
Acq/inv/disposals	-	-	-	-	-
Int, invt & associate div	(33)	38	(100)	(100)	(100)
Net investing cashflow	(44)	1	(100)	(100)	(100)
Increase in loans	67	(36)	-	-	-
Dividends	(13)	(17)	(13)	(21)	(26)
Net equity raised/others	124	5	0	0	0
Net financing cashflow	179	(48)	(13)	(21)	(26)
Incr/(decr) in net cash	95	83	13	(55)	(48)
Exch rate movements	19	(3)	0	0	0
Opening cash	78	192	271	285	230
Closing cash	192	271	285	230	182
OCF PS (sen)	(9.4)	30.5	29.6	15.5	18.1
FCF PS (sen)	(11.9)	21.6	29.6	15.5	18.1

Cashflow ratio analysis

Year to 31 March	2020A	2021A	2022CL	2023CL	2024CL
Growth (%)					
Op cashflow growth (% YoY)	-	nm	(2.9)	(47.4)	16.7
FCF growth (% YoY)	-	-	36.8	(47.4)	16.7
Capex growth (%)	-	247.9	(100.0)	-	-
Other key ratios (%)					
Capex/sales (%)	2.9	8.2	0.0	0.0	0.0
Capex/op cashflow (%)	(27.1)	29.0	0.0	0.0	0.0
Operating cashflow payout ratio (%)	-	13.1	10.1	32.2	33.1
Cashflow payout ratio (%)	-	13.1	10.1	32.2	33.1
Free cashflow payout ratio (%)	-	18.5	10.1	32.2	33.1

DuPont analysis

Year to 31 March	2020A	2021A	2022CL	2023CL	2024CL
Ebit margin (%)	24.6	17.7	21.4	21.9	22.4
Asset turnover (x)	0.3	0.4	0.2	0.4	0.4
Interest burden (x)	0.8	0.9	1.0	1.0	1.0
Tax burden (x)	0.7	0.7	0.8	0.8	0.8
Return on assets (%)	5.9	4.9	3.6	6.6	6.5
Leverage (x)	1.7	1.7	1.6	1.6	1.6
ROE (%)	9.7	7.1	5.6	10.3	10.3

EVA® analysis

Year to 31 March	2020A	2021A	2022CL	2023CL	2024CL
Ebit adj for tax	69	57	42	81	88
Average invested capital	421	395	325	286	294
ROIC (%)	19.9	14.4	12.9	28.4	30.0
Cost of equity (%)	8.5	8.5	8.5	8.5	8.5
Cost of debt (adj for tax)	2.2	2.1	2.3	2.3	2.3
Weighted average cost of capital (%)	7.1	7.0	7.1	7.1	7.1
EVA/IC (%)	12.9	7.4	5.8	21.3	22.9
EVA (RMm)	44	29	19	61	67

Source: www.clsa.com

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Companies mentioned

AME ELITE (AME MK - RM2.48 - BUY)
AME Construction (N-R)
Asiamost (N-R)
Axis AME IP (N-R)
Axis IE Sdn Bhd (N-R)
Axis Reit (AXRB MK - RM1.94 - BUY)
Baozhou New Energy Technology (N-R)
Bissell (N-R)
Cricut (N-R)
Eco World (ECW MK - RM0.69 - BUY)
IOI Properties (N-R)
iRobot (N-R)
Mah Sing (MSGB MK - RM0.83 - O-PF)
Shengda (N-R)
Sime Darby Property (SDPR MK - RM0.59 - O-PF)
SONOS (N-R)
SP Setia (SPSB MK - RM1.04 - BUY)
Sunway (SWB MK - RM1.69 - BUY)
UEM Sunrise (N-R)
V.S.Industry (VSI MK - RM1.47 - BUY)

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