27 August 2021

Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Result Note | **RM2.78 @ 26 August 2021**

"1QFY22 results lagged behind our expectations"

Share price performance

	1M	3M	12M
Absolute (%)	7.3	25.2	52.7
Rel KLCI (%)	2.4	24.6	49.3

	BUY	HOLD	SELL
Consensus	3	1	-

Stock Data

Sector	Construction
Issued shares (m)	427.1
Mkt cap (RMm)/(US$m)	1,187.4/283
Avg daily vol - 6mth (m)	0.8
52-wk range (RM)	1.76-2.84
Est free float	29.3%
Stock Beta	1.00
Net cash/(debt) (RMm)	5.9
ROE (FY22E)	8.9%
Derivatives	No
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200) ESG Rank	Bottom 25%
ESG Risk Rating	25.0

Key Shareholders

Lim Yook Kim	20.0%
Lee Chai	19.7%
Kang Ah Chee	19.6%
Lee Sai Boon	6.5%

Source: Bloomberg, Affin Hwang, ESG Risk Rating Powered by Sustainalytics, Bursa Malaysia

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AME Elite Consortium (AME MK)

HOLD (downgrade)
Up/Downside: +2.5%

Price Target: RM2.85
Previous Target (Rating): RM2.85 (BUY)

Impact of lockdown disruptions

- **AME's core earnings grew by 35% yoy to RM7.2m in 1QFY22 from a low base in 1QFY21. But earnings were down 66% qoq on slow progress billings due to pandemic lockdown closures of construction sites in June**
- **We maintain our earnings forecasts as construction works have been allowed to resume and we expect AME to catch up on works in subsequent quarters and industrial property sales to improve**
- **We downgrade our call on AME to HOLD from Buy with an unchanged target price of RM2.85, based on a 20% discount to RNAV, following the strong share price outperformance**

Results within expectations assuming progress billings to accelerate

AME's core earnings of RM7.2m (+35% yoy) in 1QFY22 were lagging full-year consensus and our forecasts of RM55-62m. Revenue grew 40% yoy to RM76.8m in 1QFY22, driven by higher construction (+182% yoy) and property investment (+21% yoy) revenue. This was partly offset by lower property development (-23% yoy) and engineering (-13% yoy) revenue. But revenue fell 53% qoq in 1QFY22 due to slow progress billings as most of its construction sites were closed due to the Full Movement Control Order (FMCO) implemented by the government. Operating profit fell 64% qoq to RM11.9m as all its divisions except for the property investment segment (+6% yoy) saw lower earnings.

Reasonable construction order book and property unbilled sales

Its remaining construction order book of RM148.4m and property unbilled sales of RM110m from its i-Park developments will be recognised over the next six months. This should support FY22E earnings. The company has achieved a high vaccination rate for its work force: 95% have completed the first dose and about 63% have completed two doses. It targets to complete the vaccination of its entire work force by September 2021, allowing all its construction sites to operate at 100% capacity.

Rewarding shareholders and exploring expansion opportunities

The shareholders have approved the 1-for-2 bonus issue of shares, issuance of 1 free warrant for every 3 shares held and an employees' share option scheme (ESOS) of up to 10% of issued shares. AME is looking to partner land owners in Selangor to expand its industrial park development operation. We downgrade our call to HOLD from Buy with an unchanged 12-month TP of RM2.85, based on a 20% discount to RNAV. Risks: slower/faster-than-expected property sales and new contract wins.

Earnings & Valuation Summary

FYE 31 Mar	2020	2021	2022E	2023E	2024E
Revenue (RMm)	380.3	460.6	394.8	442.2	520.8
EBITDA (RMm)	93.1	97.5	97.7	115.2	148.2
Pretax profit (RMm)	88.7	81.1	83.1	100.0	130.4
Net profit (RMm)	63.7	54.6	62.0	74.5	97.2
EPS (sen)	14.9	12.8	14.5	17.4	22.8
PER (x)	18.6	21.7	19.2	15.9	12.2
Core net profit (RMm)	56.9	62.4	62.0	74.5	97.2
Core EPS (sen)	13.3	14.6	14.5	17.4	22.8
Core EPS growth (%)	75.7	9.6	(0.7)	20.3	30.4
Core PER (x)	20.9	19.0	19.2	15.9	12.2
Net DPS (sen)	3.0	4.0	4.0	4.0	4.0
Dividend Yield (%)	1.1	1.4	1.4	1.4	1.4
EV/EBITDA	13.7	12.2	12.4	11.0	8.8
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			1.1	1.0	1.1

Source: Company, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Mar (RMm)	1QFY21	4QFY21	1QFY22	QoQ % chg	YoY % chg	Comments
Revenue	**54.7**	**163.3**	**76.8**	**(53.0)**	**40.2**	Higher construction (+182% yoy) and property investment (+21% yoy) revenue, partly offset by lower property development (-23% yoy) and engineering (-13% yoy) revenue.
Op costs	(47.0)	(129.5)	(63.2)	(51.2)	34.5	
EBITDA	**7.7**	**33.8**	**13.5**	**(60.0)**	**75.2**	
EBITDA margin (%)	*14.1*	*20.7*	*17.6*	*(3.1 ppt)*	*3.5 ppt*	Fluctuation in EBITDA margin due to volatile revenue over the past year.
Depreciation	(1.7)	(1.9)	(1.6)	(13.0)	(2.2)	
EBIT	**6.0**	**31.9**	**11.9**	**(62.7)**	**96.7**	
EBIT margin (%)	*11.1*	*19.5*	*15.5*	*(4.0 ppt)*	*4.4 ppt*	
Int expense	(2.6)	(2.3)	(2.2)	(5.6)	(13.6)	
Int and other inc	1.2	1.2	1.1	(7.5)	(4.8)	
Associates	2.0	0.5	0.2	(66.0)	(91.3)	
EI	(0.0)	1.4	0.0	(97.4)	NA	
PBT	**6.6**	**32.7**	**11.0**	**(66.3)**	**66.6**	
PBT margin (%)	*12.1*	*20.0*	*14.4*	*(5.7 ppt)*	*2.3 ppt*	
Core PBT	**6.6**	**31.3**	**11.0**	**(64.9)**	**65.7**	
Tax	(0.6)	(9.1)	(3.4)	(62.6)	466.4	
Tax rate (%)	*9.1*	*27.8*	*30.9*	*3.1 ppt*	*21.8 ppt*	
MI	(0.7)	(0.9)	(0.4)	(53.0)	(41.1)	
Net profit	**5.3**	**22.8**	**7.2**	**(68.3)**	**35.5**	Within expectations.
EPS (sen)	1.3	5.3	1.7	(68.3)	35.2	
Core net profit	**5.3**	**21.3**	**7.2**	**(66.4)**	**34.5**	Excluding one-off items. Within expectations.

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FYE 31 Mar (RMm)	1QFY21	4QFY21	1QFY22	QoQ % chg	YoY % chg
Segmental results					
Revenue					
Construction services	14.7	58.7	41.5	(29.4)	181.8
Property development	24.3	84.2	18.6	(77.9)	(23.4)
Engineering services	6.9	10.6	6.0	(43.2)	(13.3)
Property investment	8.7	9.8	10.6	8.3	21.4
Total	**54.7**	**163.3**	**76.8**	**(53.0)**	**40.2**
Operating profit					
Construction services	(1.5)	12.0	4.2	(65.0)	NA
Property development	2.3	13.7	0.4	(97.2)	(83.4)
Engineering services	(2.1)	2.5	1.1	(57.5)	(149.7)
Property investment	7.0	7.7	8.2	6.1	15.9
Total	0.3	(2.5)	(1.9)	(25.3)	NA
	6.0	**33.3**	**11.9**	**(64.2)**	**97.5**
Operating profit margin (%)					
Construction services					
Property development	(10.0)	20.4	10.1	(10.3 ppt)	20.2 ppt
Engineering services	9.4	16.2	2.0	(14.2 ppt)	(7.4 ppt)
Property investment	(30.4)	23.4	17.5	(5.9 ppt)	47.9 ppt

Source: Affin Hwang, Company

Fig 3: RNAV/share and target price

Segments	Stake (%)	RNAV (RMm)
Construction @ PE 14x sustainable PAT of RM40m	100	560
Engineering @ PE 14x sustainable PAT of RM5m	100	70
Property development @ DCF (WACC 7.2%)	100	381
Property investment @ Market value	100	433
Net cash/(debt)		24
RNAV		**1,467**
No. of shares (m shrs)		427
RNAV/share (RM)		**3.43**
Target price at 20% discount to RNAV/share		**2.75**

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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