

AME Elite Consortium Bhd

Still weak, but better prospects ahead

Summary

- AME Elite Consortium Bhd's 3QFY22 net profit fell 29.3% YoY to RM10.7m, mainly due to the lower contribution from property development, construction, and engineering services segments on timing of project completion and stage of works. Revenue for the quarter slipped 21.4% YoY to RM95.6m.
- For 9MFY22, cumulative net profit decreased 13.1% YoY to RM27.7m. Revenue for the period contracted 13.0% YoY to RM258.7m. The reported earnings came below expectations, amounting to 55.5% of our estimates at RM49.9m and 51.6% of consensus forecast of RM53.6m.
- In 3QFY22, overall performance was dragged by the weaker property sales. Moving into the final quarter of the financial year, we reckon that the pace of recovery will remain in place (albeit still in a tepid manner) the borders have yet to be re-opened. Nevertheless, we foresee no further interruption of work sites and that may provide some room for breather for the construction segment.
- AME is equipped with an unbilled construction orderbook of close to RM400.0m that will provide earnings visibility for the construction segment over the next 18 months. At the same time, the single-largest construction contract to build an integrated production facility in Johor secured in October 2021 will anchor the construction segment.
- Meanwhile, AME's healthy unbilled property sales will sustain the property development segment earnings over the next 2 years. Take-up rate for i-Park industrial properties may gather pace in subsequent quarters, premised to the potential reopening of national borders as enquiries from overseas are still robust.
- We note that the REIT listing remains on course in 2022 as submission for the application of REIT establishment has been submitted to relevant authorities on 14th December 2021. The move that may potentially raise proceeds amounting to RM254.8m (based on IPO price of RM1.00) which will unlock the value of its assets and beef up AME's war chest.

| Quarterly performance | | | | | | | | |
|-----------------------|--------|--------|--------|---------|---------|--------|--------|---------|
| FYE Mar (RM m) | 3QFY21 | 2QFY22 | 3QFY22 | QoQ (%) | YoY (%) | 9MFY21 | 9MFY22 | YoY (%) |
| Revenue | 121.7 | 86.3 | 95.6 | 10.7 | (21.4) | 297.3 | 258.7 | (13.0) |
| EBITDA | 27.1 | 18.1 | 19.3 | 7.1 | (28.5) | 52.9 | 51.0 | (3.7) |
| PBT | 24.1 | 15.3 | 16.4 | 7.2 | (32.0) | 48.4 | 42.7 | (11.9) |
| PAT | 16.9 | 10.6 | 11.6 | 9.5 | (31.0) | 35.4 | 29.9 | (15.7) |
| Core PATMI | 15.1 | 9.8 | 10.7 | 9.7 | (29.3) | 31.9 | 27.7 | (13.1) |
| Reported PATMI | 15.1 | 9.8 | 10.7 | 9.7 | (29.3) | 31.9 | 27.7 | (13.1) |
| Core EPS (sen) | 3.5 | 2.3 | 2.5 | 9.7 | (29.3) | 7.5 | 6.5 | (13.1) |
| EBITDA margin (%) | 22.2 | 20.9 | 20.2 | | | 17.8 | 19.7 | |
| PBT margin (%) | 19.8 | 17.7 | 17.1 | | | 16.3 | 16.5 | |
| Core PATMI margin (%) | 12.4 | 11.3 | 11.2 | | | 10.7 | 10.7 | |

Results Note – 3QFY22

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HOLD (from Buy)

| | |
|-----------------|--------|
| Share price | RM1.70 |
| Target price | RM1.65 |
| Previous TP | RM1.96 |
| Capital upside | -2.9% |
| Dividend return | 2.1% |
| Total return | -0.8% |

Company profile

Primarily 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) | 640.7 |
| Market Cap (m) | 1,089.1 |
| 52W High/Low | 2.03/1.40 |
| Est. Free float | 39.1% |
| Beta (x) | 0.8 |
| 3-mth avg vol ('000) | 471.4 |
| Shariah compliant | Yes |

Major shareholders

| Shareholder | % |
|--------------|------|
| Lim Yook Kim | 17.8 |
| Lee Chai | 17.6 |
| Kang Ah Chee | 17.4 |

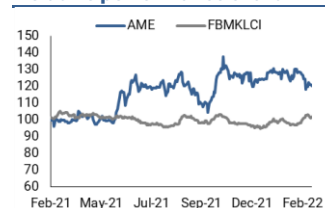
Share price vs. KLCI (%)

| | 1M | 3M | 12M |
|----------|------|-------|------|
| Absolute | -5.0 | -8.1 | 17.7 |
| Relative | -8.9 | -11.4 | 16.5 |

Earnings summary

| FYE (Mar) | FY21 | FY22f | FY23f |
|-----------|------|-------|-------|
| PATMI (m) | 61.0 | 39.3 | 58.6 |
| EPS (sen) | 9.5 | 6.1 | 9.1 |
| P/E (x) | 17.9 | 27.7 | 18.6 |

Relative performance chart



Valuation & Recommendation

- Given that the reported earnings came below expectations, we trimmed our earnings forecast to RM39.3m and RM58.6m for FY22f and FY23f respectively to account for the weaker-than-expected property sales. Consequently, we downgrade AME to **HOLD** (from Buy) with a lower target price of RM1.65.
- Our target price is derived by ascribing a target PER of 18.0x to its revised FY23f EPS of 9.1 sen. The assigned PER is slightly above the small-mid cap construction peers trading at 13.0-15.0x, premised to AME's position as a niche construction player, specialising in the industrial REIT space.
- Risks to our recommendation and target price include dependency on the foreign direct investment in Malaysia. Weaker-than-expected orderbook replenishment or slower-than-expected industrial property sales may hamper the prospect of earnings recovery.

Financial Highlights

All items in (RM m) unless otherwise stated

| Income Statement | | | | | | Balance Sheet | | | | | |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|-------------------------------|--------------|----------------|-----------------|-----------------|-----------------|
| FYE Mar (RM m) | FY19 | FY20 | FY21 | FY22f | FY23f | FYE Mar (RM m) | FY19 | FY20 | FY21 | FY22f | FY23f |
| Revenue | 339.0 | 380.3 | 460.6 | 352.5 | 505.4 | Cash | 102.5 | 191.8 | 271.4 | 195.6 | 177.0 |
| EBITDA | 82.0 | 99.8 | 88.3 | 70.1 | 98.3 | Receivables | 94.4 | 86.2 | 94.3 | 96.6 | 96.9 |
| EBIT | 76.6 | 93.3 | 81.5 | 63.7 | 90.9 | Inventories | 234.1 | 357.8 | 311.5 | 314.0 | 317.8 |
| Net finance income/ (cost) | (3.4) | (10.0) | (5.4) | (3.9) | (4.3) | PPE | 95.4 | 100.6 | 131.6 | 135.8 | 143.6 |
| Associates & JV | (0.6) | 5.3 | 3.5 | 2.6 | 5.1 | Others | 367.0 | 417.5 | 383.0 | 401.1 | 406.8 |
| Profit before tax | 72.6 | 88.7 | 79.6 | 62.5 | 91.7 | Assets | 893.4 | 1,153.9 | 1,191.8 | 1,143.0 | 1,142.1 |
| Tax | (21.6) | (20.0) | (21.7) | (18.7) | (27.5) | Debts | 215.8 | 283.2 | 247.6 | 215.4 | 183.9 |
| Net profit | 51.0 | 68.6 | 57.9 | 43.7 | 64.2 | Payables | 138.2 | 144.6 | 147.2 | 124.4 | 157.3 |
| Minority interest | 3.6 | 4.5 | 4.4 | 4.4 | 5.6 | Others | 102.6 | 58.3 | 84.8 | 78.5 | 85.7 |
| Core earnings | 47.3 | 56.2 | 61.0 | 39.3 | 58.6 | Liabilities | 456.7 | 486.2 | 479.6 | 418.3 | 426.8 |
| Diluted core earnings | - | - | - | 43.9 | 64.1 | Shareholder's equity | 406.4 | 633.9 | 674.5 | 691.5 | 692.2 |
| Exceptional items | - | (7.9) | 7.5 | - | - | Minority interest | 30.3 | 33.8 | 37.7 | 33.3 | 23.1 |
| Reported earnings | 47.3 | 64.1 | 53.5 | 39.3 | 58.6 | Equity | 436.7 | 667.6 | 712.2 | 724.7 | 715.3 |
| Cash Flow Statement | | | | | | Valuation & Ratios | | | | | |
| FYE Mar (RM m) | FY19 | FY20 | FY21 | FY22f | FY23f | FYE Mar (RM m) | FY19 | FY20 | FY21 | FY22f | FY23f |
| Profit before taxation | 72.6 | 88.7 | 79.6 | 62.5 | 91.7 | Core EPS (sen) | 7.4 | 8.8 | 9.5 | 6.1 | 9.1 |
| Depreciation & amortisation | 5.4 | 6.5 | 6.8 | 6.4 | 7.4 | Diluted Core EPS (sen) | - | - | - | 6.1 | 9.1 |
| Changes in working capital | (17.5) | 117.7 | 70.5 | (18.8) | 40.0 | P/E (x) | 23.0 | 19.4 | 17.9 | 27.7 | 18.6 |
| Share of JV profits | 0.6 | (5.2) | (3.5) | - | - | Diluted P/E (x) | - | - | - | 30.3 | 20.8 |
| Taxation | (16.2) | (14.4) | (22.6) | (22.5) | (22.5) | DPS (sen) | - | 3.0 | 4.0 | 3.5 | 5.0 |
| Others | (16.7) | (13.4) | (6.5) | (15.0) | (15.0) | Dividend yield | 0.0% | 1.8% | 2.4% | 2.1% | 2.9% |
| Operating cash flow | 45.9 | (40.1) | 130.1 | 43.6 | 14.3 | BVPS (RM) | 0.68 | 1.04 | 1.11 | 1.13 | 1.12 |
| Net capex | (48.2) | (63.0) | (7.9) | (60.6) | 34.8 | P/B (x) | 2.5 | 1.6 | 1.5 | 1.5 | 1.5 |
| Others | 7.6 | 19.3 | 8.5 | - | - | EBITDA margin | 24.2% | 26.2% | 19.2% | 19.9% | 19.4% |
| Investing cash flow | (40.6) | (43.7) | 0.6 | (60.6) | 34.8 | EBIT margin | 22.6% | 24.5% | 17.7% | 18.1% | 18.0% |
| Changes in borrowings | (3.9) | 67.4 | (35.6) | (32.3) | (31.5) | PBT margin | 21.4% | 23.3% | 17.3% | 17.7% | 18.1% |
| Issuance of shares | - | 107.6 | 0.5 | - | - | PAT margin | 15.0% | 18.0% | 12.6% | 12.4% | 12.7% |
| Dividends paid | (10.0) | - | (12.8) | (22.4) | (32.0) | Core PAT margin | 14.0% | 14.8% | 13.2% | 11.2% | 11.6% |
| Others | 6.2 | 1.5 | - | - | - | ROE | 10.8% | 8.4% | 8.6% | 5.4% | 8.2% |
| Financing cash flow | (12.2) | 178.5 | (47.9) | (58.8) | (67.7) | ROA | 5.3% | 4.9% | 5.1% | 3.4% | 5.1% |
| Net cash flow | (6.9) | 94.7 | 82.8 | (75.8) | (18.6) | Net gearing | 26.0% | 13.7% | Net Cash | Net Cash | Net Cash |
| Forex | - | - | - | - | - | | | | | | |
| Others | - | - | - | - | - | | | | | | |
| Beginning cash | 85.3 | 78.4 | 173.2 | 255.9 | 180.1 | | | | | | |
| Ending cash | 78.4 | 173.2 | 255.9 | 180.1 | 161.6 | | | | | | |

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