

Results Note

RM1.53 @ 26 August 2022

"1QFY23 results were below expectations"

Share price performance



	1M	3M	12M
Absolute (%)	-4.4	-7.3	-17.4
Rel KLCl (%)	-6.7	-4.7	-12.7

	BUY	HOLD	SELL
Consensus	2	1	-

Stock Data

Sector	Construction
Issued shares (m)	640.7
Mkt cap (RMm)/(US\$m)	980.2/219.3
Avg daily vol - 6mth (m)	0.4
52-wk range (RM)	1.49-2.03
Est free float	39.1%
Stock Beta	0.71
Net cash/(debt) (RMm)	(92.4)
ROE (FY23E)	8.6%
Derivatives	Yes
Shariah Compliant	No
FTSE4Good Constituent	No
FBM EMAS (Top 200)	Top 51-75%
ESG Rank	

Key Shareholders

Lim Yook Kim	17.8%
Lee Chai	17.6%
Kang Ah Chee	17.4%
Lee Sai Boon	5.8%

Source: Bloomberg, Affin Hwang, Bursa Malaysia

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AME Elite Consortium (AME MK)

BUY (upgrade)

Up/Downside: +19.0%

Price Target: RM1.82

Previous Target (Rating): RM1.74 (HOLD)

Record high sales, but core earnings below expectations

- AME's core earnings contracted 64% qoq and 20% yoy to RM5.8m in 1QFY23, mainly due to narrowing of the EBIT margin
- Encouraging pre-sales of RM65.8m (+2% yoy) in 1QFY23, benefiting from strong foreign and domestic direct investments
- We cut core EPS forecasts by 11-17% in FY23-25E to reflect the minority interest in AME REIT post-IPO, but raise our TP to RM1.82, based on 25% discount to higher RNAV adjusted for higher AME REIT valuation based on IPO price. We upgrade our call to BUY from Hold

Below expectations

AME's core earnings of RM6.1m (-20% yoy) in 1QFY23 comprised only 9-10% of the full-year consensus and our previous forecast of RM63.8-69.8m. The first quarter is a seasonally weak quarter for AME and we expect a ramp-up in earnings in subsequent quarters. Revenue jumped 78% yoy to RM136.9m in 1QFY23, sustaining the strong momentum that started in 4QFY22 due to higher progress billings for its property development and construction divisions.

Bottom line adversely impacted by accounting adjustment

Operating profit rose 28% yoy to RM15.2m in 1QFY23, mainly driven by higher property development and investment earnings. We believe the labour shortage and building material supply disruptions adversely impacted its construction and property development operations leading to the EBIT margin narrowing to 10.9% compared to 15.5% in 1QFY22. PBT was adversely impacted by an additional finance cost of RM2.7m from unwinding a discount due to a deferred purchase consideration for the land acquisition from UEM Sunrise (non-cash accounting adjustment).

High construction order book and unbilled sales

AME sustained high pre-sales of RM65.8m (+2% yoy) in 1QFY23. Unbilled sales of RM120.4m at end-1QFY23 will likely support property earnings growth in FY23E. Its high remaining order book of RM318.7m also improves earnings visibility in FY23E.

Separate REIT listing to unlock value

The proposed listing of AME REIT will unlock values of its investment property portfolio. We raise our fully-diluted RNAV/share to RM2.42 from RM2.32 to reflect the higher valuation for AME REIT based on the IPO retail price of RM1.15. Based on the same 25% discount to RNAV, we lift our 12-month TP to RM1.82 from RM1.74. We upgrade our call to BUY from Hold following its share-price correction. Downside risks: lower-than-expected property sales and new contract wins.

Earnings & Valuation Summary

FYE 31 Mar	2021	2022	2023E	2024E	2025E
Revenue (RMm)	460.6	398.4	680.5	662.9	579.2
EBITDA (RMm)	96.0	76.2	106.2	133.2	136.9
Pretax profit (RMm)	79.6	68.9	96.2	126.8	132.3
Net profit (RMm)	53.5	48.6	62.4	73.7	76.9
EPS (sen)	8.3	7.6	9.7	11.5	12.0
PER (x)	18.3	20.2	15.7	13.3	12.7
Core net profit (RMm)	61.2	43.8	62.4	73.7	76.9
Core EPS (sen)	9.6	6.8	9.7	11.5	12.0
Core EPS growth (%)	7.6	(28.5)	42.4	18.1	4.4
Core PER (x)	16.0	22.4	15.7	13.3	12.7
Net DPS (sen)	4.0	2.5	3.5	4.0	4.5
Dividend Yield (%)	2.6	1.6	2.3	2.6	2.9
EV/EBITDA	10.3	14.0	7.5	5.5	4.4

Chg in EPS (%)		-10.6	-16.5	-15.4
Affin/Consensus (x)		1.0	1.0	0.8

Source: Company, Bloomberg, Affin Hwang forecasts

Geographical diversification to Penang

In August 2022, AME formed a 50:50 joint venture (JV) with Majestic Builders Sdn Bhd to develop an integrated industrial park on a parcel of 176-acre freehold land in Seberang Perai Tengah, Penang, to be acquired for RM130m or RM16.96 psf. AME intends to replicate its fully-integrated industrial park model in Penang with custom-built industrial properties, amply supported by fit-for-purpose workers' dormitories. The estimated gross development value for the project is RM1bn. We are positive on the deal as it allows AME to diversify geographically to Penang and expand its operations with lower investment cost through a JV deal. We have not factored in earnings contribution from this project as the details are still being finalised.

Fig 1: Results comparison

FYE 31 Mar (RMm)	1QFY22	4QFY22	1QFY23	QoQ % chg	YoY % chg	Comments
Revenue	76.8	139.7	136.9	(2.0)	78.4	Higher property development (+74% yoy), construction (+112% yoy) and property investment (+18% yoy) revenue, partly offset by lower engineering revenue (-13% yoy).
Op costs	(63.2)	(114.3)	(120.5)	5.4	90.6	
EBITDA	13.5	25.5	16.4	(35.6)	21.1	Lower EBITDA margin due to labour shortage and building material supply disruptions.
<i>EBITDA margin (%)</i>	<i>17.6</i>	<i>18.2</i>	<i>12.0</i>	<i>(6.2 ppt)</i>	<i>(5.7 ppt)</i>	
Depreciation	(1.6)	(1.5)	(1.5)	(1.6)	(8.9)	Additional finance cost of RM2.7m from unwinding of discount due to deferred purchase consideration for the land acquisition from UEM Sunrise
EBIT	11.9	23.9	14.9	(37.7)	25.3	
<i>EBIT margin (%)</i>	<i>15.5</i>	<i>17.1</i>	<i>10.9</i>	<i>(6.2 ppt)</i>	<i>(4.6 ppt)</i>	
Int expense	(2.2)	(4.4)	(4.4)	(0.6)	97.4	
Int and other inc	1.1	0.8	0.7	(19.1)	(43.1)	
Associates	0.2	1.5	(0.2)	NA	NA	
EI	0.0	4.4	0.3	(92.6)	773.0	
PBT	11.0	26.2	11.3	(56.8)	2.8	
<i>PBT margin (%)</i>	<i>14.4</i>	<i>18.8</i>	<i>8.3</i>	<i>(10.5 ppt)</i>	<i>(6.1 ppt)</i>	
Core PBT	11.0	21.9	11.0	(49.6)	0.2	
Tax	(3.4)	(4.7)	(3.8)	(20.0)	11.5	Tax rate above statutory rate due to non-deductibility of certain expenses for tax purposes.
<i>Tax rate (%)</i>	<i>30.9</i>	<i>18.1</i>	<i>33.5</i>	<i>15.4 ppt</i>	<i>2.6 ppt</i>	
MI	(0.4)	(0.9)	(1.5)	58.3	255.1	
Net profit	7.2	20.6	6.1	(70.4)	(15.7)	Below expectations.
EPS (sen)	1.7	1.7	1.0	(43.1)	(43.8)	
Core net profit	7.2	16.2	5.8	(64.4)	(19.7)	Excluding one-off items. Below expectations.

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FYE 31 Mar (RMm)	1QFY22	4QFY22	1QFY23	QoQ % chg	YoY % chg
Segmental results					
Revenue					
Construction services	41.5	72.5	87.9	21.3	111.8
Property development	18.6	46.3	32.3	(30.2)	73.5
Engineering services	6.0	9.9	5.2	(47.1)	(13.3)
Property investment	10.6	11.0	11.4	3.7	8.0
Total	76.8	139.7	136.9	(2.0)	78.4
Operating profit					
Construction services	4.2	2.5	2.8	13.3	(32.3)
Property development	0.4	10.6	5.4	(49.4)	>100
Engineering services	1.1	2.0	0.3	(83.8)	(69.6)
Property investment	8.2	9.8	9.2	(6.5)	12.6
Elimination	(1.9)	3.4	(2.5)	NA	32.8
Total	11.9	28.3	15.2	(46.2)	27.7
Operating profit margin (%)					
Construction services	10.1	3.5	3.2	(0.2 ppt)	(6.9 ppt)
Property development	2.0	22.8	16.6	(6.3 ppt)	14.5 ppt
Engineering services	17.5	19.9	6.1	(13.8 ppt)	(11.3 ppt)
Property investment	76.9	88.9	80.2	(8.8 ppt)	3.3 ppt

Source: Affin Hwang, Company

Fig 3: RNAV/share and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 14x sustainable PAT of RM40m	100	560	560	0
Engineering @ PE 14x sustainable PAT of RM5m	100	70	70	0
Property development @ DCF (WACC 7.2%)	100	491	491	0
AME REIT @ IPO retail price *	51	305	483	(37)
Net cash/(debt) *		195	(62)	(414)
RNAV		1,621	1,542	5
No. of shares (m shrs)		641	641	0
RNAV/share (RM)		2.53	2.41	5
Fully-diluted RNAV/share (RM)		2.42	2.32	4
Target price at 25% discount to FD RNAV/share		1.82	1.74	4

* AME will retain 51% stake in AME REIT after the IPO valued at IPO price. Net cash increased by IPO offer for sale of a 49% stake.

Source: Affin Hwang estimates and forecasts



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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