

"9M FY23 results above market expectation but within ours"

### Share price performance



	1M	3M	12M
Absolute (%)	0.8	-2.3	-24.2
Rel KLCI (%)	3.8	0.7	-18.1

	BUY	HOLD	SELL
Consensus	3	-	-

### Stock Data

Sector	Construction
Issued shares (m)	639.1
Mkt cap (RMm)/(US\$m)	818.0/184.5
Avg daily vol - 6mth (m)	0.6
52-wk range (RM)	1.15-1.81
Est free float	34.7%
Stock Beta	0.76
Net cash/(debt) (RMm)	189.8
ROE (FY23E)	10.2%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200)	Top 51-75%
ESG Rank	
ESG Risk Rating	21.6 (-1.7 yoy)

### Key Shareholders

Lim Yook Kim	17.8%
Lee Chai	17.7%
Kang Ah Chee	17.5%
Lee Sai Boon	5.8%

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

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## AME Elite Consortium (AME MK)

**BUY (maintain)**

Up/Downside: +28.9%

**Price Target: RM1.65**

Previous Target (Rating): RM1.62 (BUY)

### Profit margin recovering

- Core earnings jumped 120% yoy to RM60m in 9M FY23, mainly driven by the lumpy RM35m gain on divestment of its investment properties to AME REIT and better operating performance for most segments
- Strong property sales of RM324m (+148% yoy) in 9M FY23, benefiting from strong foreign and domestic direct investments in industrial properties
- We maintain our core EPS forecasts and expect strong 56% qoq earnings growth in 4Q FY23. AME remains a top sector pick with a higher target price of RM1.65, based on 25% discount to lifted RNAV

### Above street's expectations but within ours

Core net profit of RM60.1m (+120% yoy) in 9M FY23 has nearly matched consensus full-year forecast of RM60.6 and comprises 81% of our estimate of RM74.2m. We deem the results above market expectations but within ours. Revenue jumped 62% yoy to RM418.7m in 9M FY23, driven by higher progress billings for its property development and construction divisions, while property investment revenue was flat.

### Bottom line was boosted by gain on sale of investment properties

Gross profit was up 16% yoy to RM81.2m in 9M FY23, lagging the strong revenue growth. But PBT jumped 129% yoy to RM105.6m in 9M FY23, boosted by the RM54.8m gain on sale of investment properties to its subsidiary AME REIT. Higher minority interest following its reduced stake in AME REIT to 49% post-listing and a higher effective tax rate led to a slower 121% yoy growth in net profit to RM61.2m in 9MFY23. Gross profit increased 31% qoq to RM31.7m in 3Q FY23 with gross margin improving to 24.5% in 3Q FY23 compared to 17.0% in 2Q FY22.

### Reasonable construction order book and unbilled sales

AME saw record-high property sales of RM324m (+148% yoy) in 9M FY23, exceeded the RM250m sales target in FY23, due to rising demand for industrial properties. New customers include US-based Oliver Healthcare Packaging and Swiss-listed Bucher Emhart Glass. We believe its high unbilled property sales of RM244m and remaining construction order book of RM273m will spur 56% qoq earnings growth in 4Q FY23.

### Maintain BUY with higher 12-month TP of RM1.65

We raise our fully-diluted RNAV/share by 2% from RM2.16 to RM2.20 to reflect its higher net cash of RM190m or RM0.30/share as at end-2022. Based on the same 25% discount to RNAV, we lift our 12-month TP to RM1.65 from RM1.62 previously. Downside risks: weaker-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	609.1	700.5	603.3
EBITDA (RMm)	96.0	76.2	115.0	103.9	125.1
Pretax profit (RMm)	79.6	68.9	105.6	94.7	114.9
Net profit (RMm)	53.5	48.6	75.1	56.8	68.9
EPS (sen)	8.3	7.6	11.7	8.9	10.7
PER (x)	15.3	16.9	10.9	14.4	11.9
Core net profit (RMm)	61.2	43.8	74.2	56.8	68.9
Core EPS (sen)	9.6	6.8	11.6	8.9	10.7
Core EPS growth (%)	7.6	(28.5)	69.4	(23.5)	21.3
Core PER (x)	13.4	18.7	11.0	14.4	11.9
Net DPS (sen)	2.7	2.5	3.5	4.0	4.5
Dividend Yield (%)	2.1	2.0	2.7	3.1	3.5
EV/EBITDA	8.6	11.9	5.5	7.0	5.2

Chg in EPS (%)	-	-	-	-	-
Affin/Consensus (x)			1.2	0.9	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Mar (RMm)	3QFY22	2QFY23	3QFY23	QoQ % chg	YoY % chg	9MFY22	9MFY23	YoY % chg	9MFY23 Comments
<b>Revenue</b>	<b>95.6</b>	<b>147.5</b>	<b>134.3</b>	<b>(8.9)</b>	<b>40.6</b>	<b>258.7</b>	<b>418.7</b>	<b>61.9</b>	69FY23: Higher property development (+40% yoy), construction (+110% yoy) and engineering (+5% yoy) revenue, while property investment revenue was flat.
Op costs	(76.5)	(76.4)	(113.5)	48.6	48.4	(208.1)	(310.3)	49.2	
<b>EBITDA</b>	<b>19.1</b>	<b>71.1</b>	<b>20.9</b>	<b>(70.7)</b>	<b>9.2</b>	<b>50.6</b>	<b>108.4</b>	<b>114.2</b>	
<i>EBITDA margin (%)</i>	<i>20.0</i>	<i>48.2</i>	<i>15.5</i>	<i>(32.7 ppt)</i>	<i>(4.5 ppt)</i>	<i>19.6</i>	<i>25.9</i>	<i>6.3 ppt</i>	Higher EBITDA margin due to gain on sale on investment properties.
Depreciation	(1.5)	(1.6)	(1.3)	(18.0)	(11.5)	(4.7)	(4.5)	(4.7)	
<b>EBIT</b>	<b>17.6</b>	<b>69.5</b>	<b>19.5</b>	<b>(71.9)</b>	<b>11.0</b>	<b>45.9</b>	<b>103.9</b>	<b>126.4</b>	
<i>EBIT margin (%)</i>	<i>18.4</i>	<i>47.1</i>	<i>14.5</i>	<i>(32.6 ppt)</i>	<i>(3.9 ppt)</i>	<i>17.7</i>	<i>24.8</i>	<i>7.1 ppt</i>	
Int expense	(2.3)	(4.8)	(4.2)	(11.2)	81.7	(6.7)	(13.4)	100.8	Additional finance cost of RM2.6m from unwinding of discount due to deferred purchase consideration for the land acquisition from UEM Sunrise
Int and other inc	0.9	0.6	1.7	166.1	83.1	3.0	3.0	0.8	
Associates	(0.0)	(0.0)	3.4	NA	NA	0.1	3.2	2809.9	
EI	0.2	0.6	0.2	(64.0)	(12.8)	0.4	1.1	201.1	
<b>PBT</b>	<b>16.4</b>	<b>65.9</b>	<b>20.6</b>	<b>(68.7)</b>	<b>25.9</b>	<b>42.7</b>	<b>97.8</b>	<b>129.2</b>	
<i>PBT margin (%)</i>	<i>17.1</i>	<i>44.7</i>	<i>15.3</i>	<i>(29.3 ppt)</i>	<i>(1.8 ppt)</i>	<i>16.5</i>	<i>23.4</i>	<i>6.9 ppt</i>	
<b>Core PBT</b>	<b>16.1</b>	<b>65.3</b>	<b>20.4</b>	<b>(68.8)</b>	<b>26.4</b>	<b>42.3</b>	<b>96.7</b>	<b>128.6</b>	
Tax	(4.7)	(9.5)	(6.7)	(29.7)	40.9	(12.8)	(20.0)	56.1	Tax rate lower than statutory rate due to reversal of deferred tax liabilities on fair value gains on investment properties.
<i>Tax rate (%)</i>	<i>29.0</i>	<i>14.4</i>	<i>32.4</i>	<i>18.0 ppt</i>	<i>3.5 ppt</i>	<i>30.0</i>	<i>20.4</i>	<i>(9.6 ppt)</i>	
MI	(0.9)	(10.6)	(4.6)	(56.0)	405.1	(2.2)	(16.7)	660.3	
<b>Net profit</b>	<b>10.7</b>	<b>45.8</b>	<b>9.3</b>	<b>(79.7)</b>	<b>(13.4)</b>	<b>27.7</b>	<b>61.2</b>	<b>121.0</b>	Within expectations.
EPS (sen)	1.7	7.2	1.5	(79.7)	(13.2)	4.3	9.6	121.1	
<b>Core net profit</b>	<b>10.5</b>	<b>45.2</b>	<b>9.1</b>	<b>(79.9)</b>	<b>(13.4)</b>	<b>27.3</b>	<b>60.1</b>	<b>119.9</b>	Excluding one-off items. Within expectations.

Source: Affin Hwang, Company

**Fig 2: Segmental breakdown**

FYE 31 Mar (RMm)	3QFY22	2QFY23	3QFY23	QoQ % chg	YoY % chg	9MFY22	9MFY23	YoY % chg
<b>Segmental results</b>								
<b>Revenue</b>								
Construction services	44.7	74.3	66.3	(10.7)	48.5	108.6	228.6	110.4
Property development	31.6	53.7	50.1	(6.6)	58.8	97.0	136.2	40.4
Engineering services	8.5	12.6	4.3	(66.1)	(49.9)	21.0	22.1	5.0
Property investment	10.8	6.8	13.6	98.6	25.7	32.0	31.9	(0.3)
<b>Total</b>	<b>95.6</b>	<b>147.5</b>	<b>134.3</b>	<b>(8.9)</b>	<b>40.6</b>	<b>258.7</b>	<b>418.7</b>	<b>61.9</b>
<b>Operating profit</b>								
Construction services	3.8	1.8	2.3	25.8	(40.1)	6.9	7.0	0.1
Property development	6.4	9.8	6.3	(35.4)	(1.6)	11.1	21.4	92.4
Engineering services	0.9	0.9	0.3	(63.4)	(62.6)	5.1	1.6	(69.4)
Property investment	8.5	56.0	12.8	(77.2)	50.9	24.9	78.0	212.7
Elimination	(1.8)	1.5	(2.0)	NA	NA	(1.9)	(2.9)	56.5
<b>Total</b>	<b>17.8</b>	<b>70.1</b>	<b>19.7</b>	<b>(71.9)</b>	<b>10.7</b>	<b>48.1</b>	<b>107.9</b>	<b>124.2</b>
<b>Operating profit margin (%)</b>								
Construction services	8.6	2.4	3.5	1.0 ppt	(5.1 ppt)	6.4	3.0	(3.4 ppt)
Property development	20.3	18.2	12.6	(5.6 ppt)	(7.7 ppt)	11.5	15.7	4.2 ppt
Engineering services	10.5	7.3	7.8	0.6 ppt	(2.7 ppt)	24.4	7.1	(17.2 ppt)
Property investment	78.2	818.3	93.9	(724.4 ppt)	15.7 ppt	77.9	244.5	166.6 ppt

Source: Affin Hwang, Company

**Fig 3: RNAV/share and target price**

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)	% of RNAV (excl net debt)
Construction @ PE 14x sustainable PAT of RM25m	100	350	350	0	28
Engineering @ PE 14x sustainable PAT of RM5m	100	70	70	0	6
Property development @ DCF (WACC 7.2%)	100	525	525	0	42
AME REIT @ RM1.18 share price	51	313	313	0	25
Net cash/(debt)		190	162	17	
<b>RNAV</b>		<b>1,448</b>	<b>1,420</b>	<b>2</b>	
No. of shares (m shrs)		641	641	0	
<b>RNAV/share (RM)</b>		<b>2.26</b>	<b>2.22</b>	<b>2</b>	
<b>Fully-diluted RNAV/share (RM)</b>		<b>2.20</b>	<b>2.16</b>	<b>2</b>	
<b>Target price at 25% discount to FD RNAV/share</b>		<b>1.65</b>	<b>1.62</b>	<b>2</b>	

\* 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

<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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