25 August 2023

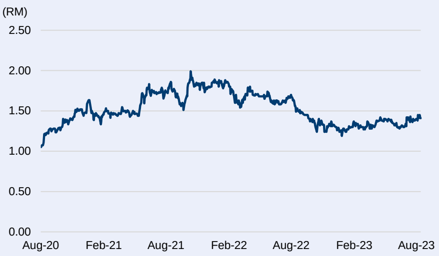
Outthink. Outperform.

AFFIN HWANG INVESTMENT BANK

Results Note | **RM1.41 @ 24 August 2023**

"1QFY24 results were above our expectations"

Share price performance



	1M	3M	12M
Absolute (%)	3.7	1.4	-7.8
Rel KLCI (%)	1.3	-1.0	-5.5

	BUY	HOLD	SELL
Consensus	3	-	-

Stock Data

Sector	Construction
Issued shares (m)	639.1
Mkt cap (RMm)/(US$m)	901.1/194.0
Avg daily vol - 6mth (m)	0.2
52-wk range (RM)	1.15-1.61
Est free float	38.7%
Stock Beta	0.79
Net cash/(debt) (RMm)	224.3
ROE (FY24E)	7.3%
Derivatives	Yes
Shariah Compliant	Yes
FTSE4Good Constituent	No
FBM EMAS (Top 200) ESG Rank	Top 51-75%
ESG Risk Rating	21.6 (-1.7 yoy))

Key Shareholders

Lim Yook Kim	17.8%
Lee Chai	17.8%
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: +24.1%

Price Target: RM1.75
Previous Target (Rating): RM1.66 (BUY)

Sustained strong core earnings

- **Core earnings increased 3-fold yoy to RM23m in 1QFY24, mainly driven by better performance for its property development segment**
- **Encouraging sales of RM46.1m in 1QFY24 with reasonable unbilled sales of RM253.4m will support revenue in FY24-25. We raise core EPS by 3-6% in FY24-25E assuming higher progress billings**
- **We reiterate our BUY call with higher 12-month target price (TP) of RM1.75, based on 25% discount to lifted RNAV**

Above expectations

AME's 1QFY24 results were within market expectations but above ours. Core net profit of RM23m in 1QFY24 reflects 26% of consensus full-year forecast of RM90m and 38% of our estimate of RM61m. Revenue jumped 63% qoq and 40% yoy to RM223m in 1QFY24, driven by higher property development and investment earnings. EBIT eased 6% qoq to RM38.4m in 1QFY24 but was up 158% yoy from a low base in 1QFY23. EBIT margin normalised to 17.3% in 1QFY24 from 25.8% in 4QFY23, but was higher than 10.9% in 1QFY23. A land sale gain with construction work to be awarded to AME boosted earnings in 1QFY24, leading us to front load earnings recognition in FY24-25E (raise 3-6%) and reduce earnings by 6% in FY26E.

Earnings normalised in 1QFY24

PBT fell 50% qoq to RM39.3m in 1QFY24, while net profit declined 45% qoq to RM23.3m, due to the absence of net exceptional gain of RM40m (includes RM54.8m gain on sale of investment properties to its subsidiary AME REIT) recognised in 4QFY23. Net profit jumped 282% yoy as progress billings accelerated for ongoing projects since the labour shortage issue faced in 1QFY23 has been resolved.

Reasonable construction order book and unbilled sales

AME saw property sales of RM46.1m (-30% yoy) in 1QFY24. We expect sales to accelerate in subsequent quarters and raise our sales forecast to RM430m in FY24. We believe its healthy unbilled property sales of RM253.4m and remaining construction order book of RM138.3m will support earnings over the next 2 years.

Maintain BUY with higher 12-month TP of RM1.75

We believe AME will benefit from the rising demand for industrial properties and the potential setting up of a Johor-Singapore Special Economic Zone. We raise fully-diluted RNAV/share to RM2.33 from RM2.21 previously to reflect higher net cash. Applying the same 25% discount to RNAV, we lift our TP to RM1.75 from RM1.66 previously. Maintain BUY. Downside risks: weaker-than-expected property sales.

Earnings & Valuation Summary

FYE 31 Mar	2022	2023	2024E	2025E	2026E
Revenue (RMm)	v	577.1	686.4	687.6	624.2
EBITDA (RMm)	76.2	151.6	124.2	142.4	169.5
Pretax profit (RMm)	68.9	175.8	113.5	131.6	159.2
Net profit (RMm)	48.6	103.5	64.5	74.8	90.5
EPS (sen)	7.6	16.2	10.1	11.7	14.2
PER (x)	18.6	8.7	14.0	12.0	10.0
Core net profit (RMm)	43.8	84.7	64.5	74.8	90.5
Core EPS (sen)	6.8	13.2	10.1	11.7	14.2
Core EPS growth (%)	(28.5)	93.3	(23.6)	15.9	21.0
Core PER (x)	20.6	10.7	14.0	12.0	10.0
Net DPS (sen)	2.5	4.0	4.0	4.5	4.5
Dividend Yield (%)	1.8	2.8	2.8	3.2	3.2
EV/EBITDA	13.0	5.7	7.1	5.9	4.8
Chg in EPS (%)			+6.2	+2.8	-6.3
Affin/Consensus (x)			0.7	0.8	0.7

Source: Company, Bloomberg, Affin Hwang forecasts

Fig 1: Results comparison

FYE 31 Mar (RMm)	1QFY23	4QFY23	1QFY24	QoQ % chg	YoY % chg	Comments
Revenue	**136.9**	**158.4**	**222.5**	**40.5**	**62.5**	Higher property development (+343% yoy), engineering (+193% yoy) and property investment (+30% yoy) revenue. But lower construction (-44% yoy) revenue.
Op costs	(120.5)	(116.2)	(182.5)	57.1	51.5	
EBITDA	**16.4**	**42.2**	**40.0**	**(5.3)**	**143.7**	
EBITDA margin (%)	*12.0*	*26.6*	*18.0*	*(8.7 ppt)*	*6.0 ppt*	Higher EBITDA margin due to land sale gain.
Depreciation	(1.5)	(1.4)	(1.6)	11.8	5.5	
EBIT	**14.9**	**40.8**	**38.4**	**(5.9)**	**157.6**	
EBIT margin (%)	*10.9*	*25.8*	*17.3*	*(8.5 ppt)*	*6.4 ppt*	
Int expense	(4.4)	(4.9)	(4.6)	(4.9)	5.5	
Int and other inc	0.7	2.0	2.6	28.7	296.6	
Associates	(0.2)	(0.1)	2.7	NA	NA	
EI	0.3	40.1	0.3	(99.4)	(22.6)	
PBT	**11.3**	**78.0**	**39.3**	**(49.6)**	**246.7**	
PBT margin (%)	*8.3*	*49.2*	*17.7*	*(31.6 ppt)*	*9.4 ppt*	
Core PBT	**11.0**	**37.9**	**39.0**	**3.1**	**254.6**	
Tax	(3.8)	(11.6)	(9.2)	(20.4)	143.6	Tax rate normalised close to corporate tax rate.
Tax rate (%)	*33.5*	*14.9*	*23.5*	*8.6 ppt*	*(10.0 ppt)*	
MI	(1.5)	(24.0)	(6.8)	(71.8)	366.1	
Net profit	**6.1**	**42.3**	**23.3**	**(45.0)**	**282.4**	Above expectations.
EPS (sen)	1.0	6.6	3.6	(45.1)	283.2	
Core net profit	**5.8**	**23.8**	**23.0**	**(3.5)**	**299.5**	Above expectations. Excluding one-off items.

Source: Affin Hwang, Company

Fig 2: Segmental breakdown

FYE 31 Mar (RMm)	1QFY23	4QFY23	1QFY24	QoQ % chg	YoY % chg
Segmental results					
Revenue					
Construction services	87.9	53.9	49.0	(9.1)	(44.3)
Property development	32.3	77.4	143.4	85.2	343.3
Engineering services	5.2	13.2	15.3	15.3	192.8
Property investment	11.4	13.9	14.9	7.4	30.1
Total	**136.9**	**158.4**	**222.5**	**40.5**	**62.5**
Operating profit					
Construction services	2.8	0.7	0.7	(1.9)	(76.8)
Property development	5.4	14.7	23.5	59.3	338.5
Engineering services	0.3	3.0	1.2	(60.4)	274.0
Property investment	9.2	69.0	12.1	(82.5)	31.6
Elimination	(2.5)	(6.6)	1.2	NA	NA
Total	**15.2**	**80.9**	**38.6**	**(52.2)**	**153.8**
Operating profit margin (%)					
Construction services	3.2	1.2	1.3	0.1 ppt	(1.9 ppt)
Property development	16.6	19.0	16.4	(2.7 ppt)	(0.2 ppt)
Engineering services	6.1	22.8	7.8	(15.0 ppt)	1.7 ppt
Property investment	80.2	498.0	81.1	(416.8 ppt)	0.9 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	26
Engineering @ PE 14x sustainable PAT of RM5m	100	70	70	0	5
Property development @ DCF (WACC 7.2%)	100	574	572	0	43
AME REIT @ RM1.26 share price	51	334	337	-1	25
Net cash/(debt)		224	129	74	
RNAV		**1,553**	**1,458**	**7**	
No. of shares (m shrs)		641	641	0	
RNAV/share (RM)		**2.42**	**2.28**	**7**	
Fully-diluted RNAV/share (RM)		**2.33**	**2.21**	**5**	
Target price at 25% discount to FD RNAV/share		**1.75**	**1.66**	**5**	

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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