

16 October 2023

Construction & Engineering | Construction

AME Elite Consortium (AME MK)**Buy** (Maintained)**Key Industrial Play In Iskandar Malaysia**

Target Price (Return): MYR1.82 (+23%)
 Price (Market Cap): MYR1.48 (USD200m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.49m/0.11m

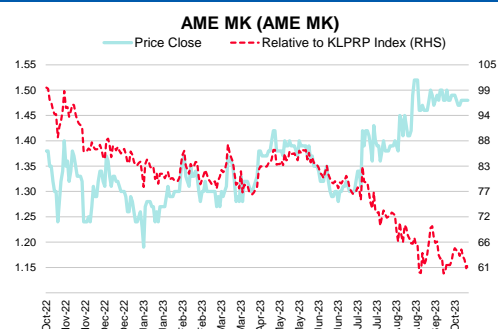
- **Maintain BUY, new TP of MYR1.82 from MYR2.34, 23% upside with 2% FY24F (Mar) yield.** AME Elite Consortium, the key industrial play in Iskandar Malaysia, is expected to benefit from rising investments from Singapore under the Johor-Singapore Special Economic Zone (SEZ). In addition to its net cash position, after the REIT listing, the company has a significant war chest for new land acquisitions, which may be another share price catalyst. New land in Mainland Penang should drive growth over the medium term.
- **Prime beneficiary of SEZ.** We resume coverage on AME. The company is set to benefit from the influx of investments into Iskandar Malaysia. Already, AME is benefiting from US-China trade tensions, as it has been enjoying rising demand from MNCs – especially from the US – in recent years. Some of the recent names that announced their investments in AME's industrial parks include Insulet Corporation, Oliver Healthcare Packaging, Emhart Bucher Glass and Colorcon Inc (mainly in the healthcare/pharmaceutical and light manufacturing industries). These corporations typically have their regional offices in Singapore, and have set up production plants in Johor, given the close proximity. Potential initiatives under the SEZ should accelerate this trend.
- **Significant war chest from REIT listing for future landbanking.** AME is currently in a net cash position. It raised MYR287m from listing AME REIT (AMEREIT, BUY, TP: MYR1.40) in Sep 2022. So far, the company has utilised MYR110m to repay loans, and the rest is intended for landbanking activities, with targeted areas being Johor and the Klang Valley. The potential addition of new land, especially in Johor, could be a catalyst as the company has been anchoring the industrial sector in Iskandar Malaysia. Note that AME typically depletes about 20-25 acres of its land on average every year (vs the current landbank of 153 acres excluding Penang land). As such, new land is needed to sustain its long-term growth.
- **Current business structure enables asset recycling and release of cash flow.** AME's cash flow and financial positions were strengthened post listing of AME REIT. The current business model would enable efficient asset monetisation when industrial assets and worker dormitories are ready to be injected into the REIT. Hence, funding commitments for working capital and future landbanking will be fairly manageable.
- **Valuations.** Our FY24-25 earnings forecasts are underpinned by the company's unbilled sales of MYR253.4m as well as its outstanding construction & engineering orderbook of MYR138.3m. Management has a sales target of MYR350m for FY24 (vs MYR479m achieved in FY23) and AME has raked in MYR46.1m new sales in 1QFY24. Our valuation is based on a 25% discount to RNAV, with a 2% ESG premium applied.

Analyst

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**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|-------|-------|--------|--------|
| Absolute | 19.4 | (0.7) | 13.0 | 12.1 | 5.7 |
| Relative | (17.2) | (6.2) | (9.1) | (11.7) | (39.9) |
| 52-wk Price low/high (MYR) | 1.19 – 1.52 | | | | |



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)**E: GOOD**

AME typically retains 15-20% of green areas to promote a nature-oriented working and living environment. Its industrial buildings are designed to Green Building Index (GBI) standards, and the company also uses an industrialised building system (IBS) to reduce energy, water and material wastage in construction sites.

S: EXCELLENT

AME emphasises health and safety at construction sites. It has obtained the OHSAS 18001 certification, and provides continuing education and training to its construction and engineering personnel.

G: EXCELLENT

50% of AME's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on a named basis. AME has an external investor relations team and holds investor meetings regularly. The management team is also easily accessible, embodying good transparency and disclosure practices.

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

| Forecasts and Valuation | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
|---------------------------------|--------|----------|----------|----------|----------|
| Total turnover (MYRm) | 398 | 577 | 635 | 703 | 806 |
| Recurring net profit (MYRm) | 49 | 104 | 63 | 70 | 80 |
| Recurring net profit growth (%) | (9.2) | 113.2 | (38.9) | 11.3 | 13.8 |
| Recurring EPS (MYR) | 0.09 | 0.16 | 0.10 | 0.11 | 0.12 |
| DPS (MYR) | 0.03 | 0.04 | 0.03 | 0.04 | 0.04 |
| Recurring P/E (x) | 16.27 | 9.16 | 15.00 | 13.48 | 11.85 |
| P/B (x) | 1.34 | 1.17 | 1.11 | 1.05 | 0.99 |
| Dividend Yield (%) | 1.7 | 2.7 | 2.0 | 2.4 | 2.7 |
| Return on average equity (%) | 7.0 | 13.6 | 7.6 | 8.0 | 8.6 |
| Net debt to equity (%) | 8.3 | net cash | net cash | net cash | net cash |

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

| Asia | Financial summary (MYR) | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
|---|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Malaysia | Recurring EPS | 0.09 | 0.16 | 0.10 | 0.11 | 0.12 |
| Construction & Engineering | EPS | 0.09 | 0.16 | 0.10 | 0.11 | 0.12 |
| AME Elite Consortium | DPS | 0.03 | 0.04 | 0.03 | 0.04 | 0.04 |
| AME MK | BVPS | 1.10 | 1.27 | 1.34 | 1.41 | 1.50 |
| Buy | Return on average equity (%) | 7.0 | 13.6 | 7.6 | 8.0 | 8.6 |
| | Return on average assets (%) | 3.6 | 6.2 | 3.4 | 3.5 | 3.8 |
| Valuation basis | | | | | | |
| 25% discount to RNAV | | | | | | |
| Key drivers | Valuation metrics | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
| i. Beneficiary of US-China trade tensions; | Recurring P/E (x) | 16.27 | 9.16 | 15.00 | 13.48 | 11.85 |
| ii. Expansion of its landbank and industrial parks in areas outside Johor. | P/B (x) | 1.3 | 1.2 | 1.1 | 1.0 | 1.0 |
| | Dividend Yield (%) | 1.7 | 2.7 | 2.0 | 2.4 | 2.7 |
| | EV/EBITDA (x) | 11.57 | 6.04 | 8.25 | 7.79 | 7.37 |
| Key risks | Income statement (MYRm) | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
| i. Unexpected economic downturn; | Total turnover | 398 | 577 | 635 | 703 | 806 |
| ii. Unfavourable drastic turn in FDI policies | Gross profit | 104 | 116 | 170 | 195 | 220 |
| | EBITDA | 75 | 186 | 135 | 152 | 173 |
| | Operating profit | 75 | 186 | 135 | 152 | 173 |
| | Net interest | (7) | (13) | (13) | (16) | (19) |
| | Pre-tax profit | 69 | 176 | 122 | 136 | 154 |
| | Taxation | (16) | (32) | (30) | (34) | (39) |
| | Reported net profit | 49 | 104 | 63 | 70 | 80 |
| | Recurring net profit | 49 | 104 | 63 | 70 | 80 |
| Company Profile | Cash flow (MYRm) | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
| AME Elite Consortium is involved in the construction of large manufacturing plants and industrial properties, with its core expertise in the design and building of industrial parks. | Change in working capital | (360) | 86 | (24) | (73) | (106) |
| | Cash flow from operations | (309) | 227 | 67 | 28 | 10 |
| | Cash flow from financing activities | 1 | (40) | 0 | 0 | 0 |
| | Cash at beginning of period | 271 | 187 | 313 | 378 | 372 |
| | Net change in cash | (308) | 186 | 67 | 28 | 10 |
| | Ending balance cash | (37) | 374 | 380 | 407 | 382 |
| | Balance sheet (MYRm) | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
| | Total cash and equivalents | 187 | 313 | 378 | 372 | 345 |
| | Tangible fixed assets | 480 | 719 | 731 | 774 | 815 |
| | Total investments | 15 | 2 | 2 | 2 | 2 |
| | Total other assets | 7 | 10 | 10 | 10 | 10 |
| | Total assets | 1,513 | 1,819 | 1,918 | 2,051 | 2,206 |
| | Short-term debt | 39 | 115 | 115 | 115 | 115 |
| | Total long-term debt | 210 | 65 | 95 | 125 | 155 |
| | Total liabilities | 766 | 696 | 723 | 776 | 842 |
| | Shareholders' equity | 706 | 813 | 857 | 905 | 959 |
| | Minority interests | 41 | 310 | 338 | 370 | 405 |
| | Total equity | 747 | 1,123 | 1,195 | 1,275 | 1,365 |
| | Total liabilities & equity | 1,513 | 1,819 | 1,918 | 2,051 | 2,206 |
| | Key metrics | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
| | Revenue growth (%) | (13.5) | 44.9 | 10.1 | 10.6 | 14.7 |
| | Recurring net profit growth (%) | (9.2) | 113.2 | (38.9) | 11.3 | 13.8 |
| | Recurrent EPS growth (%) | (27.4) | 77.6 | (38.9) | 11.3 | 13.8 |
| | Gross margin (%) | 26.1 | 20.2 | 26.7 | 27.8 | 27.2 |
| | Recurring net profit margin (%) | 12.2 | 17.9 | 9.9 | 10.0 | 9.9 |
| | Dividend payout ratio (%) | 33.0 | 24.8 | 30.4 | 31.9 | 32.0 |

Source: Company data, RHB

Figure 1: RNAV estimate for AME

| Projects | Location | Landbank (acres) | Remaining GDV (MYRm) | Effective interest | NPV @ 9% (MYR m) |
|--|----------|------------------|----------------------|--------------------|------------------|
| Completed | | | | | |
| i-Park @ Indahpura (Ph 1 & 2) | Johor | 104.8 | 31 | 100% | 10.9 |
| Ongoing | | | | | |
| i-Park @ Indahpura (Ph 3) | Johor | 85.4 | 29 | 50% | 5.1 |
| i-Park @ Senai Airport City (Ph 1 & 2) | Johor | 98.1 | 108 | 80% | 30.2 |
| The Jacaranda | Johor | 13.9 | 6 | 80% | 1.7 |
| i-Park @ Senai Airport City (Ph 3) | Johor | 76.6 | 121 | 80% | 33.9 |
| i-Park @ Senai Airport City (Ph 3 +) | Johor | 15.0 | 6 | 100% | 2.1 |
| i-TechValley | Johor | 169.8 | 1,170 | 100% | 223.5 |
| Seberang Prai Tengah | Penang | 176.0 | 1,000 | 50% | 87.1 |
| Unbilled sales | | | | | 88.7 |
| Subtotal | | | 1,544 | | 483.1 |
| Shareholders' equity | | | | | 834.2 |
| Total | | | | | 1,317.4 |
| Discount to RNAV | | | | | 25% |
| Discounted RNAV | | | | | 988.0 |
| Equity value surplus from AME REIT (51.2%-owned) | | | | | 156.6 |
| Total RNAV | | | | | 1,144.6 |
| Share cap | | | | | 640.67 |
| Intrinsic value | | | | | 1.79 |
| ESG premium | | | | | 2% |
| TP | | | | | 1.82 |

Source: Company, RHB

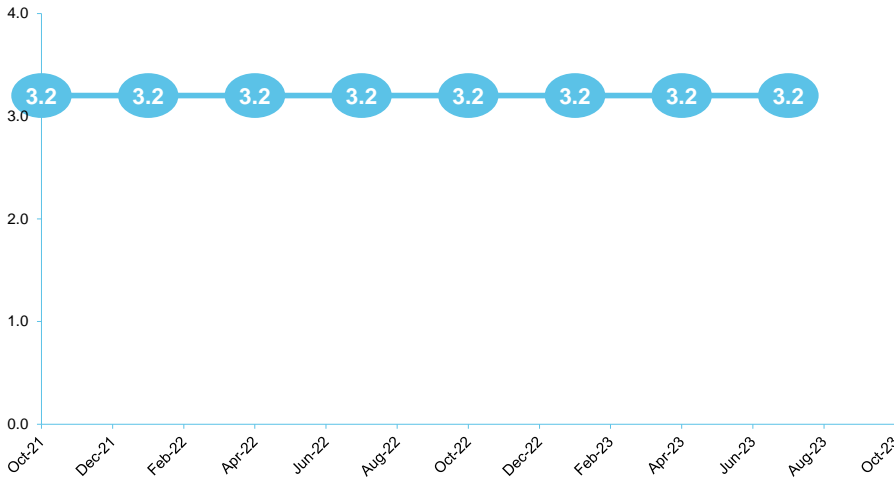
Recommendation Chart



| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2020-09-04 | Buy | 2.34 | 1.27 |
| 2020-08-18 | Buy | 2.22 | 1.09 |

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| Neutral: | Share price may fall within the range of +/- 10% over the next 12 months |
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