

24 November 2023

AME Elite Consortium (AME MK)

Strong Earnings As Projects Completion In Sight

- **Maintain BUY and MYR2.00 TP, 27% upside and c.3% FY24F (Mar) yield.** AME Elite Consortium's 2QFY24 earnings beat expectations. Billings were higher as construction works of existing projects progressed towards the completion stage. We continue to like AME as it is the key industrial play in Iskandar Malaysia, which is benefitting from the rising investment interest from domestic and foreign industrial players.
- **2QFY24 results.** The higher sequential revenue was mainly driven by the construction and engineering divisions, as some existing projects progressed to the completion stage. The property investment and management services division saw better growth QoQ due mainly to higher rental generated from additional factory units leased out as well as workers' dormitories and management services income from industrial park tenants. Meanwhile, net profit was marginally lower QoQ because of a lower share of profit from the JVs and higher cost of sales during the quarter. As such, PBT margin was lower at 16% vs 17.7% in the preceding quarter.
- **YoY comparison.** Note that earnings were much higher in FY23 as the MYR54.8m fair value gain was recognised as a result of the sale of 10 plots of industrial properties to AME REIT (AMEREIT MK, BUY, TP: MYR1.42) last year.
- **Keeping MYR350m sales target.** New sales achieved MYR88.5m in 2QFY24 vs MYR46.1m in 1QFY24, bringing 1H total to MYR134.6m. Deal flows in the pipeline remained healthy, and if some deals can be closed on time, we believe AME will be able to reach its MYR350m sales target by end FY24.
- **Higher dividend in 2QFY24.** Compared to only 1 sen in the same period last year, a 2 sen interim single-tier dividend was declared. Note, the company has a dividend payout policy of at least 20% of net profit (excluding fair value gain on investment properties).
- **Forecasts.** We raise our FY24F-26F earnings by 7-13%, in view of the strong 1H FY24 earnings, as well as the upcoming demand for industrial properties driven by the influx of foreign direct investments in Iskandar Malaysia. Unbilled sales and outstanding construction & engineering orderbook stood at MYR203.9m and MYR259m vs MYR253.4m and MYR138.3m in 1QFY24.
- **Maintain TP.** Our TP is based on a 20% discount to RNAV and 2% ESG premium given our ESG score of 3.1 for the company.

Forecasts and Valuation	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Total turnover (MYRm)	398	577	731	834	904
Recurring net profit (MYRm)	49	104	70	79	86
Recurring net profit growth (%)	(9.2)	113.2	(32.1)	12.6	8.2
Recurring EPS (MYR)	0.09	0.16	0.11	0.12	0.13
DPS (MYR)	0.03	0.04	0.04	0.05	0.05
Recurring P/E (x)	17.37	9.78	14.40	12.78	11.82
P/B (x)	1.43	1.25	1.18	1.11	1.05
Dividend Yield (%)	1.6	2.5	2.5	2.8	3.2
Return on average equity (%)	7.0	13.6	8.4	9.0	9.2
Net debt to equity (%)	8.3	net cash	net cash	net cash	net cash

Source: Company data, RHB

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Buy (Maintained)

Target Price (Return): MYR2.00 (+27%)
 Price (Market Cap): MYR1.58 (USD216m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.40m/0.08m

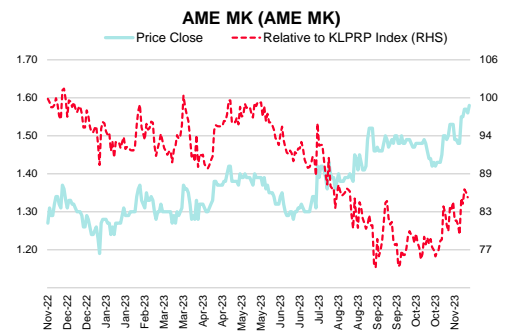
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	27.4	11.3	12.1	13.7	24.4
Relative	(6.9)	8.8	5.5	(11.1)	(13.6)
52-wk Price low/high (MYR)	1.19 – 1.58				



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

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

S: EXCELLENT

AME emphasizes 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 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 capitalisation of less than USD0.5bn.

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Financial Exhibits

Asia	Financial summary (MYR)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
Malaysia	Recurring EPS	0.09	0.16	0.11	0.12	0.13
Construction & Engineering	EPS	0.09	0.16	0.11	0.12	0.13
AME Elite Consortium	DPS	0.03	0.04	0.04	0.05	0.05
AME MK	BVPS	1.10	1.27	1.34	1.42	1.50
Buy	Return on average equity (%)	7.0	13.6	8.4	9.0	9.2
	Return on average assets (%)	3.6	6.2	3.7	3.9	3.9
Valuation basis						
20% 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)	17.37	9.78	14.40	12.78	11.82
ii. Expansion in landbank and industrial parks in areas outside Johor.	P/B (x)	1.4	1.2	1.2	1.1	1.1
	Dividend Yield (%)	1.6	2.5	2.5	2.8	3.2
	EV/EBITDA (x)	12.29	6.39	8.43	8.13	7.96
Key risks	Income statement (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
i. Unexpected economic downturn;	Total turnover	398	577	731	834	904
ii. Unfavourable drastic turn in FDI policies.	Gross profit	104	116	188	215	228
	EBITDA	75	186	149	166	179
	Operating profit	75	186	149	166	179
	Net interest	(7)	(13)	(13)	(14)	(13)
	Pre-tax profit	69	176	136	153	165
	Taxation	(16)	(32)	(34)	(38)	(41)
	Reported net profit	49	104	70	79	86
	Recurring net profit	49	104	70	79	86
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 core expertise in the designing and building of industrial parks.	Change in working capital	(360)	86	(101)	(106)	(80)
	Cash flow from operations	(309)	227	1	8	44
	Cash flow from financing activities	1	(40)	0	0	0
	Cash at beginning of period	271	187	313	306	273
	Net change in cash	(308)	186	1	8	44
	Ending balance cash	(37)	374	314	314	317
	Balance sheet (MYRm)	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Total cash and equivalents	187	313	306	273	274
	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	1,955	2,106	2,252
	Short-term debt	39	115	115	115	115
	Total long-term debt	210	65	95	125	155
	Total liabilities	766	696	756	821	875
	Shareholders' equity	706	813	858	908	962
	Minority interests	41	310	341	377	415
	Total equity	747	1,123	1,199	1,285	1,377
	Total liabilities & equity	1,513	1,819	1,955	2,106	2,252
	Key metrics	Mar-22	Mar-23	Mar-24F	Mar-25F	Mar-26F
	Revenue growth (%)	(13.5)	44.9	26.6	14.2	8.3
	Recurring net profit growth (%)	(9.2)	113.2	(32.1)	12.6	8.2
	Recurrent EPS growth (%)	(27.4)	77.6	(32.1)	12.6	8.2
	Gross margin (%)	26.1	20.2	25.7	25.7	25.3
	Recurring net profit margin (%)	12.2	17.9	9.6	9.5	9.5
	Dividend payout ratio (%)	33.0	24.8	36.4	36.4	37.4

Source: Company data, RHB

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Results At a Glance

Figure 1: Quarterly results

FYE Mar (MYRm)	2QFY23	1QFY24	2QFY24	QoQ (%)	YoY (%)	1HFY23	1HFY24	YoY (%)	Comments
Turnover	147.5	222.5	233.3	4.9	58.2	284.4	455.8	60.3	
Construction	74.3	49.0	53.3	8.8	(28.3)	162.2	102.2	(37.0)	The increase in construction revenue was mainly due to the progression in the stage of completion of the ongoing projects
Prop Dev.	53.7	143.4	138.8	(3.2)	158.5	86.0	282.2	228.0	
Engineering	12.6	15.3	25.2	65.2	100.2	17.8	40.5	127.3	The higher turnover was due to the progression towards the completion stage of ongoing projects
Prop invt & mgt services	6.8	14.9	16.1	7.9	134.6				The higher income was partly due to additional factory units leased out and higher rental from workers' dormitories
EBIT	70.0	38.6	39.0	1.0	(44.3)	85.3	77.7	(8.9)	
Construction	1.8	0.7	1.5	129.2	(16.9)	4.7	2.2	(53.4)	
Prop Dev.	9.8	23.5	22.5	(4.1)	131.0	15.1	46.0	204.6	
Engineering	0.9	1.2	5.4	352.0	488.6	1.2	6.6	433.2	
Prop invt & mgt services	56.0	12.1	11.7	(2.9)	(79.1)				
Net interest	(4.1)	(2.0)	(1.8)	(13.9)	(57.6)	(7.9)	(3.8)	(51.7)	
Pretax profit	65.9	39.3	37.4	(4.7)	(43.1)	77.2	76.7	(0.6)	PBT was higher in 2QFY23 because of the fair value gain on investment properties arising from the sale of industrial properties to the REIT
Taxation	(9.5)	(9.2)	(9.6)	4.3	1.5	(13.3)	(18.9)	42.1	
Minority interest	(10.6)	(6.8)	(6.0)	(11.9)	(43.4)	(12.0)	(12.8)	6.2	
Net profit	45.8	23.3	21.8	(6.2)	(52.3)	51.9	45.1	(13.1)	
Core net profit	45.8	23.3	21.8	(6.2)	(52.3)	51.9	45.1	(13.1)	Above expectations
EPS (sen)	7.2	3.6	3.4	(6.0)		8.1	7.1	(12.8)	
Gross DPS (sen)	1.0	0.0	2.0	0.0		1.0	2.0		
NTA/share (RM)	1.2	1.3	1.3	0.0		1.2	1.3		
EBIT margin (%)	47.5	17.4	16.7	0.0		0.0	0.0		
Pretax margin (%)	44.7	17.7	16.0	0.0		0.0	0.0		
Tax rate (%)	14.4	23.5	25.7	0.0		0.0	0.0		

Source: Company data, RHB

Figure 2: RNAV estimates 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	34	100%	11.9
Ongoing					
i-Park @ Indahpura (Ph 3)	Johor	85.4	32	50%	5.7
i-Park @ Senai Airport City (Ph 1 & 2)	Johor	98.1	121	80%	33.9
The Jacaranda	Johor	13.9	7	80%	1.6
i-Park @ Senai Airport City (Ph 3)	Johor	76.6	136	80%	37.9
i-Park @ Senai Airport City (Ph 3 +)	Johor	15.0	7	100%	2.3
i-TechValley	Johor	169.8	1,310	100%	269.6
Seberang Prai Tengah	Penang	176.0	1,000	50%	85.9
Unbilled sales					88.7
Subtotal			1,720		537.5
Shareholders' equity					834.2
Total					1,371.7
Discount to RNAV					20%
Discounted RNAV					1,097.4
Equity value surplus from AME REIT (51.2%-owned)					162.0
Total RNAV					1,259.3
Share cap					640.67
Intrinsic value					1.97
ESG premium					2%
TP					2.00

Source: Company data, RHB

Emissions And ESG

Trend analysis

The company only started tracking and disclosing Scope 1, 2 and 3 GFG emissions in FY23.

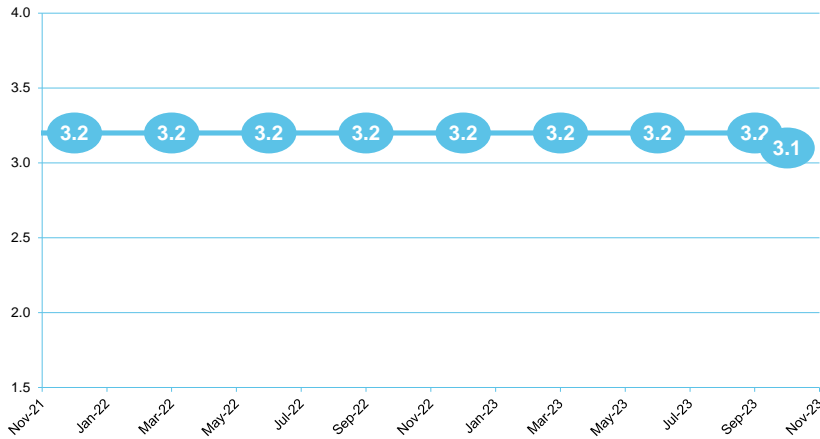
Emissions (tCO2e)	Mar-21	Mar-22	Mar-23
Scope 1	na	na	1,610
Scope 2	na	na	1,003
Scope 3	na	na	977
Total emissions	na	na	3,590

Source: Company data, RHB

Latest ESG-Related Developments

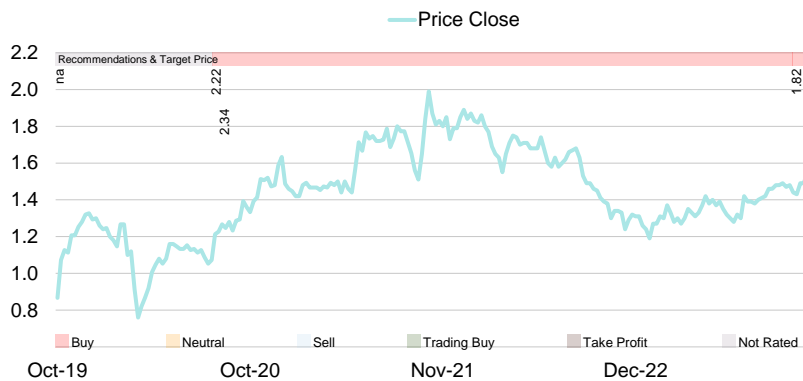
- AME has employed a strategy to invest in renewable energy sources
- Apart from installing solar panels to generate solar power on-site at selected buildings, the company is also utilising solar powered lighting at its construction sites for activities that need to run at night

ESG Rating History



Source: RHB

Recommendation Chart



Date	Recommendation	Target Price	Price
2023-11-19	Buy	2.00	1.55
2023-10-16	Buy	1.82	1.49
2020-09-04	Buy	2.34	1.27
2020-08-18	Buy	2.22	1.09

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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