

29 August 2024

Construction & Engineering | Construction

AME Elite Consortium (AME MK)

Buy (Maintained)

Expect Lumpy Earnings In 2HFY25; Keep BUY

Target Price (Return): MYR2.20 (+37%)
 Price (Market Cap): MYR1.60 (USD235m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (MYR/USD) 2.06m/0.45m

- **Maintain BUY and MYR2.20 TP, 37% upside and 5% FY25F (Mar) yield.** 1QFY25 earnings missed expectations, mainly from the timing of income recognition. 1QFY25 new sales achieved MYR266.45m vs MYR400m sales target for FY25. We expect earnings to come in much stronger in 2HFY25, due mainly to the completion of the land disposal to a data centre player (net gain of MYR85.1m) and a pick-up in billings. The upcoming launch of the industrial park in Penang should underpin medium-term earnings growth while management continues with its landbanking effort in Johor.
- **1QFY25 results.** The YoY drop in property development revenue was attributed to timing differences in project completion and revenue recognition, while the fall in construction revenue was due to lower billings as construction work for ongoing projects are nearing completion, and some resources were reallocated to its in-house industrial property development activities. Revenue and EBIT for the property investment and management services segment remained steady QoQ. Note, PBT in 4QFY24 was boosted by the fair value gain on investment properties. As expected, no dividend was declared.
- **Strong sales in 1QFY25.** New sales achieved MYR266.45m in 1QFY25 vs MYR108.5m in 4QFY24. Although the company missed its FY24 sales target in the past, it is now on track to hit its FY25 target of MYR400m. The strong sales seen in 1QFY25 was also in line with management's guidance earlier. Pipeline projects and demand were robust, and the upcoming launch of its maiden industrial park project in Penang should also provide a boost to full-year sales. About MYR67.9m bookings will likely be converted to contractual sales in the near term.
- **Forecasts.** We maintain our earnings forecasts. We expect 2HFY25 earnings to be substantially stronger as the completion of the land disposal to a data centre player would result in a net gain of MYR85.1m. In Jul 2024, the company has also sold four industrial properties to the REIT. Part of the disposal is expected to be completed in late FY25. 1QFY25 unbilled sales and outstanding construction & engineering orderbook stood at MYR434.46m and MYR214.93m, much stronger from MYR226.8m and MYR183.7m as at 4QFY24.
- **Maintain TP.** Our TP is based on 15% discount to RNAV and 2% ESG premium, given our ESG score of 3.1 for the company. The acquisition of new land should provide upside to our RNAV estimate.

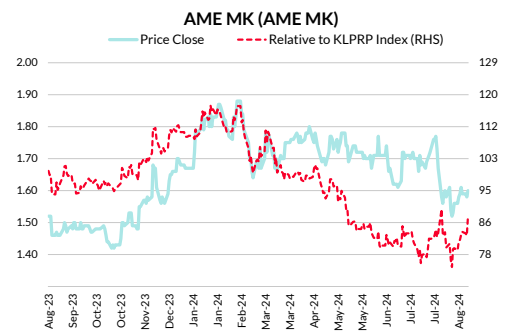
Analyst

Loong Kok Wen CFA
 +603 2302 8116
loong.kok.wen@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(4.2)	(7.0)	(7.0)	(4.2)	7.4
Relative	(21.1)	3.7	1.1	(13.5)	(10.7)
52-wk Price low/high (MYR)	1.42 – 1.88				



Source: Bloomberg

Forecasts and Valuation	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Total turnover (MYRm)	577	717	1,042	970	1,071
Recurring net profit (MYRm)	104	93	165	100	115
Recurring net profit growth (%)	113.2	(10.1)	77.7	(39.8)	16.0
Recurring EPS (MYR)	0.16	0.15	0.26	0.16	0.18
DPS (MYR)	0.04	0.06	0.08	0.05	0.06
Recurring P/E (x)	9.90	11.01	6.20	10.30	8.88
P/B (x)	1.26	1.17	1.04	0.97	0.91
Dividend Yield (%)	2.5	3.8	5.0	3.1	3.8
Return on average equity (%)	13.6	11.0	17.8	9.7	10.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

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.

Financial Exhibits

Asia	Financial summary (MYR)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
Malaysia	Recurring EPS	0.16	0.15	0.26	0.16	0.18
Construction & Engineering	EPS	0.16	0.15	0.26	0.16	0.18
AME Elite Consortium	DPS	0.04	0.06	0.08	0.05	0.06
AME MK	BVPS	1.27	1.36	1.54	1.65	1.77
Buy	Return on average equity (%)	13.6	11.0	17.8	9.7	10.6
	Return on average assets (%)	6.2	5.2	8.6	4.6	5.0
Valuation basis						
15% discount to RNAV	Valuation metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Recurring P/E (x)	9.90	11.01	6.20	10.30	8.88
	P/B (x)	1.3	1.2	1.0	1.0	0.9
	Dividend Yield (%)	2.5	3.8	5.0	3.1	3.8
	EV/EBITDA (x)	6.46	7.68	4.37	6.93	6.49
Key drivers						
i. Beneficiary of US-China trade tensions;						
ii. Expansion in landbank and industrial parks in areas outside Johor.						
Key risks						
i. Unexpected economic downturn;						
ii. Unfavourable drastic turn in FDI policies.						
Company Profile						
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.						
	Income statement (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Total turnover	577	717	1,042	970	1,071
	Gross profit	116	172	355	227	255
	EBITDA	186	161	314	192	214
	Operating profit	186	161	314	192	214
	Net interest	(13)	(5)	(9)	(8)	(10)
	Pre-tax profit	176	158	305	184	204
	Taxation	(32)	(32)	(76)	(46)	(51)
	Reported net profit	104	93	165	100	115
	Recurring net profit	104	93	165	100	115
	Cash flow (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Change in working capital	86	143	(257)	17	(93)
	Cash flow from operations	227	266	(28)	155	59
	Cash flow from financing activities	(40)	1	0	0	0
	Cash at beginning of period	187	313	280	238	350
	Net change in cash	186	267	(28)	155	59
	Ending balance cash	374	580	252	394	409
	Balance sheet (MYRm)	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Total cash and equivalents	313	280	238	350	359
	Tangible fixed assets	719	763	755	797	838
	Total investments	2	2	2	2	2
	Total other assets	10	36	36	36	36
	Total assets	1,819	1,761	2,094	2,202	2,385
	Short-term debt	115	138	138	138	138
	Total long-term debt	65	37	67	97	127
	Total liabilities	696	569	724	726	795
	Shareholders' equity	813	874	988	1,056	1,133
	Minority interests	310	319	382	420	458
	Total equity	1,123	1,192	1,370	1,476	1,590
	Total liabilities & equity	1,819	1,761	2,094	2,202	2,385
	Key metrics	Mar-23	Mar-24	Mar-25F	Mar-26F	Mar-27F
	Revenue growth (%)	44.9	24.2	45.4	(6.9)	10.4
	Recurring net profit growth (%)	113.2	(10.1)	77.7	(39.8)	16.0
	Recurrent EPS growth (%)	77.6	(10.1)	77.7	(39.8)	16.0
	Gross margin (%)	20.2	24.0	34.0	23.4	23.9
	Recurring net profit margin (%)	17.9	13.0	15.9	10.3	10.8
	Dividend payout ratio (%)	24.8	41.3	31.0	32.2	33.3

Source: Company data, RHB

Results At a Glance

Figure 1: Quarterly results

FYE Mar (MYRm)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	Comments
Turnover	222.5	84.8	142.4	67.9	(36.0)	
Construction	49.0	11.5	37.3	223.2	(23.9)	The lower revenue YoY was due to reduced billings at the tail-end of construction stages of ongoing projects, as well as reallocation of resources focusing on in-house industrial property development activities.
Prop Dev.	143.4	41.9	60.3	44.2	(57.9)	The YoY decrease in revenue was mainly due to the lower stages of work completed and the timing of income recognition.
Engineering	15.3	14.1	27.6	95.5	80.9	
Prop invt & mgt services	14.9	17.3	17.2	(0.8)	15.4	
EBIT	38.6	43.3	26.5	(38.9)	(31.5)	
Construction	0.7	(0.4)	1.3	(469.8)	98.3	
Prop Dev.	23.5	6.3	9.3	48.1	(60.4)	
Engineering	1.2	1.7	3.2	91.0	164.7	
Prop invt & mgt services	12.1	33.3	12.5	(62.4)	3.6	
Net interest	(2.0)	0.1	0.3	230.3	(112.3)	
Pre-tax profit	39.3	43.3	26.6	(38.7)	(32.4)	The QoQ drop in PBT was mainly due to the fair value gain on investment properties in 4QFY24.
Taxation	(9.2)	(3.6)	(6.1)	68.9	(33.7)	
Minority interest	(6.8)	(13.6)	(5.7)	(58.1)	(16.0)	
Net profit	23.3	26.1	14.7	(43.6)	(36.7)	
Core net profit	23.3	26.1	14.7	(43.6)	(36.7)	Below expectations.
EPS (sen)	3.6	4.1	2.3	(43.6)		
Gross DPS (sen)	0.0	4.0	0.0	0.0		
NTA/share (RM)	1.3	1.4	1.4	0.0		
EBIT margin (%)	17.4	51.1	18.6	0.0		
Pre-tax margin (%)	17.7	51.1	18.6	0.0		
Tax rate (%)	23.5	8.4	23.1	0.0		

Source: Company data, RHB

Figure 2: RNAV estimate for AME

Projects	Location	Landbank (acres)	Remaining GDV (MYRm)	Effective interest	NPV @ 10% (MYR m)
Completed					
i-Park @ Indahpura (Ph 1 & 2)	Johor	104.8	34	100%	11.3
Ongoing					
i-Park @ Indahpura (Ph 3)	Johor	85.4	32	50%	5.4
i-Park @ Senai Airport City (Ph 1 & 2)	Johor	98.1	121	80%	31.9
The Jacaranda	Johor	13.9	7	80%	1.6
i-Park @ Senai Airport City (Ph 3)	Johor	76.6	136	80%	35.8
i-Park @ Senai Airport City (Ph 3 +)	Johor	15.0	7	100%	2.2
i-TechValley	Johor	87.3	831	100%	142.3
Seberang Prai Tengah	Penang	176.0	1,000	50%	72.1
New land in Taman Teknologi Johor, Senai	Johor	37.5	400	100%	86.8
Land sale to Digital Hyperspace					85.1
Unbilled sales					83.6
Subtotal			1,240		558.0
Shareholders' equity					873.9
Total					1,431.9
Discount to RNAV					15%
Discounted RNAV					1,217.1
Equity value surplus from AME REIT (51.2%-owned)					162.0
Total RNAV					1,379.1
Share cap					640.67
Intrinsic value					2.15
ESG premium					2%
TP					2.20

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.

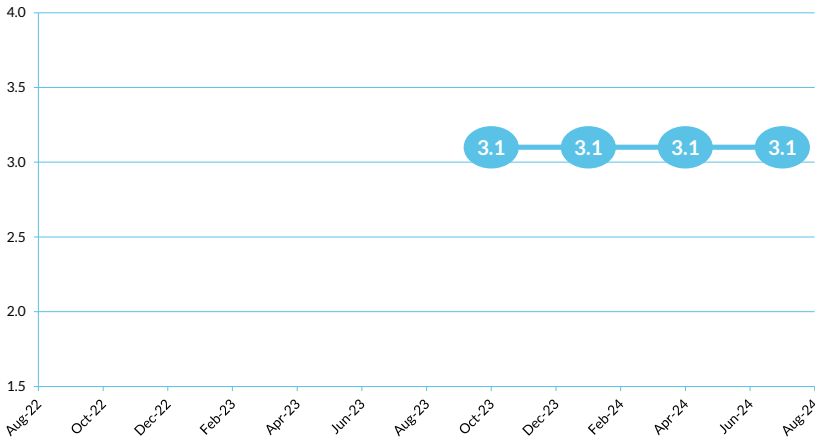
Emissions (tCO2e)	Mar-22	Mar-23	Mar-24
Scope 1	na	1,610	na
Scope 2	na	1,003	na
Scope 3	na	977	na
Total emissions	na	3,590	na

Source: Company data, RHB

Latest ESG-Related Developments

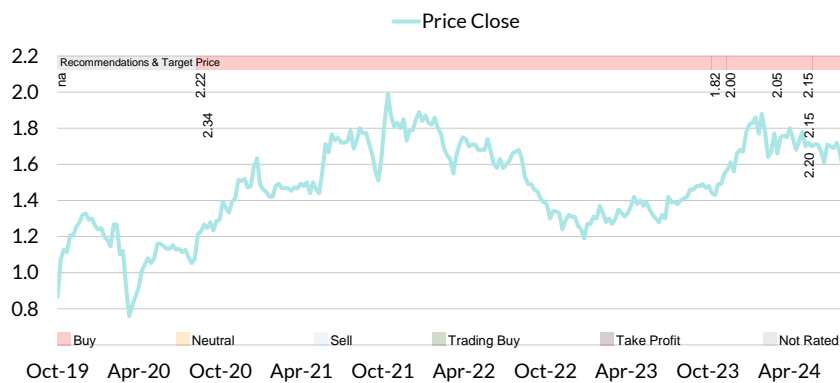
- AME has employed strategy to invest in renewable energy sources.
- Apart from installing solar panels to generate solar power on-site at selected buildings, the company is also utilising solar powered lighting at its construction sites for activities that need to run at night.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel: +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470