INITIATION

Company Note

Malaysia

AWC Berhad

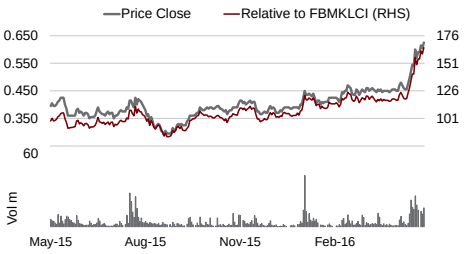
Cashed up and ready for takeoff

ADD

Current price:	RM0.63
Target price:	RM1.13
Previous target:	*N/A*
Up/downside:	80.2%
Reuters:	AWCF.KL
Bloomberg:	AWCF MK
Market cap:	US$39.95m
	RM160.1m
Average daily turnover:	US$0.61m
	RM2.45m
Current shares o/s	256.0m
Free float:	66.0%

Key changes in this note

- N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	37.4	47.1	62.3
Relative (%)	41.7	48.2	72.3

- AWC's core expertise lies in facilities management, waste collection systems and environmental businesses.
- Earnings are at an inflection point and ready to take off in FY16, driven by its concession rate increase and strong growth in its environmental businesses.
- 40% of its market cap is cash and trading at FY17 P/E of 8.3x, ex-cash P/E of 4.7x.
- We initiate coverage with an Add rating. Our SOP-based target price is RM1.13, with the business valued at a 10% discount to its larger-cap peer, UEM Edgenta.

Well-diversified and defensive earnings base

AWC, in our view, offers investors a well-balanced earnings base of stable, recurring cashflows from its concession business and a fast-growing portfolio of environmental businesses: 1) STREAM, a globally competitive underground waste collection system; 2) QDT, a renowned plumbing engineering company; and 3) DDT, a rainwater harvesting systems business.

Stable concession cashflow

AWC has been maintaining federal government buildings in the southern region and Sarawak since 1998. Its concession, worth RM555m, was recently renewed for 10 years at RM52m p.a. for the first five years (a 13% increase), stepping up thereafter. AWC was also given a RM145m CARP concession at RM14.5m p.a. for 10 years. In addition, AWC provides similar building maintenance work for commercial/private sector clients and the healthcare segment. It recently won a RM90m concession for the Shah Alam hospital.

High-growth, high-margin environmental businesses

STREAM has more than 90% market share in Malaysia. QDT has been highly profitable, as it operates in a very small niche market for high-end and high-rise buildings. DDT's margins have also expanded sharply, as rainwater harvesting systems are increasingly being made mandatory by the government in several states.

Earnings at an inflection point

We forecast a 3-year EPS CAGR of 33% from FY15-18, driven by 1) the 13% concession rate increase, which falls straight to AWC's bottom line; 2) the CARP programme and Shah Alam hospital; and 3) its high-margin environmental businesses.

40% of market cap is cash, with strong dividend upside potential

AWC's net cash position stood at 24 sen as at end-Mar 16, with little to no borrowings. The cash is unencumbered and in excess of operational requirements, according to management. We believe that there is substantial scope for special dividends given that the group has already locked in the concession rates for the next 10 years. Our forecast dividend yields of 3.2-4.8% exclude any potential special dividends.

Trading at ex-cash FY17F P/E of only 4.5x

We initiate coverage with an Add rating and SOP-based target price of RM1.13, valuing the business at a FY17F P/E of 11x, a 10% small-cap and liquidity discount to its larger peer, UEM Edgenta. The stock is very cheap, trading at a FY17F P/E of 8.3x (ex-cash of only 4.7x) vs. 3-year EPS CAGR of 33%. A potential catalyst is the strong upcoming 3QFY16 results.

Financial Summary	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue (RMm)	119.5	128.0	221.0	256.5	268.8
Operating EBITDA (RMm)	14.86	14.15	28.95	35.15	38.87
Net Profit (RMm)	6.95	8.03	15.05	19.34	21.56
Core EPS (RM)	0.031	0.036	0.063	0.076	0.084
Core EPS Growth	52.6%	15.5%	75.6%	20.8%	11.5%
FD Core P/E (x)	20.26	17.55	9.99	8.27	7.42
DPS (RM)	-	-	0.020	0.025	0.030
Dividend Yield	0.00%	0.00%	3.20%	4.00%	4.80%
EV/EBITDA (x)	8.63	8.12	4.21	3.66	3.03
P/FCFE (x)	NA	8.85	12.59	10.16	6.35
Net Gearing	(37.8%)	(43.9%)	(45.0%)	(45.6%)	(50.4%)
P/BV (x)	1.78	1.54	1.58	1.40	1.25
ROE	9.3%	9.4%	15.6%	17.9%	17.8%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)					

SOURCE: COMPANY DATA, CIMB FORECASTS

Analyst(s)



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IMPORTANT DISCLOSURES, INCLUDING ANY REQUIRED RESEARCH CERTIFICATIONS, ARE PROVIDED AT THE END OF THIS REPORT.
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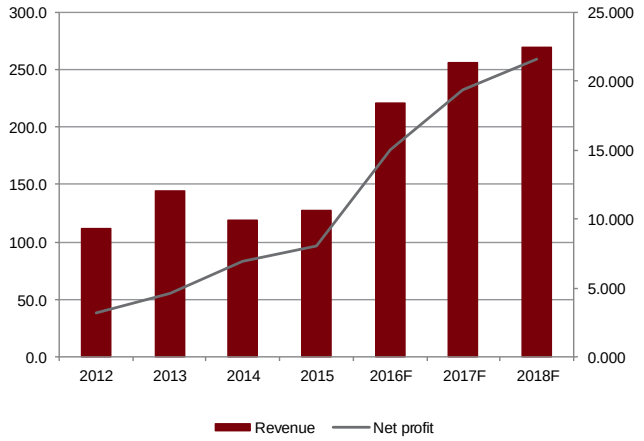
Cashed up and ready for takeoff

Investment thesis

Stable and well-balanced earnings profile

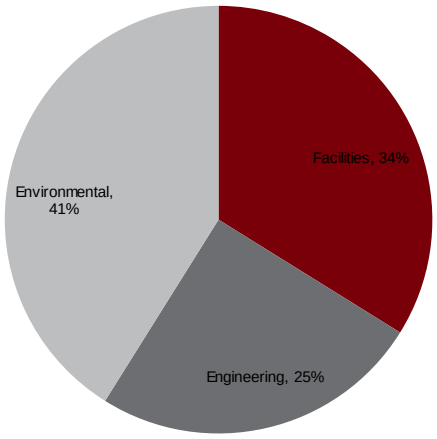
AWC's earnings profile is well-balanced between stable, recurring cashflows from its concession business and a fast-growing portfolio of environmental businesses: 1) STREAM, a globally competitive underground waste collection system, 2) QDT, a renowned plumbing engineering company and 3) DDT, a rainwater harvesting systems business.

Figure 1: Earnings to take off in FY16



SOURCES: CIMB, COMPANY REPORTS

Figure 2: Well-balanced and defensive earnings profile



SOURCES: CIMB, COMPANY REPORTS

Concession renewed for another 10 years

AWC has been maintaining 37 federal government buildings in four states since 1998. Its concession, worth RM555m (US$139m), was recently renewed for 10 years at RM52m (US$13m) p.a. for the first five years (a 13% increase), with a step-up to RM59m (US$15m) p.a. thereafter. AWC was also given a RM145m (US$36m) Critical Asset Refurbishment Programme (CARP) concession at RM14.5m (US$3.6m) p.a. for 10 years, which involves the replacement of old M&E equipment in government buildings. CARP is a new income stream for AWC. In addition, AWC provides similar building maintenance work for commercial/private sector clients and the healthcare segment, albeit these are shorter-term in duration, from 1-3 years. It recently won a RM90m (US$23m) concession for the Shah Alam hospital for five years. AWC is also confident of winning more GLC maintenance contracts going forward. Recent contract wins such as Shah Alam hospital and Menara Celcom are testimony of AWC's execution ability, in our view.

High-growth, high-margin environmental businesses

STREAM has more than 90% market share in Malaysia (almost 30 projects) and is installed in many government projects in Singapore such as HDB developments, Changi Airport and Changi General Hospital (13 projects). According to management, the system offers many benefits compared to conventional waste collection systems. QDT and DDT were acquired in Oct 15. QDT has been highly profitable, as it operates in a very small niche market for high-end and high-rise buildings. The most recent high-profile project secured was KL118. DDT's margins have also expanded sharply from 17% in FY13 to 25% in FY15 as rainwater harvesting systems are increasingly being made mandatory by the government in several states.

Figure 3: STREAM's Malaysian clientele



SOURCE: AWC

Figure 4: STREAM's Singapore clientele



SOURCE: AWC

Earnings at an inflection point

We project a 3-year EPS CAGR of 33% from FY15-18, driven by 1) the 13% increase in concession rate, which falls straight to AWC's bottom line; 2) the CARP programme and Shah Alam hospital; and 3) high-margin environmental businesses – STREAM, QDT and DDT.

40% of market cap is cash, with strong dividend upside

AWC's business model requires very low capex and generates strong operating cashflows. As a result, its net cash position stood at 24 sen as at end-Mar 16, with minimal borrowings. The cash is unencumbered and in excess of operational requirements, according to the company. We believe that there is substantial scope for special dividends given that the group's concession rates have been locked in for the next 10 years. Our forecast dividend yields of 3.2-4.8% exclude any potential special dividends. We forecast net cash per share to rise to 27 sen in FY17F and 34 sen in FY18F.

Trading at ex-cash FY17F P/E of only 4.5x

We initiate coverage with an Add rating and SOP-based target price of RM1.13, valuing the business at a FY17F P/E of 11x, a 10% small-cap and liquidity discount to its larger-cap peer, UEM Edgenta. We are the first research house to initiate coverage on AWC. The stock is very cheap, trading at a FY17F P/E of 8.3x, ex-cash of only 4.7x vs. a projected 3-year EPS CAGR of 33%. A potential re-rating catalyst is the upcoming 3QFY16 results, which we expect to be strong as the new concession rates take effect.

Figure 5: SOP-based target price

Share capital (m)	256
CY17 EPS (sen)	8.0
Target P/E	11.2
Value of business (RM/share)	0.89
Net cash per share	0.24
Target price	**1.13**

SOURCES: CIMB, COMPANY REPORTS

Company background

Engineering and environmental specialist

AWC's business is divided into three core activities undertaken by its various subsidiaries: Facilities, Engineering and Environment.

Figure 6: AWC's business divisions



SOURCE: AWC

- **Facilities**. The facilities division provides integrated facilities management (IFM) services for buildings. This includes biomedical, facilities engineering maintenance services, security and cleaning services. Within this division, there are three sectors: Concession, Commercial and Healthcare.

    1. Concession: AWC has been providing IFM services for 37 federal government buildings in four states: in the Southern region (Johor, Melaka, Negeri Sembilan and Sarawak since 1998. Its concession, valued at RM555m (US$139m), was recently renewed for 10 years from 1 Jan 2016 to 31 Dec 2025 at RM52m (US$13m) p.a. for the first five years, stepping up to RM59m (US$15m) p.a. for the remaining five years. This is an increase from RM46m (US$12m) p.a. for the previous concession that expired in 2013. CARP is a new income stream for AWC. It was given a RM145m (US$36m) Critical Asset Refurbishment Programme (CARP) concession at RM14.5m (US$3.6m) p.a. for 10 years, which involves the replacement of old mechanical and electrical (M&E) equipment in government buildings, at an already-pre-agreed-upon timing, schedule of items and nature of work to be done. Implementation progress is supervised by JKR (Ministry of Works) and AWC is expected to provide consistent progress reports showing status and update. The government pays AWC on a monthly basis. All of AWC's maintenance staff for the concession are Malaysians (no foreign workers).

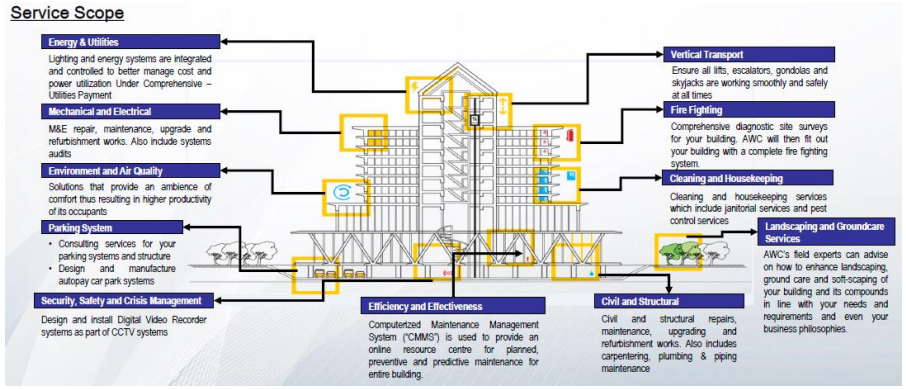
    2. Commercial and Healthcare. AWC also provides similar building maintenance work for commercial/private sector clients and also the healthcare segment. These are shorter-term contracts that range from 1-3 years in duration. In Mar 16, AWC was awarded a maintenance contract (to cover all engineering, cleaning and maintenance) for RM90m (US$23m) over five years for the Shah Alam hospital by the Malaysian government. Currently, under Healthcare, AWC maintains the Cheras Rehabilitation Hospital and all state government clinics in the state of Johor.

Figure 7: Facilities division services



SOURCE: AWC

Figure 8: Facilities division service scope



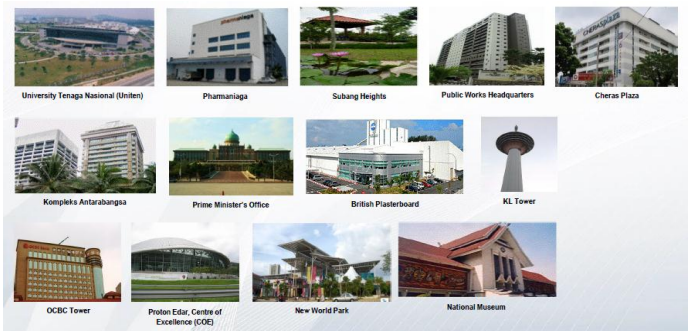
SOURCE: AWC

Figure 9: On-going projects in Facilities Division



SOURCE: AWC

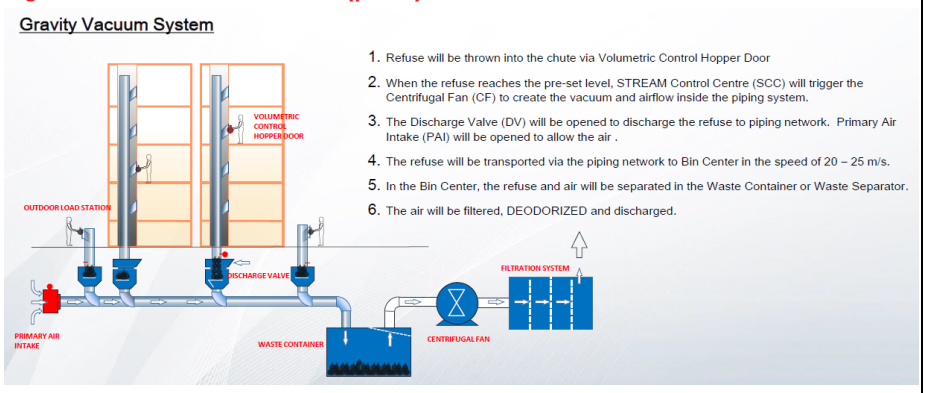
Figure 10: Completed projects by the Facilities Division



SOURCE: AWC

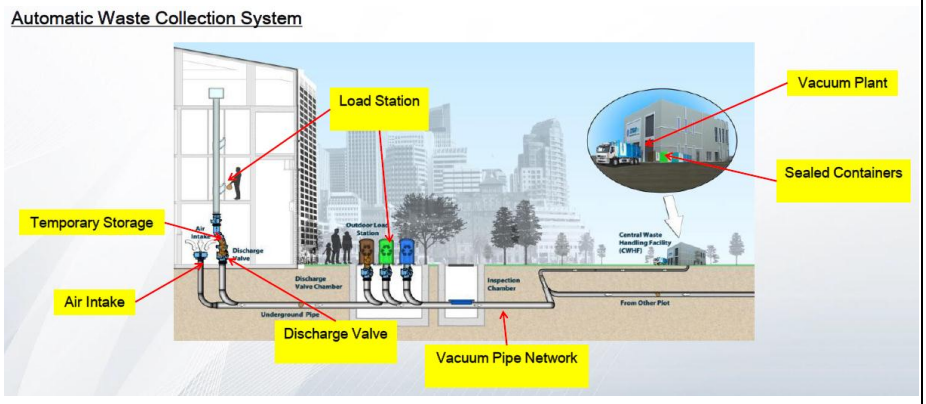
Environment. STREAM Automated Waste Collection Systems (STREAM) is AWC's proprietary brand that is 25 years old. This is an underground waste collection system, based on vacuum technology. It transports municipal or domestic solid waste through underground pipes at high speed from waste chutes and outdoor load stations into a sealed container located up to 2.5km away. AWC undertakes the design, supply, installation, testing and commissioning of the system. In addition, it also undertakes operations and maintenance services of its STREAM system for its clients. STREAM is lucrative, and generates EBIT margins of 20-25%. Management claims that it has over 90% of market share in Malaysia and has completed/ongoing works for almost 30 buildings.

Figure 11: How STREAM works (part 1)



SOURCE: AWC

Figure 12: STREAM's automatic waste collection system



SOURCE: AWC

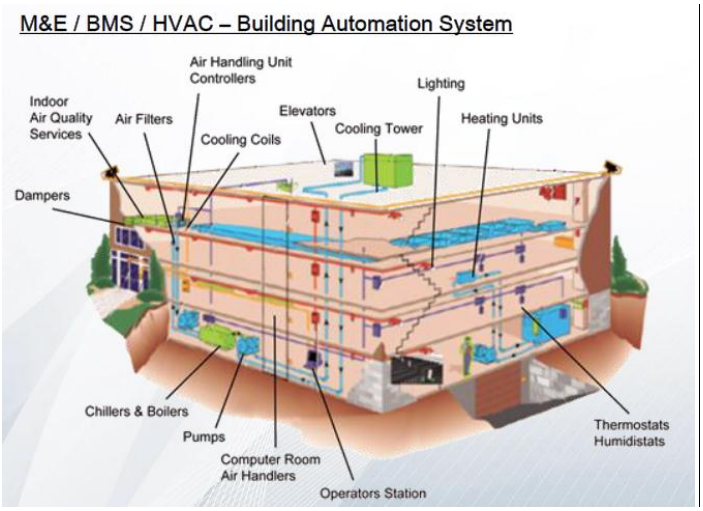
- **Engineering.** There are two subsectors under the engineering division: 1) M&E/HVAC/BMS and 2) Plumbing/rainwater harvesting.

  1) AWC distributes several international brands of building controls and engineering components for heating, ventilation & air-conditioning systems (HVAC), and is a provider of building management systems (BMS) in Malaysia and Singapore. It is also a contractor for implementation of full air-conditioning systems for buildings and facilities. This is an ultra-competitive and low-margin business, at estimated gross margins of only 9-10%, but it complements AWC's facilities business; and

  2) Plumbing and rainwater harvesting (RHCP). This division recently expanded with the completion of the acquisition of Qudotech Sdn Bhd (QDT) and DD Techniche (DDT) in Oct 15. QDT is a renowned player in the plumbing industry, specializing in a very niche market – high-end and high-rise residential and commercial developments. It has been operating since 1995, and has completed over RM220m (US$55m) in projects-to-date. DDT holds two exclusive dealerships for the distribution of Rainwater Harvesting Components and Products (RHCP) – German brand 3P Technik rainwater harvesting products and New Zealand's JOBE part filled valves. It undertakes the design, supply and installation of RHCP for new and refurbished buildings. AWC acquired 100% of QDT and DDT for RM26.5m (US$6.6m), which came with a net profit guarantee of RM3.9m (US$1m) p.a. for FY16 and FY17. This translates into an acquisition P/E of 6.8x, which is fair, in our view, considering the niche and profitable nature of QDT and DDT. The acquisition was satisfied by RM14.9m (US$3.7m) cash and the

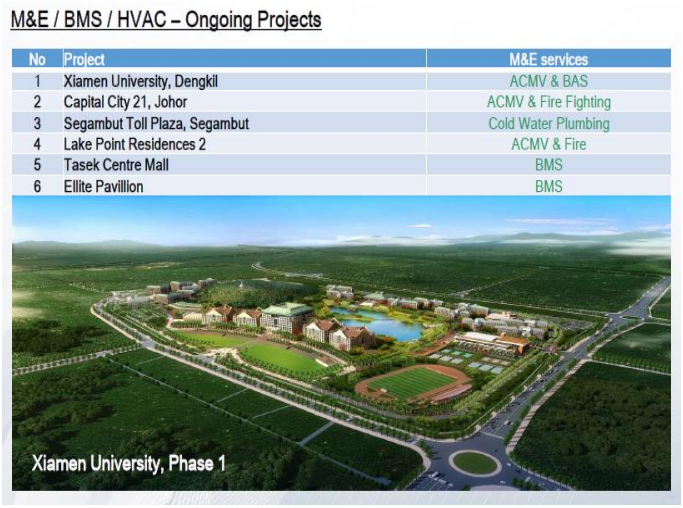
issuance of 30.7m new AWC shares. QDT has an outstanding orderbook of RM130m (US$33m), which will last for two years.

Figure 13: What is a building automation system?



SOURCE: AWC

Figure 14: M&E/HVAC ongoing projects



SOURCE: AWC

Figure 15: Niche high-profile plumbing jobs



SOURCE: AWC

Figure 16: RHCP system partners



SOURCE: AWC

Outlook

Facilities to provide stable recurring cashflow

Over the next 10 years, AWC will see stable recurring revenues of

1) RM52m (US$13m) p.a. from the renewed concession from years 1-5, and RM59m (US$15m) p.a. from years 6-10;
2) RM14.5m (US$3.6m) p.a. from years 1-10 from CARP; and
3) RM18m (US$4.5m)p.a. from years 1-5 from the Shah Alam hospital.

Figure 17: Recurring revenues (RMm)

Year	1	2	3	4	5	6	7	8	9	10
Concession	52	52	52	52	52	59	59	59	59	59
CARP	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5
Shah Alam hospital	18	18	18	18	18					
Total	**84.5**	**84.5**	**84.5**	**84.5**	**84.5**	**73.5**	**73.5**	**73.5**	**73.5**	**73.5**
EBIT @10% margin	8.45	8.45	8.45	8.45	8.45	7.35	7.35	7.35	7.35	7.35

SOURCES: CIMB, COMPANY REPORTS

AWC sees huge potential in private sector contracts coming from a low base, particularly from GLC-related companies. Five years ago, there was zero contribution from the private sector. Recent high-profile wins such as Shah Alam hospital, Menara Celcom and Herriot-Watt University have boosted its credentials in the private sector space.

STREAM is globally competitive

Benefits of STREAM

While most utilities such as water, sewerage, gas and power have evolved to become underground infrastructure over time, waste collection methods remain fairly ancient, continuing to use the 'bucket' system. Urban authorities continue to face two problems: 1) irregular collection schedules due to the high number of separate collection points coupled with frequent delays due to road congestion; and 2) leachate (a.k.a "rubbish juice") spillage into the streets caused by conventional rear loader garbage trucks not being adequately sealed. The STREAM container is completely sealed, thus guaranteeing that no leachate spillage occurs during loading and transportation to the transfer station. In addition, there is only a single collection point.

Figure 18: How STREAM differs from conventional waste collection



SOURCE: AWC

Figure 19: Benefits of stream

Conventional Waste Collection Method	STREAM AWCS
Garbage odour and spillages	Waste is disposed through the chutes and outdoor loading stations, directly transported via underground pipes to a sealed container
Pests like flies, roaches and rats	Sealed container prevent pests from accessing the garbage
Large amount of garbage trucks on the road	A flatbed armroll truck collects full container from the CWHF located away from the inhabited area
Intensive low-skilled labour force	Waste is transported using vacuum technology. No additional labour is required
Managing and cleaning bins and garbage rooms	Easy to maintain CWHF with no open bins
Space for storing waste	Valuable space in a development can be allocated for other building purposes
Multiple truck collection points	One truck collection point
Infrequent removals	Frequent removals which eliminiate stench of rotting garbage
Environmental issues	Cleaner and healthier environment
Security issues	Safer environment since no additional labour needed
Higher operational costs due to multiple collection points	Lower operational costs due to single collection point

SOURCES: CIMB, COMPANY REPORTS

The company has ongoing projects in Malaysia, Singapore, Hong Kong and Abu Dhabi. STREAM is an internationally recognised brand with high-profile projects in Singapore and Hong Kong. In Singapore, it has secured contracts with Changi Airport Terminal 4, Tampines North HDB and Changi General Hospital. In Hong Kong, STREAM is being implemented at the Cathay Pacific Catering Centre. In Abu Dhabi, AWC continues to carry out work in the Al Raha Development project, where STREAM was awarded the largest single contract ever for automated waste collection systems in the world, according to management.

Figure 20: STREAM's Malaysian clientele



SOURCE: AWC

Figure 21: STREAM's Singapore clientele



SOURCE: AWC

Its biggest competitor in Singapore is Envac, the Swedish company that invented the vacuum waste collection system over 50 years ago. However, its operations are very Europe-centric. In Asia, its largest presence is in Korea and Singapore. AWC's management claims that it has joint-lead market share in Singapore. According to management, Envac and STREAM command 80% market share in Singapore, with STREAM at about 35-40%. In Malaysia, given that this is a niche product, management claims that it has over 90% market share, where Envac has minimal presence. The environmental division carries the highest margins among all of AWC's divisions, with pretax margins of 20-25%, with average individual project sizes of RM2m-10m (US$0.5m-2m). STREAM has an outstanding orderbook of RM105m (US$26m) currently.

Water – growing business

We believe that the acquisition of QDT and DDT bodes well for AWC. Both are players in niche and profitable segments of their respective markets. The plumbing industry is fragmented. Management estimates the market size for plumbing jobs in Malaysia at c.RM2bn (US$500m) annually, with the Klang Valley commanding about half of this. The plumbing industry is generally owned by sole proprietor tradesmen with little engineering expertise. In contrast, QDT is a professionally run engineering outfit with particular expertise in high-end and high-rise residential and commercial developments. It has been awarded plumbing works for high-profile projects such as KL118, Puteri Cove Residences, PNB 1194 and The Astaka, JB by mega contractors such as IJM, China State Construction Engineering, Daewoo E&C, BUCG Malaysia and Samsung-UEM. Margins have been increasing as the company progressively secured more complex and high-end projects.

While DDT was only started in 2012, this is a young upstart with a bright future, in our view. Rainwater harvesting has become mandatory since 2011 in various states (Perak, Selangor, Johor, Melaka, Kelantan and Perlis) as a component of building plans for commercial and industrial buildings, semi-detached houses and bungalows with roof area exceeding 100 sq. m. As other states continue to follow suit in mandatory incorporation of rainwater harvesting systems, we believe DDT is poised to capture greater market share. Management believes that there are only 4-5 players in this industry; many of its competitors are merely equipment traders, whereas DDT provides a one-stop-shop solution that includes design, supply and installation services. DDT's financials demonstrate this very clearly. It turned profitable within a year of operation and revenues and pretax margins have been climbing sharply since 2013.

Figure 22: Qudotech Group

RMm	2012	2013	2014	2015
Revenue	15.11	15.658	19.96	11.891
Pretax profit	1.451	1.616	2.338	1.873
Net profit	1.069	1.185	1.719	1.43
Pretax margin	9.6%	10.3%	11.7%	15.8%
Net margin	7.1%	7.6%	8.6%	12.0%

SOURCES: CIMB, COMPANY REPORTS

Figure 23: DDT

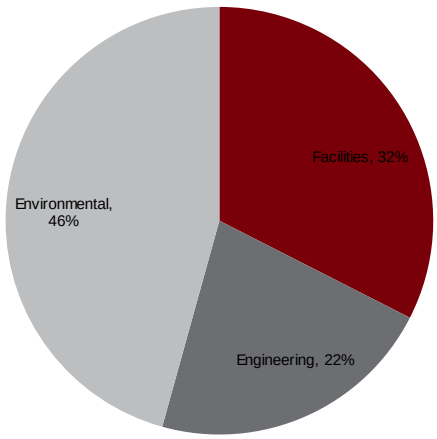
RMm	2012	2013	2014	2015
Revenue	0.621	2.341	3.511	4.74
Pretax profit	(0.12)	0.391	0.589	1.185
Net profit	(0.12)	0.377	0.455	0.914
Pretax margin	-19.2%	16.7%	16.8%	25.0%
Net margin	-19.2%	16.1%	13.0%	19.3%

SOURCES: CIMB, COMPANY REPORTS

SWOT analysis

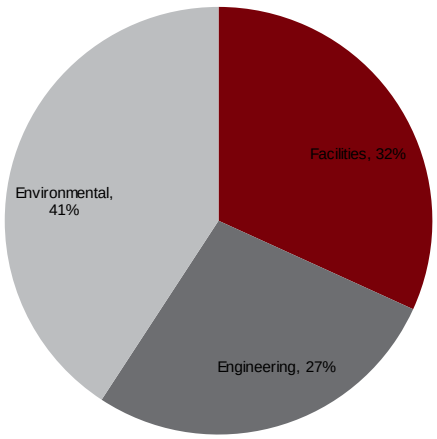
AWC has a balanced revenue profile of recurring revenues from its Facilities division of about c.50% and the remaining from project-based businesses with high margins (environmental and engineering). Operating profit has also been quite evenly split between Facilities (which is recurring), Environment and Engineering (Figs 21 and 22). Its business model requires very low capex with strong operating cashflows. As a result, AWC's balance sheet is in a very strong net cash position that continues to build yearly. The plumbing division is highly profitable, as QDT operates in a very small niche market for high-end and high-rise buildings.

Figure 24: EBIT breakdown in FY16F



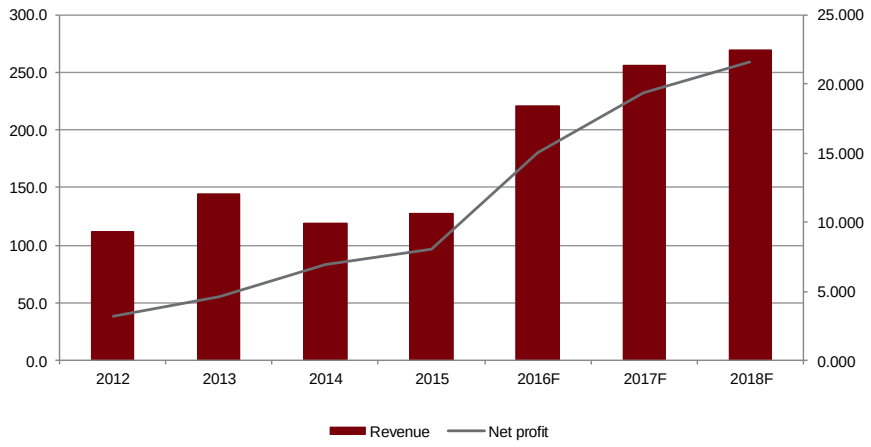
SOURCES: CIMB, COMPANY REPORTS

Figure 25: EBIT breakdown in FY18F



SOURCES: CIMB, COMPANY REPORTS

Figure 26: Revenue and net profit (RMm) to take off in FY16F



SOURCES: CIMB, COMPANY REPORTS

The challenge for the niche environmental businesses is trying to grow the overall industry size, as STREAM and RHCP are still at its early stages of growth in Malaysia. Awareness of the products and the regulatory regime requires improvement for the industry to take off in a big way. The adoption rate for green technology is improving, but developers are frequently wary of cost.

Figure 27: SWOT analysis

Strengths	Opportunities
Minimal competition for STREAM, QDT and DDT	Increasing regulations for green technology will increase the market size
Net cash balance sheet	Higher adoption rate of STREAM and RHCP
Concessions provide recurring income	DDT has first-mover advantage in RHCP
Low capex business model	
STREAM is a globally competive product	
Weaknesses	**Threats**
Niche markets are profitable, but small	Strong profits could attract new players
Plumbing division operating at almost full capacity	
Reliance on senior personnel at subsidiary level	

SOURCES: CIMB, COMPANY REPORTS

Risks

Execution and delays

Project execution and delay risks are typical challenges for project-based companies. In AWC's case, we believe that the HVAC division, which is subject to the greatest competitive pressure, is most at risk of margin compression. However, this division is not a major contributor to earnings at less than 5% of group operating profit.

Green technology sector risk

Due to the fact that the adoption of green technology requires additional cost, together with the lack of knowledge on the benefits of green technology, the adoption rate for green technology products might be slow. However, we believe the increasing legislation towards the implementation of green technology initiatives should eventually force mandatory adoption of AWC's products such as STREAM and DDT's rainwater harvesting systems.

Dependence on key personnel

As AWC is largely an investment holding company, the loss of senior personnel at its key subsidiaries could affect the financial performance of the group. Post-acquisition, QDT and DDT's owners have agreed to stay on for a further three years (plus two years by mutual agreement) while its second-line senior management staff have agreed to stay on for another five years. Nexaldes (the 51%-owned environmental subsidiary that owns STREAM) is run by its founders, Sri Skanda Rajah, aged 57, (who invented STREAM) and Jason Gan (Executive Director), who remains committed to the company. Sri Rajah is the Managing Director of Nexaldes.

Financials

2H16 earnings preview

1HFY06/16 revenue and net profit was already at 76% and 62% of FY15's net profit due to the consolidation of QDT and DDT's earnings from Oct 15. We expect 2H16 to be even stronger on a hoh basis (+100% hoh from RM10m (US$2.5m) in net profit in 2H16 vs. RM5m (US$1.3m) in 1H16), driven by the new concession rates starting 1 Jan 16, CARP programme, maintenance of the

Shah Alam hospital and consolidation of QDT and DDT's earnings. We expect AWC to report 3Q16 results during the last week of May.

Earnings at an inflection point

We forecast a three-year EPS CAGR of 33% from FY15-18 (Fig 26), driven by the following factors

1) **Facilities division.** 76% jump in FY06/16 due to half-year contribution from the renewal of the concession rates from RM46m (US$12m) to RM52m (US$13m) a year. The rate increase falls straight to AWC's operating profit, as costs remain unchanged. This explains the increase in our EBIT estimate for the facilities division from 4.4% in FY15 to 10% in FY16. FY17 will see full-year contribution from the concession rate. In addition, AWC will also see new revenue/profit contribution from two new projects: 1) the CARP programme (starting Jan 16) and 2) maintenance of the Shah Alam hospital (secured in Feb 16).

2) **Engineering division.** The company will record a nine-month profit contribution from the acquisition of QDT and DDT as the acquisition was completed in Oct 15. FY17 will see full-year profit contribution from QDT and DDT. QDT's outstanding orderbook is RM130m (US$33m), the bulk of which will be recognised in FY17-18, as QDT won RM81m (US$20m) in new contracts in Jan-Feb16 for KL118 (RM62m)(US$16m) and the MAS building (RM19m)(US$5m). The recognition for QDT's plumbing contracts is typically more back-ended as plumbing work usually only begins after a piling and foundation has been completed and the building has reached a certain floor. We forecast annual contract wins of RM20m (US$5m) p.a. for QDT, based on an estimated 40% win rate of its RM tenderbook. We are forecasting DDT's revenue growth at 30% and estimate operating margin at 25%, in line with the last two years, but believe this is conservative. As economies of scale builds, there is substantial operating leverage in the business that could drive margins sharply higher. For the M&E/HVAC division, we forecast RM20m (US$5m) p.a. in new orders, based on a 10-15% average win rate of its tenderbook of RM150m (US$38m).

3) **Environment division.** STREAM's operating profit is projected to jump 50% in FY16 from new job wins of RM34m (US$9m) in the past year. Its outstanding orderbook of RM105m (US$26m) should help sustain revenues in this division over the next two years. We forecast RM50m (US$13m) in new job wins annually for STREAM, based on a 50% win rate of its tenderbook of about RM100m (US$25m).

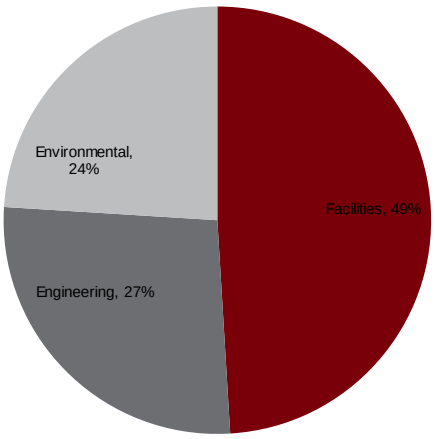
4) **Tax rate normalises in FY16.** STREAM's pioneer status expired in FY15 and thus, its effective tax rate normalises to 23% from FY16, although AWC is applying for further tax incentives.

Figure 28: Segmental analysis

	2015	2016F	2017F	2018F
Revenue (RMm)	**128.0**	**221.0**	**256.5**	**268.8**
Facilities	74.0	98.8	125.8	130.9
Concession	45.0	49.0	52.0	52.0
CARP	18.0	7.3	14.5	14.5
Commercial	28.0	28.0	30.8	35.4
Healthcare	9.3	10.0	10.5	11.0
Shah Alam hospital	0.0	4.5	18.0	18.0
Engineering	19.9	66.3	69.1	70.1
Plumbing	0.0	45.2	37.2	39.7
HVAC	19.9	20.0	6.7	6.7
DDT	0.0	6.2	8.0	10.4
Environment	34.2	56.0	61.6	67.8
EBIT (RMm)	**13.1**	**27.4**	**33.4**	**37.1**
Facilities	3.2	8.9	11.3	11.8
Engineering	1.9	6.0	8.4	10.2
Environment	8.0	12.5	13.7	15.1
EBIT margin (%)				
Facilities	4%	9%	9%	9%
Engineering	9%	9%	12%	14%
Environment	23%	22%	22%	22%

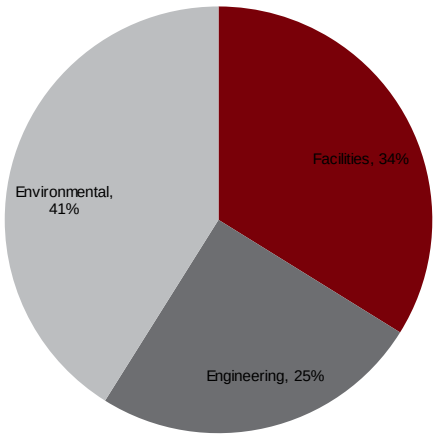
SOURCES: CIMB, COMPANY REPORTS

Figure 29: Revenue by division (FY17F)



SOURCES: CIMB, COMPANY REPORTS

Figure 30: EBIT by division (FY17F)



SOURCES: CIMB, COMPANY REPORTS

Du Pont analysis

Figure 31: Du Pont analysis

	2012	2013	2014	2015	2016F	2017F	2018F
EBIT margin	10.5%	6.4%	11.1%	9.9%	12.4%	13.0%	13.8%
Asset turnover	0.76	0.93	0.81	0.84	1.18	1.21	1.14
Equity multiplier	2.04	2.18	1.88	1.67	1.84	1.86	1.84
ROE(%)	4.5%	6.4%	9.3%	9.5%	15.6%	17.9%	17.8%

SOURCES: CIMB, COMPANY REPORTS

We conducted a Du Pont analysis on AWC to identify the key drivers of its ROE. We expect ROE to almost quadruple between FY12 and FY18, driven by

1) EBIT margin expansion. The big jump in FY16 will be driven by the increase in concession rates given by the Federal Government, which falls straight to AWC's bottom line given marginal change in costs. The acquisitions of QDT and DDT should be margin-accretive, as these are niche and lucrative environmental businesses';

2) Asset turnover. Again, FY16 is the inflection point, in our view, driven by the same two factors. QDT, DDT and the concession rate increase will improve asset turnover, as the asset base has not increased meaningfully given that all three businesses are low capex in nature while margins have expanded;

3) Equity multiplier/financial leverage has been decreasing given the net cash build-up without any significant increase in capex or asset base. This is an ROE drag but with improved capital management, there is substantial scope for ROE expansion.

Sensitivity analysis

As AWC's earnings base is diversified, no single variable will affect earnings in a material way. Nonetheless, we have identified a few variables that could affect AWC's net profit, mainly in the project-based businesses, as the Facilities division is largely driven by long-term contracts.

Figure 32: Sensitivity analysis

For every	FY17-18 EPS(%)
1% increase in Environmental margin	0.4%
RM10m increase in engineering orderbook	0.2%

SOURCES: CIMB, COMPANY REPORTS

Balance sheet: 40% of market cap is unencumbered cash

AWC's net cash position stood at 24 sen as at end-Dec 15, with minimal borrowings. The cash is unencumbered and in excess of operational requirements, according to management, as AWC runs a low-capex business model. This represents almost 40% of AWC's market capitalisation. We believe that there is substantial scope for special dividends given that the group has already locked in the rates of its IFM concession for the next 10 years. We forecast net cash per share to rise to 27 sen in FY17F and 34 sen in FY18F.

Dividend policy

AWC has no dividend policy. In FY14 and FY15 it did not pay a dividend, as the concession with the federal government had expired in 2012 and AWC was waiting for the renewal, which it obtained in Mar 16. AWC's maintenance work carried on from 2013-2015 via interim six-month contracts, but since clarity was lacking, management was prudent and therefore did not declare any dividends.

We believe that AWC is now in an excellent position to resume dividend payment. We have modeled in a 35% dividend payout ratio, excluding special dividends, which we believe is very likely given that almost 40% of AWC's cash is unencumbered and in excess of its operational requirements. Thus, we see dividend yields rising from 3.2% to 4.8% in FY16-18, which is very conservative, in our view. Assuming AWC pays out 100% of its concession cashflows as dividends, this would translate to 2.5-3 sen/share, in line with our estimates.

Valuation and recommendation

Trading at ex-cash FY17F P/E of only 4.7x

We initiate coverage on AWC with an Add rating and an SOP-based target price of RM1.13. We value AWC's business at a CY17F P/E of 11x, a 10% (small-cap and liquidity discount) to its only other larger-cap-listed peer in a similar segment, UEM Edgenta. UEM Edgenta operates primarily in healthcare, infrastructure, oil and gas and water/environmental and has a global presence, but is growing at a slower pace given its size. In our SOP-based target price,

we have conservatively used 24 sen/share (as at end-Dec 15) but we forecast net cash/share to rise to 27 sen in FY17. On that basis, AWC is trading at FY17 ex-cash P/E of only 4.7x.

Figure 33: SOP-based target price

Share capital (m)	256
CY17 EPS (sen)	8.0
Target P/E	11.2
Value of business (RM/share)	0.89
Net cash per share	0.24
Target price	**1.13**

SOURCES: CIMB, COMPANY REPORTS

We cross-check our analysis with a Gordon-growth based P/B multiple valuation metric. Based on sustainable ROE of 17.1% (FY16-18F ROE average), risk-free rate of 4%, COE of 8.3% and terminal growth rate of 2%, the fair P/B multiple estimate is 2.4x. If we apply this to CY17F BVPS of 47 sen, we derive a Gordon-growth based fair value of RM1.14, similar to our target price.

Figure 34: Gordon growth TP sensitivity to terminal growth rate

Terminal growth rate	Target price (RM)
1%	1.05
2%	1.14
3%	1.26
4%	1.44

SOURCES: CIMB, COMPANY REPORTS

Figure 35: Gordon growth TP sensitivity to ROE (at g=2%)

ROE	Target price (RM)
17%	1.14
18%	1.20
19%	1.28
20%	1.35

SOURCES: CIMB, COMPANY REPORTS

We believe that AWC has considerable P/E re-rating potential for the following reasons:

1) There is no active research coverage on the stock thus far;
2) 40% of AWC's market capitalisation is unencumbered cash;
3) AWC is trading at a FY17F ex-cash P/E of only 4.7x, vs. projected 3-year EPS growth of 33%;
4) We believe that its earnings base offers investors a balanced earnings profile of stable, recurring cashflows from its concession business and a fast-growing portfolio of niche environmental businesses.

Figure 36: Sector Comparisons

Company	Recom.	Price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x) FY16	Core P/E (x) FY17	2-year EPS CAGR (%)	Recurring ROE FY16	Recurring ROE FY17	EV/EBITDA (x) FY16	EV/EBITDA (x) FY17	Dividend Yield FY16	Dividend Yield FY17
AWC Berhad	Add	0.63	1.17	40	9.8	8.1	45.3%	15.6%	17.9%	4.1	3.6	3.3%	4.1%
UEM Edgenta	NR	3.72	NR	793	13.1	12.4	13.0%	16.5%	18.5%	7.5	6.8	4.8%	5.2%
Msia average					**11.5**	**10.3**		**16.1%**	**18.2%**	**5.8**	**5.2**	**4.0%**	**4.7%**

SOURCES: CIMB, COMPANY REPORTS

Technical analysis

Major breakout at RM0.47

AWC's monthly chart shows a major breakout for the stock at the RM0.47 level. Since 2010, the stock has been trading in a channel and the stock finally broke out of this trading range a few weeks ago. Monthly technical indicators are positive. Weekly technical indicators remain positive although the RSI looks a bit overbought at 80. In a strong medium-term uptrend, the RSI can remain overbought for a few months or 1-2 years. The next major resistance is at RM0.95-RM1.00.

Figure 37: AWC monthly price chart



SOURCE: CIMB RESEARCH, BLOOMBERG

Figure 38: AWC weekly price chart



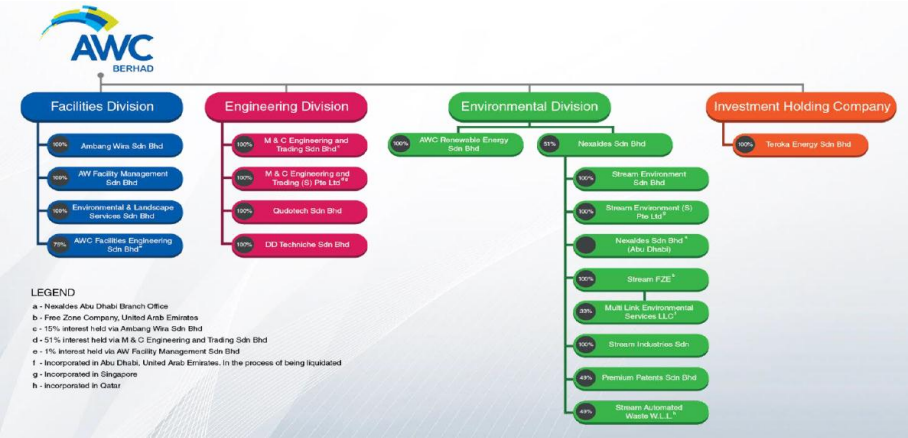
SOURCE: CIMB RESEARCH, BLOOMBERG

Appendix

Corporate structure and shareholding

Dato' Ahmad Kabeer is the largest shareholder of AWC at 34%, leaving the balance as free float (66%). The company is listed on the Main Board of Bursa Malaysia in the trading/services industry classification. Its paid-up capital is 256m shares at RM0.30 par value. Apart from an ESOS scheme, there are no dilutive warrants outstanding. AWC operates as an investment holding company with operating subsidiaries across three major divisions. The greatest source of minority interest is Nexaldes Sdn Bhd (the environmental business that owns STREAM), where it is 51%-owned by AWC and 49% owned by the founders of Nexaldes.

Figure 39: AWC corporate structure



SOURCE: CIMB RESEARCH, COMPANY REPORTS

Figure 40: Board of Directors' Profile

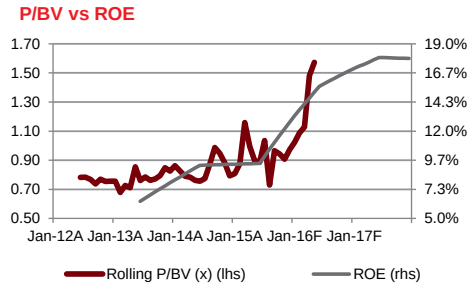
Name	Title	Yrs in AWC	Profile
Dato' Nik Mod Amin Bin Nik Abd Majid	Independent Non-Executive Chairman	7	Dato' Nik obtained his degree in Economics from Universiti Malaya in 1976. He has over 25 years of banking experience and was the former CEO of BSN Commercial Bank Bhd for 8 years.
Dato' Ahmad Kabeer bin Mohamed Nagoor	Group CEO	11	He is the largest shareholder of AWC. Dato' Kabeer started his career with Bank of Nova Scotia in 1986 before becoming a lecturer at University Sains Malaysia from 1988-1994.
Datuk Syed Hussian bin Syed Junid	Senior Independent Non-Executive Director	5	Datuk Syed is the Sr. Director of Business Operations & Sales Support for Asia in Western Digital. He also sits on the board of Tanjung Offshore Bhd
Dato' Sulaiman bin Mohd Yusof	Independent Non-Executive Director	8	Dato' Sulaiman is currently the Managing Partner of Sulaiman, Jamella & Clement, a law firm. He was formerly with the Royal Malaysian Police for 38 years and rose to the rank of Deputy Commissioner in 2006. He also sits on the Board of Syarikat Takaful Malaysia Bhd.
N. Chantiran A/L Nagappan	Independent Non-Executive Director	8	Chantiran is a qualified Chartered Accountant and is currently the partner of Chantiran & Co and C H & Associates. He has over 20 years of corporate finance experience and was Chief Operating Officer of Magna Prima Bhd and Executive Director of Lityan Holdings.

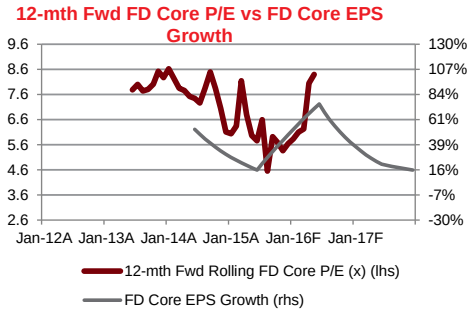
SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

Share price info

Share px perf. (%)	1M	3M	12M
Relative	41.7	48.2	72.3
Absolute	37.4	47.1	62.3
Major shareholders			**% held**
Dato' Ahmad Kabeer			34.0





Revenue growth driven by increase in concession rates approved by the government

Profit & Loss

(RMm)	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Total Net Revenues	**119.5**	**128.0**	**221.0**	**256.5**	**268.8**
Gross Profit	**41.4**	**40.9**	**66.8**	**76.8**	**84.9**
Operating EBITDA	**14.9**	**14.1**	**29.0**	**35.1**	**38.9**
Depreciation And Amortisation	(1.6)	(1.5)	(1.6)	(1.7)	(1.8)
Operating EBIT	**13.2**	**12.7**	**27.4**	**33.4**	**37.1**
Financial Income/(Expense)	0.5	0.1	0.2	0.4	0.5
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**13.8**	**12.8**	**27.5**	**33.9**	**37.6**
Exceptional Items					
Pre-tax Profit	**13.8**	**12.8**	**27.5**	**33.9**	**37.6**
Taxation	(3.8)	(1.1)	(6.3)	(7.8)	(8.7)
Exceptional Income - post-tax					
Profit After Tax	**10.0**	**11.7**	**21.2**	**26.1**	**29.0**
Minority Interests	(3.0)	(3.6)	(6.1)	(6.7)	(7.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**7.0**	**8.0**	**15.1**	**19.3**	**21.6**
Recurring Net Profit	7.0	8.0	15.1	19.3	21.6
Fully Diluted Recurring Net Profit	**7.0**	**8.0**	**15.1**	**19.3**	**21.6**

Highly cash generative and low capex business model

Cash Flow

(RMm)	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
EBITDA	14.86	14.15	28.95	35.15	38.87
Cash Flow from Invt. & Assoc.					
Change In Working Capital	-32.98	5.83	-6.67	-10.11	-3.51
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	0.90	-2.40	0.00	0.00	0.00
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	-3.66	-2.59	-6.33	-7.79	-8.65
Cashflow From Operations	**-20.87**	**14.99**	**15.96**	**17.25**	**26.71**
Capex	-0.76	-1.46	-2.50	-1.50	-1.50
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.53	3.24	0.00	0.00	0.00
Cash Flow From Investing	**-0.23**	**1.78**	**-2.50**	**-1.50**	**-1.50**
Debt Raised/(repaid)	-2.07	-0.86	-1.51	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased	0.00	0.00			
Dividends Paid	0.00	-7.35	-5.12	-6.40	-7.68
Preferred Dividends					
Other Financing Cashflow	0.00	0.00	0.15	0.45	0.60
Cash Flow From Financing	**-2.07**	**-8.21**	**-6.48**	**-5.95**	**-7.08**
Total Cash Generated	-23.17	8.57	6.98	9.80	18.13
Free Cashflow To Equity	**-23.17**	**15.92**	**11.95**	**15.75**	**25.21**
Free Cashflow To Firm	**-21.10**	**16.77**	**13.46**	**15.75**	**25.21**

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS

Strong net cash position

Balance Sheet

(RMm)	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Total Cash And Equivalents	43.4	53.6	60.5	70.3	88.4
Total Debtors	74.0	59.5	72.7	84.3	88.4
Inventories	11.4	17.5	30.3	35.1	36.8
Total Other Current Assets	2.9	2.5	2.5	2.5	2.5
Total Current Assets	**131.6**	**133.1**	**165.9**	**192.2**	**216.0**
Fixed Assets	6.8	8.2	9.1	8.9	8.6
Total Investments	1.9	2.8	2.8	2.8	2.8
Intangible Assets	5.9	5.9	5.9	5.9	5.9
Total Other Non-Current Assets	2.1	3.0	3.0	3.0	3.0
Total Non-current Assets	**16.7**	**19.9**	**20.8**	**20.6**	**20.3**
Short-term Debt	1.1	1.8	0.3	0.3	0.3
Current Portion of Long-Term Debt					
Total Creditors	32.9	30.4	49.7	56.1	58.3
Other Current Liabilities	2.9	0.6	0.6	0.6	0.6
Total Current Liabilities	**36.9**	**32.8**	**50.5**	**57.0**	**59.2**
Total Long-term Debt	1.9	0.3	0.3	0.3	0.3
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.5	2.5	2.5	2.5	2.5
Total Non-current Liabilities	**4.4**	**2.8**	**2.8**	**2.8**	**2.8**
Total Provisions	0.2	0.4	0.4	0.4	0.4
Total Liabilities	**41.5**	**36.0**	**53.8**	**60.2**	**62.4**
Shareholders' Equity	79.0	91.6	101.5	114.5	128.3
Minority Interests	27.8	25.4	31.5	38.2	45.6
Total Equity	**106.8**	**117.0**	**133.0**	**152.7**	**174.0**

Effective tax rate normalises on expiry of the pioneer status for the waste management business

Key Ratios

	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue Growth	(17.6%)	7.1%	72.7%	16.1%	4.8%
Operating EBITDA Growth	30%	(5%)	105%	21%	11%
Operating EBITDA Margin	12.4%	11.0%	13.1%	13.7%	14.5%
Net Cash Per Share (RM)	0.18	0.23	0.23	0.27	0.34
BVPS (RM)	0.35	0.41	0.40	0.45	0.50
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	27.6%	8.7%	23.0%	23.0%	23.0%
Net Dividend Payout Ratio	NA	NA	24.0%	23.6%	25.4%
Accounts Receivables Days	193.9	190.3	109.4	111.7	117.2
Inventory Days	53.05	60.56	56.71	66.45	71.39
Accounts Payables Days	90.70	89.65	71.98	87.71	94.23
ROIC (%)	35.6%	18.9%	41.7%	45.7%	44.6%
ROCE (%)	13.1%	11.1%	21.7%	23.5%	22.9%
Return On Average Assets	8.7%	8.4%	16.1%	16.7%	16.5%

Key Drivers

	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
ASP (% chg, main prod./serv.)	0.0%	0.0%	6.5%	13.0%	0.0%
Unit sales grth (%, main prod./serv.)	-17.6%	7.1%	52.1%	19.1%	7.0%
Util. rate (%, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,2ndary)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB RESEARCH, COMPANY DATA

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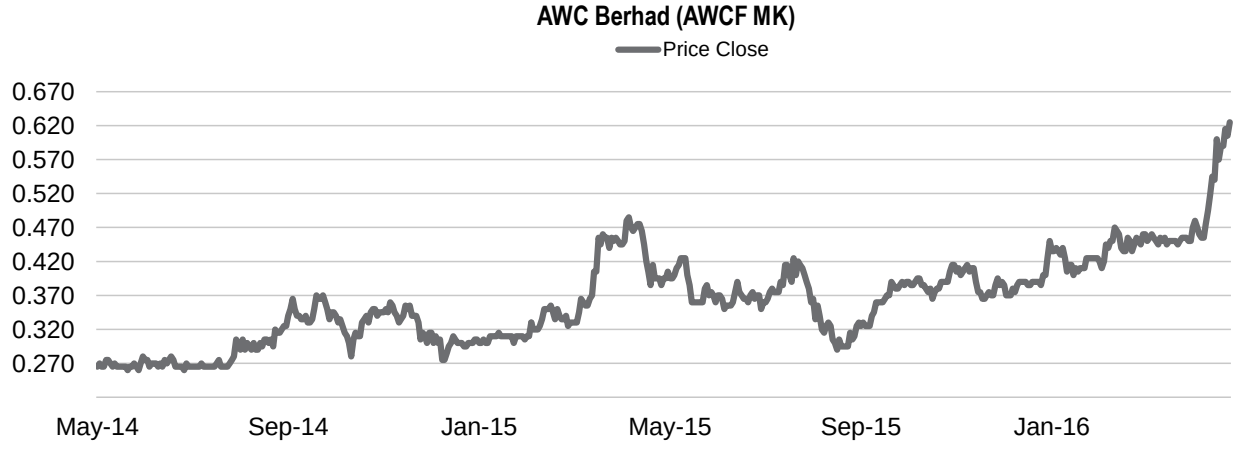
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Add	59.2%	6.9%
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Spitzer Chart for stock being researched (2 year data)



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The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.