

Stock Digest

Results Note – AWC Bhd

Tuesday, 29 Nov, 2016



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Results On Target

Results Highlights

- AWC Bhd's 1QFY17 net profit jumped more than four-fold to RM5.4 mln, from RM1.3 mln in the previous corresponding year – mainly due to the renewal of the integrated facilities management (IFM) concession contract from the government, the commencement of several projects across all divisions and the consolidation of results from the recently acquired plumbing and rainwater harvesting business. Revenue also rose 77.5% Y.o.Y to RM67.1 mln vs. RM37.8 mln in 1QFY16.
- AWC's reported earnings came within our expectations as it accounts to 25.6% of our full-year estimated net profit of RM21.2 mln, while the reported revenue amounts to 23.7% of our estimated FY17 revenue of RM283.1 mln.
- The group's net profit margin jumped to 8.1% in the 1QFY17, compared to a mere 3.3% in 1QFY16 – mainly due to the consolidation of earnings from the higher margin plumbing and rainwater-harvesting businesses, as well as the improved performance from the environment and air-conditioning operations.
- The group will continue to capitalise on its 10-year IFM and Critical Asset Refurbishment Program (CARP) contracts worth RM695.0 mln and we also expect the earnings from the new contracts secured by the environment and plumbing segment to materialise in the coming quarters. Lastly, we think that the near-completion of the Xiamen University and Capital 21 contracts, which was previously delayed, will free up AWC's resources, allowing the group ample capacity to undertake new projects moving forward.

Financial Highlights					
FYE June (MYR mln)	2014A	2015A	2016A	2017F	2018F
Revenue	119.5	128.0	248.5	282.2	317.1
EBITDA	15.0	14.2	31.6	42.2	47.6
Net Profit	7.0	8.1	17.1	22.2	23.9
Revenue Growth (%)	-17.6	7.1	94.1	13.6	12.4
EBITDA Growth (%)	30.9	-5.0	121.9	33.6	12.9
Net Profit Growth (%)	52.6	16.3	111.9	29.8	7.6
EPS (sen)	2.6	3.1	6.5	8.5	9.1
P/E(x)	33.6	28.9	13.6	10.5	9.8
DPS (sen)	0.0	0.0	2.5	2.5	2.5
Dividend Yield (%)	0.0	0.0	2.8	2.8	2.8
BVPS (RM)	0.41	0.45	0.56	N/A	N/A
P/BV (x)	2.19	2.00	1.58	N/A	N/A
ROE (%)	8.8	8.8	14.4	N/A	N/A

Source: Company Data, MSSB Research

BUY

Share Price: RM0.89
Target Price: RM1.10

Key Statistics

Stock Information: Engaged in the provision of integrated facilities management services, engineering services and automated pneumatic waste collection systems

Sector: Trading/Services

Industry: Professional & Technical
Specialty Services

Listing: Main Market

Stock Code: 7579

Share Issued (mln): 262.5

Market Capital (RM mln): 233.7

Par Value (RM): 0.30

Major Shareholders:

K-Capital Bhd	30.7%
Tan Keng Hee	4.2%
Dato' Ahmad Kabeer bin	
Mohamed Nagoor	3.4%

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Prospects

Segment wise, we think that the facilities division will continue to anchor AWC's revenue as it currently contributes more than 40.0% of the group's top line. The IFM and CARP contracts, which are cumulatively worth RM695.0 mln, could provide earnings visibility of up to year 2025.

We opined that the Hospital Shah Alam IFM contract, which has a higher margin compared to the conventional IFM government contract, will act as a stepping stone to spearhead the path for contracts to be secured from the healthcare sector, moving forward.

We are also sanguine that the securement of several big-ticket projects like the Signature Tower @ Tun Razak Exchange and the KL 118 Tower will cement AWC's status as the premium high-end plumbing contractor. Meanwhile, the rainwater-harvesting segment is expected to grow steadily, albeit on a smaller scale as compared to the other segments.

Following new automated waste-handling sub-contracts secured in September, the group is also on track to achieve its expansion strategies of penetrating into the Taiwan and India markets.

Due to AWC's prudent cash management and asset-light business model, the group continued to be in a net cash position, sitting on a sizable cash pile worth RM66.8 mln as at 30th September 2016. The strong balance sheet will enable AWC to take advantage of any M&A opportunities.

Valuation and Recommendation

We reiterate our **BUY** recommendation on AWC with a higher target price of RM1.10 (from RM1.05). We raised our earnings estimates on the basis of stronger earnings contribution from the recognition of new contracts secured and higher margins from the waste management business, as well as plumbing contracts.

Our target price is derived from ascribing an unchanged target PER of 13.0x to its higher FY17 EPS of 8.5 sen, which we think is justified due to its strong earnings growth potential – as reflected in its low PEG of 0.4x in FY17.

Risk to our recommendation and target price include failure to replenish its targeted orderbook and project delays due to the cyclical risks inherent to the construction industry, which could lead to unforeseen costs and reputational damage. Escalating utility cost and increase in the prices of consumables could also compress the margins of the IFM contracts, while any fluctuation in the cost of raw materials could also impact AWC's margins in the already saturated heating, ventilation & air-conditioning (HVAC) market.

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Quarterly Performance					
FYE June (MYR mln)	1QFY17	1QFY16	%Change		%Change
			Y.o.Y	4QFY16	Y.o.Y
Revenue	67.1	37.8	77.5%	76.0	-11.7%
EBITDA	11.4	2.6	346.1%	12.5	-8.6%
Depreciation & Amortisation	1.5	0.6	171.5%	0.3	480.8%
Net Interest Income/(Expense)	0.25	0.1	73.4%	0.0	2655.6%
Profit before tax	10.1	2.1	374.4%	12.2	-17.3%
Net Profit	5.4	1.3	333.7%	6.5	-16.2%
Basic EPS (Sen)	2.1	0.5	333.7%	0.0	8284.2%

Source: Company Data, MSSB Research

Income Statement					
FYE June (MYR mln)	2014A	2015A	2016A	2017F	2018F
Revenue	119.5	128.0	248.5	282.2	317.1
EBITDA	15.0	14.2	31.6	42.2	47.6
Depreciation & Amortisation	1.8	1.5	1.8	3.2	5.5
Net Interest Income/(Expense)	0.5	0.1	0.3	0.1	-0.1
Pre-tax Profit	13.8	12.8	30.1	39.0	42.0
Effective Tax Rate	27.6%	8.7%	21.4%	22.0%	22.0%
Net Profit	7.0	8.1	17.1	22.2	23.9
EBITDA Margin	12.5%	11.1%	12.7%	15.0%	15.0%
Pre-tax Margin	11.5%	10.0%	12.1%	13.8%	13.3%
Net Margin	5.8%	6.3%	6.9%	7.9%	7.5%

Source: Company Data, MSSB Research

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