

Stock Digest

Results Note – AWC Bhd

Wednesday, 01 Mar, 2017



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Progressing Nicely

Results Highlights

- AWC Bhd's 2QFY17 net profit climbed 39.3% Y.o.Y to RM5.2 mln, from RM3.7 mln in 2QFY16, mainly due to the improved performance from its facilities and environment divisions following the commencement of several new projects as well as renewal of its government concession contract. Revenue also jumped 25.7% Y.o.Y to RM75.6 mln vs. RM60.2 mln a year ago. The group has also proposed a 1.0 sen interim dividend, which is payable on the 5th April 2017.
- Cumulatively, the group's 1HFY17 net profit more than doubled to RM10.7 mln, from RM5.0 mln in the last corresponding year – led by the strong growth in its topline on the back of the aforementioned reasons, in addition to the better performance from AWC's plumbing and air-conditioning business. Revenue expanded 45.7% Y.o.Y to RM142.8 mln, from RM98.0 mln last year.
- AWC's reported earnings was within our expectations as it accounts to 47.9% of our full-year estimated net profit of RM22.2 mln, while the reported revenue amounts to 50.6% of our estimated FY17 revenue of RM282.2 mln.
- There is no change to our earnings forecast and we continue to like AWC for its earnings stability, backed by a healthy mix of consistent cash inflows from its concession contracts as well as lucrative margins from its waste management and plumbing projects. Going forward, the group's outstanding orderbook of RM1.15 bln is expected to provide earnings visibility for more than four years.

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	8.4	9.0
P/E(x)	37.5	32.2	15.2	11.7	10.9
DPS (sen)	0.0	0.0	2.5	2.5	2.5
Dividend Yield (%)	0.0	0.0	2.5	2.5	2.5
BVPS (RM)	0.40	0.44	0.56	N/A	N/A
P/BV (x)	2.4	2.2	1.8	N/A	N/A
ROE (%)	8.8	8.8	14.4	N/A	N/A

Source: Company Data, MSSB Research

BUY

Share Price: RM0.985

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	30.4%
EVLI Fund Management Company Ltd	4.6%
Tan Keng Hee	4.6%

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Prospects

Segmentally, we expect AWC's recurring income from the IFM division, via its concession and CARP contracts to provide a steady stream of cash-flows over the next ten years, alongside non-concession contracts from the healthcare (i.e: Hospital Shah Alam Selangor) and commercial sectors, which typically last two-to-three years.

Despite posting a slight drop in the Q.o.Q pretax profit to RM5.5 mln (from RM6.9 mln), mainly due to a bad debt recovered in 1QFY17, we continue to favor AWC's environment division due to its lucrative margins (between 20%-to-24%), which should boost the group's earnings moving forward.

Meanwhile, the group has also secured new engineering contracts like sub-contracts for the supply, delivery, installation, testing and commissioning and maintenance of fire protection services from Sunway Construction worth about RM14.6 mln recently. The new contracts will replace the contributions from the Xiamen University and Capital 21 projects, which are nearing their completion.

AWC's war chest continues to swell as the group sits on a significant cash pile of about RM96.4 mln, on the back of its prudent cash management and asset-light business model. The strong balance sheet will ensure that AWC is able to take advantage of any M&A opportunities, while the group's outstanding orderbook of RM1.15 bln, as at 1st January 2017, is expected to provide earnings visibility of more than four years.

Valuation and Recommendation

As the results were within our estimates, we also maintain our **BUY** recommendation on AWC with an unchanged target price of RM1.10. Our target price is derived from ascribing an unchanged target PER of 13.0x to its FY17 EPS of 8.4 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)	2QFY17	2QFY16	%Change		
			Y.o.Y	1QFY17	Y.o.Y
Revenue	75.6	60.2	25.7%	67.1	12.7%
EBITDA	11.1	7.7	42.7%	11.4	-3.0%
Depreciation & Amortisation	1.5	0.8	88.8%	1.5	-5.8%
Net Interest Income/(Expense)	-0.2	0.2	-240.5%	0.2	-197.6%
Profit before tax	9.4	7.1	30.9%	10.1	-7.4%
Net Profit	5.2	3.7	39.3%	5.4	-4.0%
Basic EPS (Sen)	2.0	1.4	39.3%	2.1	-4.0%

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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