Stock Digest

Results Note – AWC Bhd

Friday, 23 Feb, 2018

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Still Hampered By Delays, Playing Catch Up

BUY

Share Price: RM0.775
Target Price: RM0.95

Results Highlights

- AWC posted a 3.0% Y.o.Y decline in its 2QFY18 net profit to RM5.1 mln, in comparison to RM5.2 mln in the same quarter last year, mainly due to project delays from the Environment and Engineering divisions which resulted in slower progress billings. Revenue for the quarter was also lower by 9.6% Y.o.Y to RM68.4 mln, from RM75.6 mln a year earlier.

- Cumulative 1HFY18 net profit, meanwhile, fell 5.0% Y.o.Y to RM10.1 mln vs. RM10.7 mln last year, in-tandem with the decrease in revenue (-5.7% Y.o.Y) to RM134.6 mln, from RM142.8 mln in 1HFY17 due to the aforementioned reasons.

- The latest results came in below our expectations, accounting to only 43.3% and 41.0% of our FY18 forecast net profit of RM23.4 mln and revenue of RM324.6 mln respectively. Project delays from the last quarter continued to weigh on AWC's performance, resulting in the variation above. However, we remain confident that the company is capable of getting back on track in the upcoming quarters, having already resolved some of the delay issues.

- Segmentally, the IFM segment maintained steady revenue (+10.4% Y.o.Y) and pretax profit (+382.0% Y.o.Y) growth, lifted by the revenue recognition from new IFM contracts secured in FY17 and contribution from CARP. The waste management and engineering divisions, however, lagged as project delays from 1QFY18 continued to weigh on revenue, further exacerbated by the lower margins due to the completion of several large-scale projects in 2QFY17. Both segments - Engineering and Environment posted sharp declines in YTD pretax profits at RM1.8 mln (-66.8% Y.o.Y) and RM3.9 mln (-68.6% Y.o.Y) respectively.

FYE June (MYR mln)	2015A	2016A	2017A	2018F	2019F
Revenue	**128.0**	**248.5**	**296.5**	**324.6**	**282.7**
EBITDA	**14.2**	**31.6**	**41.6**	**44.8**	**38.1**
Net Profit	**8.1**	**17.1**	**22.0**	**23.8**	**19.7**
Revenue Growth (%)	*7.1*	*94.1*	*19.3*	*9.5*	*-12.9*
EBITDA Growth (%)	*-5.3*	*122.7*	*31.5*	*7.9*	*-14.9*
Net Profit Growth (%)	*16.3*	*111.9*	*28.6*	*8.0*	*-17.2*
EPS (sen)	**3.0**	**6.4**	**8.2**	**8.8**	**7.3**
P/E(x)	**25.8**	**12.2**	**9.5**	**8.8**	**10.6**
DPS (sen)	**0.0**	**2.5**	**0.0**	**2.0**	**2.0**
Dividend Yield (%)	**0.0**	**3.2**	**0.0**	**2.6**	**2.6**
BVPS (RM)	**0.4**	**0.6**	**0.6**	**N/A**	**N/A**
P/BV (x)	**1.8**	**1.4**	**1.2**	**N/A**	**N/A**
ROE (%)	**8.8**	**14.4**	**0.2**	**N/A**	**N/A**

Source: Company Data, MSSB Research

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): 273.4

Market Capital (RM mln): 208.5

Par Value (RM): N/A

Major Shareholders:

K-Capital Bhd	29.8%
EVLI Fund Management Company Ltd	4.5%
Tan Keng Hee	4.1%

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Prospects

Moving forward, we think that earnings will play catch up in 2HFY18, lifted by the final quarter which typically sees higher earnings. Recent setbacks were mainly due to project delays from the main contractor's end, which has since been resolved and thus, we foresee accelerated revenue recognition in the coming quarters.

We also expect net profit margins to normalise to around 7.3%, from the average YTD margin of 7.5% due to rising inflationary pressures. AWC's total outstanding orderbook of RM1.11 bln, as at 1st January 2018, will provide earnings visibility up to 2025, while the IFM segment remains as an integral part of the group, accounting for more than 70.0% of the group's total outstanding orderbook.

Fast forward to FY19, we foresee weaker earnings mainly due to diminishing orderbook and the absence of big-ticket contracts which were completed in FY17. However, we believe that the group is still fundamentally strong, underpinned by strong earnings visibility, solid balance sheet with a sizable cash pile of RM82.4 mln (from RM67.7 mln in 1QFY18) and insignificant leverage.

A re-rating catalyst could stem from potential new contracts from AWC's estimated tenderbook orders worth RM1.0 bln.

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Valuation and Recommendation

Despite lower-than-anticipated reported earnings, we tweaked our FY18 net profit slightly higher at RM23.8 mln to account for lower estimated non-controlling interests, but leave our revenue estimates unchanged at RM324.6 mln respectively, as we expect better results in 2HFY18. We also adjusted our FY19 (-10.7%) forecast net profit and revenue (-8.8%) downwards to RM19.7 mln and RM282.7 mln respectively, after pencilling-in lower estimated tenderbook orders.

Nevertheless, we maintain our **BUY** recommendation on AWC, but with a lower target price of RM0.95 (from RM1.20) after rolling over our valuations to FY19's EPS of 7.3 sen. The target price is also derived from ascribing a lower target PER of 13.0x (from 14.0x), which is in-line with the lower overall valuations of the FBM Small Cap index and remains at a discount to AWC's nearest competitor, **UEM Edgenta Bhd** due to the former's smaller market capitalisation.

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 cost increases 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 HVAC market.

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Quarterly Performance					
FYE June (MYR mln)	2QFY18	2QFY17	%Change Y.o.Y	1QFY18	%Change Y.o.Y
Revenue	**68.4**	**75.6**	-9.6%	**66.2**	3.2%
EBITDA	**7.4**	**11.1**	-33.5%	**9.8**	-25.1%
Depreciation & Amortisation	**0.7**	**1.5**	-53.7%	**1.7**	-60.6%
Net Interest Income/(Expense)	**0.3**	**-0.2**	-237.9%	**0.0**	-861.4%
Profit before tax	**7.0**	**9.4**	-25.0%	**8.1**	-12.9%
Net Profit	**5.1**	**5.2**	-3.0%	**5.1**	-0.1%
Basic EPS (Sen)	**1.9**	**1.9**	-3.0%	**1.9**	-0.1%

Source: Company Data, MSSB Research

Income Statement					
FYE June (MYR mln)	2015A	2016A	2017A	2018F	2019F
Revenue	128.0	248.5	296.5	324.6	282.7
EBITDA	14.2	31.6	41.6	44.8	38.1
Depreciation & Amortisation	1.5	1.8	2.5	3.3	3.7
Net Interest Income/(Expense)	0.1	0.3	-0.4	-0.1	0.2
Pre-tax Profit	12.8	30.1	38.7	41.5	34.6
Effective Tax Rate	*8.6%*	*21.4%*	*20.1%*	*21.0%*	*21.0%*
Net Profit	8.1	17.1	22.0	23.8	19.7
EBITDA Margin	*11.1%*	*12.7%*	*14.0%*	*13.8%*	*13.5%*
Pre-tax Margin	*10.0%*	*12.1%*	*13.0%*	*12.8%*	*12.2%*
Net Margin	*6.3%*	*6.9%*	*7.4%*	*7.3%*	*7.0%*

Source: Company Data, MSSB Research

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