Company Note

Malaysia

AWC Berhad

Stronger quarters ahead

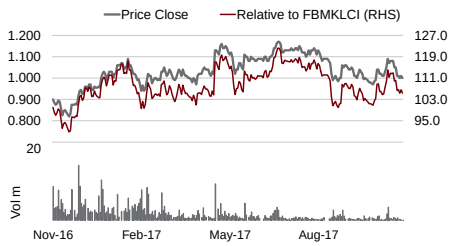
ADD *(no change)*

Consensus ratings*:	Buy 1	Hold 1	Sell 0
Current price:			RM1.00
Target price:			RM1.28
Previous target:			RM1.20
Up/downside:			27.7%
CIMB / Consensus:			7.3%
Reuters:			AWCF.KL
Bloomberg:			AWCF MK
Market cap:			US$63.69m
			RM264.3m
Average daily turnover:			US$0.15m
			RM0.62m
Current shares o/s:			256.0m
Free float:			62.1%

*Source: Bloomberg

Key changes in this note

- No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.1	-12.3	11.1
Relative (%)	4.3	-9.4	5.4

Major shareholders	% held
K-Capital Sdn Bhd	30.7
Ignatius Luke Jr Tan Keng Hee	4.2
Ahmad Kabeer bin Mohamed Nagoor	3.0

- We deem 1QFY6/18 core net profit to be in line, at 19% of our and 18% of Bloomberg consensus' FY18 estimates. 1Q is typically a weaker quarter.
- 1QFY18 core net profit rose 11.7% yoy to RM4.1m, thanks to higher contribution from the facilities division.
- No dividend was declared for the quarter, as expected.
- Expect stronger quarters ahead with higher progress billings for both environment and engineering contracts.
- Maintain Add, with a higher SOP-based TP of RM1.28 as we roll over our valuation to end-2018F.

Lower revenue from engineering and environment divisions

1QFY6/18 revenue dipped 1.4% yoy to RM66.2m, driven by lower contribution from the environment and engineering divisions (environment: -7.8% yoy; engineering: -8.6% yoy). This was mainly due to project delays in both divisions; AWC expects to catch up on the projects' progress in following quarters. The facilities division is the sole segment that recorded revenue growth, up 7.7% yoy to RM31.3m, thanks to the commencement of new projects during the quarter.

1QFY18 core net profit in line with our expectation

1QFY18 EBITDA margin declined to 13.3% (-1.0% pt yoy) due to lower contributions from higher margin segments (environment and engineering). However, 1QFY18 core net profit came in higher at RM4.1m (+11.7% yoy) after accounting for one-off write-backs of trade receivables of RM1m. This was mainly due to higher contribution from the facilities division (wholly-owned subsidiary). Overall, we deem 1QFY18 core net profit to be in line with expectations at 19% of our FY18 estimates as 1Q18 is typically a weaker quarter.

Facilities division the star performer

The facilities division was the most profitable segment in 1QFY18, with PBT of RM6.8m (+223% yoy), thanks to stronger revenues, higher-margin contracts and better cost control. The environment division's 1QFY18 PBT declined 58% yoy to RM2.9m due to project delays. Meanwhile, the engineering division turned loss-making in 1QFY18, recording loss before tax of RM1.5m vs. PBT of 1.6m in 1QFY17. We attribute this to project delays and margin compression, especially for its air-conditioning contracts.

Stronger quarters ahead with orderbook remaining healthy

We are confident the group will record stronger quarters ahead to achieve our FY18 estimates. This is on the back of expectations of faster progress billings as AWC aims to catch up on its delayed contracts in both the environment and engineering divisions. Overall, we believe AWC's outstanding orderbook will remain healthy till end-FY19F. We estimate current orderbook of c.RM512m, consisting of contracts in: i) facilities division (RM278.6m), engineering division (RM127.1m) and environment division (RM106.6m).

Maintain Add, with higher TP of RM1.28

We make no changes to our Add call and earnings estimates. However, our SOP-based TP rises to RM1.28 as we roll over our valuation to end-2018F. Potential catalysts for the stock are large-size contract wins, especially for the environment and engineering divisions. Downside risks are contract execution delays and weaker-than-expected orderbook replenishment.

Financial Summary	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue (RMm)	249.3	296.1	313.9	331.0	355.5
Operating EBITDA (RMm)	31.90	45.94	42.29	44.78	47.67
Net Profit (RMm)	17.30	21.59	21.15	22.74	24.22
Core EPS (RM)	0.068	0.069	0.083	0.089	0.095
Core EPS Growth	89.8%	2.3%	19.6%	7.5%	6.5%
FD Core P/E (x)	14.80	14.47	12.10	11.26	10.57
DPS (RM)	0.025	0.020	0.025	0.030	0.035
Dividend Yield	2.50%	2.00%	2.50%	3.00%	3.50%
EV/EBITDA (x)	7.45	5.09	5.62	5.24	4.90
P/FCFE (x)	37.07	8.07	29.07	15.57	15.43
Net Gearing	(32.0%)	(34.6%)	(32.2%)	(33.7%)	(34.3%)
P/BV (x)	2.15	1.95	1.76	1.59	1.45
ROE	16.4%	14.1%	15.3%	14.8%	14.4%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.94	1.00	1.00

SOURCE: COMPANY DATA, CIMB FORECASTS

Analyst(s)



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Figure 1: Results Comparison

FYE June	1Q	1Q	yoy %	4Q	qoq %	Prev.	Comments
(RM m)	FY18	FY17	chg	FY17	chg	FY18F	
Revenue	66.2	67.1	(1.4)	86.0	(23.0)	313.9	1QFY18 revenue declined 1.4% yoy due to lower contribution from environment
Operating costs	(57.4)	(57.5)	(0.2)	(75.3)	(23.8)	(271.6)	and engineering divisions
EBITDA	8.8	9.6	(8.2)	10.6	(17.0)	42.3	
EBITDA margin (%)	13.3	14.3	(1.0)	12.4	1.0	13.5	1QFY18 EBITDA margins declined 1.0% pts yoy owing to lower contribution from higher
Depn & amort.	(1.7)	(1.5)	10.7	(1.7)	(0.2)	(6.5)	margin segments (environment and engineering)
EBIT	7.1	8.1	(11.8)	8.9	(20.3)	35.8	
Interest expense	(0.3)	(0.2)	35.0	(0.4)	(38.0)	(0.3)	
Interest & invt inc	0.2	0.4	(50.2)	0.2	32.1	0.3	
Associates' contrib	-	-	-	-	-	-	
Exceptionals	1.0	1.8	(44.4)	1.8	(44.4)	-	RM1m from write-back of trade receivables
Pretax profit	8.1	10.1	(20.2)	10.4	(22.9)	**36.1**	
Tax	(1.7)	(1.9)	(7.5)	(2.3)	(26.4)	(8.3)	
Tax rate (%)	21.4	18.5	2.9	22.5	(1.0)	23.0	Lower than statutory tax rate
Minority interests	(1.3)	(2.8)	(54.7)	(2.2)	(42.3)	(6.6)	
Net profit	**5.1**	**5.4**	(6.9)	**5.9**	(14.2)	**21.2**	
Core net profit	**4.1**	**3.6**	11.7	**4.1**	(1.0)	21.2	**In line with expectations, at 19% of our FY18 estimates**
EPS (sen)	1.9	2.1	(8.8)	2.3	(15.1)	8.3	
Core EPS (sen)	1.5	1.4	9.4	1.6	(2.0)	8.3	Based on 264.6m outstanding shares

SOURCES: CIMB, COMPANY REPORTS

Figure 2: SOP-based target price [CY19F]

Share capital (m)	256
CY19 EPS (sen)	9.2
Target P/E	11.2
Value of business (RM/share)	1.03
Net cash position (RM)	0.25
Target price (RM)	**1.28**

SOURCES: CIMB, COMPANY REPORTS

Figure 3: Segmental revenue and profit before tax

Segmental revenue

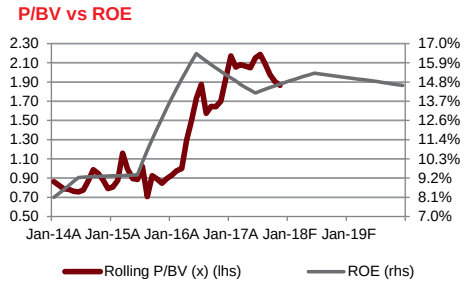
FYE Dec	1QFY18	1QFY17	yoy %	Comments
(RM m)			chg	
Facilities	31.3	29.1	7.7	Facilities grew 7.7% yoy from commencement of new projects
Environment	15.1	16.4	(7.8)	
Engineering	19.8	21.7	(8.6)	
Total Revenue	**66.2**	**67.1**	**(1.4)**	

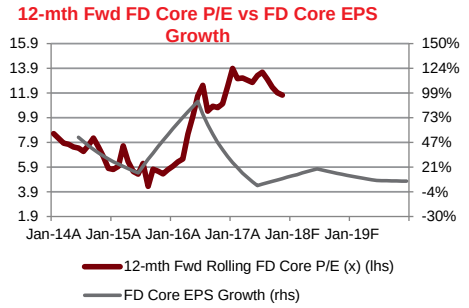
Segmental profit before tax

FYE Dec	1QFY18	1QFY17	yoy %	Comments
(RM m)			chg	
Facilities	6.8	2.1	(>100)	
Environment	2.9	6.9	(58.2)	Decline due to lower progress billings
Engineering	(1.5)	1.6	(>100)	Decline owing to margin compression and project delays
Investment Holding	(0.2)	(0.5)	(66.3)	
Total PBT	**8.1**	**10.1**	**(20.2)**	

SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(RMm)	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Total Net Revenues	**249.3**	**296.1**	**313.9**	**331.0**	**355.5**
Gross Profit	**79.1**	**85.8**	**94.5**	**102.8**	**112.2**
Operating EBITDA	**31.9**	**45.9**	**42.3**	**44.8**	**47.7**
Depreciation And Amortisation	(1.8)	(6.5)	(6.5)	(6.6)	(6.7)
Operating EBIT	**30.1**	**39.5**	**35.8**	**38.2**	**41.0**
Financial Income/(Expense)	0.3	(0.4)	0.3	0.3	0.3
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)	**30.4**	**39.1**	**36.1**	**38.5**	**41.3**
Exceptional Items					
Pre-tax Profit	**30.4**	**39.1**	**36.1**	**38.5**	**41.3**
Taxation	(6.5)	(8.7)	(8.3)	(8.5)	(9.1)
Exceptional Income - post-tax					
Profit After Tax	**23.9**	**30.4**	**27.8**	**30.0**	**32.3**
Minority Interests	(6.6)	(8.8)	(6.6)	(7.3)	(8.0)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**17.3**	**21.6**	**21.2**	**22.7**	**24.2**
Recurring Net Profit	17.3	17.7	21.2	22.7	24.2
Fully Diluted Recurring Net Profit	**17.3**	**17.7**	**21.2**	**22.7**	**24.2**

Cash Flow

(RMm)	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
EBITDA	31.90	45.94	42.29	44.78	47.67
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13.79)	20.53	(10.18)	(4.87)	(6.98)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	0.00	0.00	0.00	0.00	0.00
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	(6.50)	(8.23)	(8.30)	(8.47)	(9.10)
Cashflow From Operations	**11.61**	**58.24**	**23.81**	**31.44**	**31.59**
Capex	(3.50)	(26.50)	(15.00)	(15.00)	(15.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Investing	**(3.50)**	**(26.50)**	**(15.00)**	**(15.00)**	**(15.00)**
Debt Raised/(repaid)	(1.20)	0.00	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(7.40)	(8.96)	(6.40)	(7.68)	(8.96)
Preferred Dividends					
Other Financing Cashflow	0.15	0.45	0.60	0.60	0.60
Cash Flow From Financing	**(8.45)**	**(8.51)**	**(5.80)**	**(7.08)**	**(8.36)**
Total Cash Generated	(0.34)	23.23	3.01	9.36	8.23
Free Cashflow To Equity	**6.91**	**31.74**	**8.81**	**16.44**	**16.59**
Free Cashflow To Firm	**8.11**	**31.74**	**8.81**	**16.44**	**16.59**

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Total Cash And Equivalents	48.2	58.6	61.5	71.8	81.0
Total Debtors	120.6	91.5	103.2	108.8	116.9
Inventories	18.1	38.1	43.0	45.3	48.7
Total Other Current Assets	2.5	2.1	2.1	2.1	2.1
Total Current Assets	**189.4**	**190.3**	**209.8**	**228.1**	**248.6**
Fixed Assets	10.0	38.7	47.4	54.7	61.8
Total Investments	2.8	2.8	2.8	2.8	2.8
Intangible Assets	28.1	28.1	28.1	28.1	28.1
Total Other Non-Current Assets	1.6	1.6	1.6	1.6	1.6
Total Non-current Assets	**42.5**	**71.2**	**79.9**	**87.2**	**94.3**
Short-term Debt	0.2	0.2	0.2	0.2	0.2
Current Portion of Long-Term Debt					
Total Creditors	78.3	89.7	96.2	99.3	103.7
Other Current Liabilities	1.8	1.8	1.8	1.8	1.8
Total Current Liabilities	**80.3**	**91.7**	**98.2**	**101.3**	**105.7**
Total Long-term Debt	0.7	0.7	0.7	0.7	0.7
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.7	2.7	2.7	2.7	2.7
Total Non-current Liabilities	**3.4**	**3.4**	**3.4**	**3.4**	**3.4**
Total Provisions	0.2	0.2	0.2	0.2	0.2
Total Liabilities	**83.9**	**95.3**	**101.8**	**104.9**	**109.3**
Shareholders' Equity	119.1	131.0	145.7	160.8	176.0
Minority Interests	28.9	35.6	42.3	49.6	57.6
Total Equity	**148.0**	**166.6**	**188.0**	**210.4**	**233.7**

Key Ratios

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue Growth	94.7%	18.8%	6.0%	5.4%	7.4%
Operating EBITDA Growth	126%	44%	(8%)	6%	6%
Operating EBITDA Margin	12.8%	15.5%	13.5%	13.5%	13.4%
Net Cash Per Share (RM)	0.18	0.23	0.24	0.28	0.31
BVPS (RM)	0.47	0.51	0.57	0.63	0.69
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	21.4%	22.3%	23.0%	22.0%	22.0%
Net Dividend Payout Ratio	26.9%	16.9%	21.7%	24.6%	26.9%
Accounts Receivables Days	132.2	130.7	113.2	116.9	116.2
Inventory Days	38.31	48.77	67.46	70.67	70.73
Accounts Payables Days	64.11	77.40	89.05	93.28	93.37
ROIC (%)	45.9%	39.2%	32.9%	30.0%	29.4%
ROCE (%)	22.6%	24.7%	20.2%	19.2%	18.5%
Return On Average Assets	15.6%	16.0%	13.0%	12.6%	12.5%

Key Drivers

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
ASP (% chg, main prod./serv.)	6.5%	13.0%	0.0%	0.0%	0.0%
Unit sales grth (%, main prod./serv.)	52.1%	19.1%	7.0%	7.0%	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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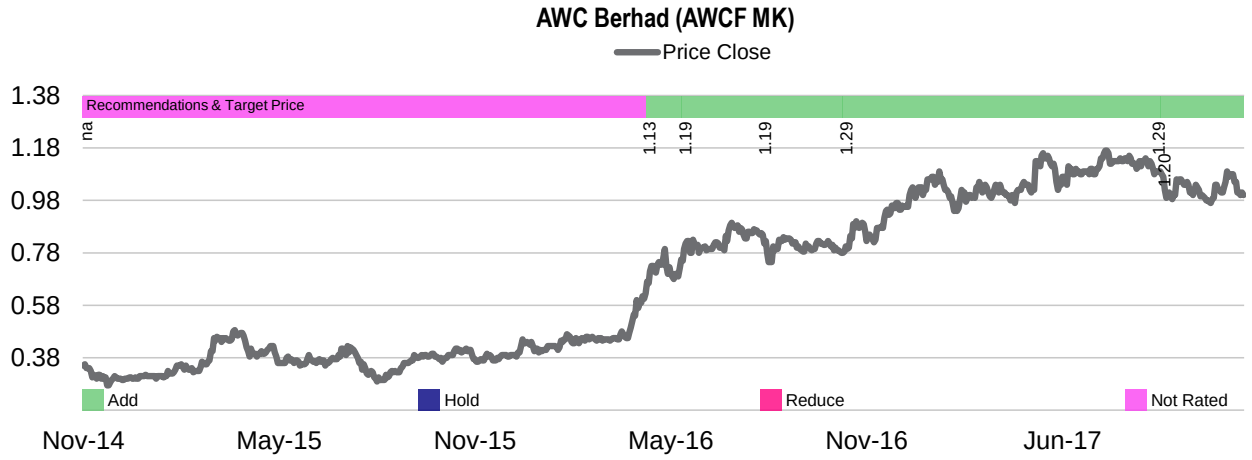
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Add	53.5%	4.3%
Hold	35.9%	2.6%
Reduce	9.7%	0.2%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

AAV – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, , **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

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