

Malaysia

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price: RM0.79
Target price: RM1.28
Previous target: RM1.28
Up/downside: 61.7%
CGS-CIMB / Consensus: -0.2%

Reuters: AWC.F.KL
Bloomberg: AWC.F MK
Market cap: US\$54.39m

RM212.5m

Average daily turnover: US\$0.15m

RM0.58m

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 (%)	-6.5	-20.2	-19.8
Relative (%)	-7.4	-29	-30.3

Major shareholders

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

Analyst(s)



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AWC Berhad

Positive on proposed acquisition of Trackwork

- AWC plans to acquire a 60% stake in Trackwork & Supplies Sdn Bhd, a company mainly involved in the rail business, for an estimated RM43.5m.
- This acquisition values the company at 8.1x CY18 P/E based on a profit guarantee of RM8m in FY18 (Sept year-end) and RM12m in FY19, respectively.
- We are positive on this deal, given: i) its earnings-accretive nature, ii) it allows AWC to access rail industry jobs, and iii) it will enhance its service offerings.
- The acquisition will be satisfied through a cash consideration of RM20m and the remainder by issuance of new shares in tranches upon completion of milestones.
- Based on our estimates, this potential acquisition could raise FY18-20F EPS by 16.3-23.0%. This could add another 10.9% upside to our existing target price of RM1.28.

Acquiring 60% stake in Trackwork for RM43.5m

AWC plans to acquire a 60% stake in Trackwork & Supplies S.B for RM43.5m, with a 40% stake retained by its current owners (Trakniaga). This acquisition is valued at 8.1x CY18 P/E, based on profit guarantee of RM8m in FY18F and RM12m in FY19F. This purchase is expected to be completed by 2Q18 and will be funded by RM20m cash with the remainder by issuance of new shares in tranches. The 1st tranche of 11.5m shares will be issued at RM1.00/share (26.6% premium to current share price). The rest of the new shares will be issued upon achieving profit guarantee target of each financial year.

Trackwork has 18 years of experience in rail-related works

Trackwork is a company with over 18 years of experience, mainly involved in rail-related industry services. It is principally involved in: i) supplying of track materials and rolling stocks, ii) maintenance works for railway tracks, iii) supplying and commissioning of various equipment and machineries used for track maintenance, and iv) supply of depot equipment. We gather that Trackwork has worked on rail-related projects with notable names such as George Kent, Fajarbaru, CHEC, Siemens and etc. over the years.

May potentially increase our FY18-20F EPS by 16.3-23.0%

We are positive on this acquisition as it will be earnings accretive for AWC. After accounting for lower interest income (AWC is in a net cash position) and a larger share base (by tranches), our back-of-the-envelope calculations indicate that AWC's FY18-20F EPS could potentially increase by 16.3-23.0%. Post the acquisition, AWC will still be a net cash company with estimated cash reserves of RM59.8m (based on end-1HFY18 results).

Hastening the pace in venturing into rail-related works

With this acquisition, AWC would be able to make inroads into rail-related services, especially rail maintenance works. It is able to tap into Trackwork's strong market position in this industry vs. organically setting up from scratch. In addition, AWC can leverage on the expertise of Trackwork's current owners, with its existing management team staying at the helm of Trackwork's operations. AWC also plans to propose asset management models with rail owners, with no such programmes currently available in Malaysia.

Maintain Add; may add 10.9% upside to our current TP of RM1.28

At this juncture, we have yet to incorporate potential earnings accretion into our estimates pending the completion of this acquisition. If reflected, the potential upside to our target price is 10.9%, bringing our TP to RM1.42. For now, we maintain our Add call but keep our SOP-based TP unchanged at RM1.28. Downside risks to our view include: unexpected cessation of awarded contracts and termination of this proposed acquisition.

Financial Summary

	Jun-15A	Jun-16A	Jun-17A	Jun-18F	Jun-19F
Revenue (RMm)	128.0	249.3	296.1	313.9	331.0
Operating EBITDA (RMm)	14.15	31.90	45.94	42.29	44.78
Net Profit (RMm)	8.03	17.30	21.59	21.15	22.74
Core EPS (RM)	0.036	0.068	0.069	0.083	0.089
Core EPS Growth	15.5%	89.8%	2.3%	19.6%	7.5%
FD Core P/E (x)	22.18	11.69	11.43	9.56	8.89
DPS (RM)	-	0.025	0.020	0.025	0.030
Dividend Yield	0.00%	3.16%	2.53%	3.16%	3.80%
EV/EBITDA (x)	10.75	5.76	3.92	4.35	4.04
P/FCFE (x)	11.19	29.28	6.37	22.97	12.30
Net Gearing	(43.9%)	(32.0%)	(34.6%)	(32.2%)	(33.7%)
P/BV (x)	1.94	1.70	1.54	1.39	1.26
ROE	9.4%	16.4%	14.1%	15.3%	14.8%
CIMB/consensus EPS (x)				0.95	0.96

SOURCE: COMPANY DATA, CGS-CIMB FORECASTS

Call/Put option is in place as part of this acquisition ➤

As part of this proposed acquisition, AWC has agreed with Trakniaga on:

- Call option: AWC has the option of exercising a Call option to purchase all shares owned by Trakniaga from the expiry of profit guarantee period (FY18-19F) up to 5th anniversary of the completion of this acquisition.
- Put option: Trakniaga has the option to exercise a Put option requiring AWC to purchase all shares owned by Trakniaga any time in the period of 6 months, post the expiry of the Call option period.

The option price will be calculated based on this formula: **(A X B X 7.25)**

A: Core PAT (exclude non-recurring or exceptional item) based on the latest audited financial statements of Trackwork

B: Percentage of option shares owned by Track at that juncture in time

Application for diversification of principal activities of AWC ➤

In tandem with this acquisition, AWC has proposed to undertake a diversification of principal activities of AWC and its subsidiaries to include rail-related works. This is due to AWC foreseeing that contribution from this acquisition is >25% of its current net profit (FY17:RM21.6m)

Potential scenario of the EPS accretion from this acquisition ➤

The issuance price for the 2nd and 3rd Tranche will be based on the 5-day VWAP after the day of the signed audited financial statements of Trackwork for profit guarantee period (FY18-19F). In Figures 1-5, we have assumed that issuance price for both 2nd and 3rd Tranche is at RM1.00/share

Figure 1: Payment Structure

Payment Terms	RMm
1st Tranche (Upon completion date of acquisition)	
Total value of issuance of new shares -(Issue price: RM1.00/share for 11.5m new shares)	11.5
Cash payment (RMm)	20.0
2nd Tranche (Upon achieving Year 1 Profit Guarantee of RM8m)	
Issuance of new shares - (RM6m worth of new shares to be issued which share price is based on 5-day VWAP after date of signed audited Trackwork's audited FY18 financial statements)	6.0
3rd Tranche (Upon achieving Year 2 Profit Guarantee of RM12m)	
Issuance of new shares - (RM6m worth of new shares to be issued which share price is based on 5-day VWAP after date of signed audited Trackwork's audited FY18 financial statements)	6.0
Total acquisition value	43.5

SOURCE: CIMB RESEARCH, COMPANY

Figure 2: Enlarged share base

	Upon completion of acquisition	2nd Tranche*	3rd Tranche*
Existing no. of shares**	269.0	280.5	286.5
No. of new shares to be issued	11.5	6.0	6.0
Increase in share base (%)	4.3%	2.1%	2.1%
Enlarged share base	280.5	286.5	292.5

*assuming issuance price of RM1.00 per share

**does not take into account any ESOS options

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Changes to FY EPS (FY18-20F) post acquisition

Trackworks (FYE Sept)	FY18F	FY19F	FY20F
Net profit growth assumptions (%)	Profit guarantee	Profit guarantee	20%
Net profit assumptions (RMm)	8	12	14.4
Net profit attributable to AWC based on 60% stake	4.8	7.2	8.64
Impact on interest income based on interest rate of 1.5% (RMm)	(0.3)	(0.4)	(0.5)
Total net profit attributable to AWC (based on 60% stake)	4.5	6.8	8.2
Current net profit estimates of AWC (RMm)	21.2	22.7	24.2
Enlarged net profit of AWC post acquisition (RMm)	25.7	29.6	32.4
Net increase in AWC's net profit post acquisition (%)	21.3%	29.9%	33.7%
Current EPS estimates of AWC (sen)	7.9	8.5	9.0
Net EPS of AWC post acquisition (sen)	9.1	10.3	11.1
Net increase in AWC's EPS post acquisition (%)	16.3%	22.0%	23.0%

SOURCE: CIMB RESEARCH, COMPANY

Figure 4: Changes to CY EPS (FY18-20F) post acquisition

Trackworks (Calendarised)	CY18F	CY19F
Calendarised net profit (RMm)	9.0	12.6
Profit attributable to AWC based on 60% stake	5.4	7.56
Impact on interest income based on interest rate of 1.5% (RMm)	0.3	0.39
Calendarised total net profit attributable to AWC (based on 60% stake)	5.1	7.17
Calendarised EPS attributable to AWC (based on 60% stake)*	1.8	2.5
AWC's current earnings estimates (CY)	21.9	23.5
AWC's net profit (existing + contribution from Trackworks)	27.0	30.6
Net increase in net profit (%)	23.2%	30.5%
AWC's current EPS (CY)	8.2	8.7
AWC's new EPS (existing + contribution from Trackworks) (CY)*	9.4**	10.5***
Net increase in EPS (%)	15.7%	20.1%

*assuming issuance price of RM1.00 per share in Tranche 2 and Tranche 3

**enlarged share base of Tranche 2

***enlarged share base of Tranche 3

SOURCE: CIMB RESEARCH, COMPANY

Figure 5: SOP-based target price (estimation post-acquisition)

Share capital (m)	280
CY19 EPS (sen)	10.6
Target P/E	11.2
Value of business (RM/share)	1.19
Net cash position (RM)	0.23
Target price (RM)	1.42

SOURCES: CIMB, COMPANY REPORTS

Figure 6: SOP-based target price (current)

Share capital (m)	259
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

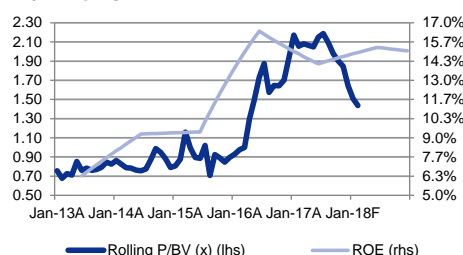
Figure 7: Historical and on-going projects of Trackwork

Project description (name of project)	Project owner	Date of Award/Commencement date	Completion/Expected completion date	Amount/Contract value (RMm)
2015				
Supply of track network maintenance, tools and equipment at Kampung Kuala Sungai Baru Depot	George Kent (M) Berhad	24 Nov 2015	30 Mar 2016	1.74
Supply of welding portions and accessories for Ampang LRT extension	CHEC Construction (M) Sdn Bhd ("CHEC")	17 Aug 2015 and 21 Oct 2015	Jan 2016	0.37
2016				
Provision of miscellaneous rail related works	Fajarbaru	18 Jul 2016	31 May 2017	34.8
Supply of welding portions and accessories for Ampang LRT extension	CHEC	5 Aug 2016	Dec 2016	0.18
Klang Valley Double Tracking project	Dhaya Maju Infrastructure Asia Sdn Bhd ("DMIA")	15 Aug 2016	15 Oct 2018	12.7
2017				
Supply of inspection platform	Siemens Malaysia Sdn Bhd	9 May 2017	31 May 2017	0.57
Supply of concrete bearers, commissioning and other rail related works	China Communications Construction Company (M) Sdn Bhd	20 Oct 2017	6 Apr 2020	6.17

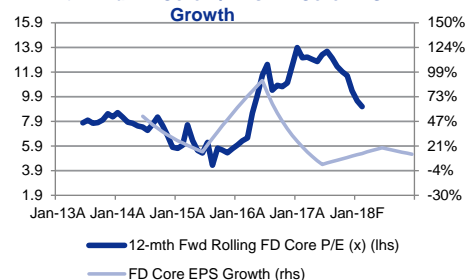
SOURCE: CIMB RESEARCH, COMPANY

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(RMm)	Jun-15A	Jun-16A	Jun-17A	Jun-18F	Jun-19F
Total Net Revenues	128.0	249.3	296.1	313.9	331.0
Gross Profit	40.9	79.1	85.8	94.5	102.8
Operating EBITDA	14.1	31.9	45.9	42.3	44.8
Depreciation And Amortisation	(1.5)	(1.8)	(6.5)	(6.5)	(6.6)
Operating EBIT	12.7	30.1	39.5	35.8	38.2
Financial Income/(Expense)	0.1	0.3	(0.4)	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)	12.8	30.4	39.1	36.1	38.5
Exceptional Items					
Pre-tax Profit	12.8	30.4	39.1	36.1	38.5
Taxation	(1.1)	(6.5)	(8.7)	(8.3)	(8.5)
Exceptional Income - post-tax					
Profit After Tax	11.7	23.9	30.4	27.8	30.0
Minority Interests	(3.6)	(6.6)	(8.8)	(6.6)	(7.3)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8.0	17.3	21.6	21.2	22.7
Recurring Net Profit	8.0	17.3	17.7	21.2	22.7
Fully Diluted Recurring Net Profit	8.0	17.3	17.7	21.2	22.7

Cash Flow

(RMm)	Jun-15A	Jun-16A	Jun-17A	Jun-18F	Jun-19F
EBITDA	14.15	31.90	45.94	42.29	44.78
Cash Flow from Inv. & Assoc.					
Change In Working Capital	5.83	(13.79)	20.53	(10.18)	(4.87)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2.40)	0.00	0.00	0.00	0.00
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	(2.59)	(6.50)	(8.23)	(8.30)	(8.47)
Cashflow From Operations	14.99	11.61	58.24	23.81	31.44
Capex	(1.46)	(3.50)	(26.50)	(15.00)	(15.00)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	3.24	0.00	0.00	0.00	0.00
Cash Flow From Investing	1.78	(3.50)	(26.50)	(15.00)	(15.00)
Debt Raised/(repaid)	(0.86)	(1.20)	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased	0.00				
Dividends Paid	(7.35)	(7.40)	(8.96)	(6.40)	(7.68)
Preferred Dividends					
Other Financing Cashflow	0.00	0.15	0.45	0.60	0.60
Cash Flow From Financing	(8.21)	(8.45)	(8.51)	(5.80)	(7.08)
Total Cash Generated	8.57	(0.34)	23.23	3.01	9.36
Free Cashflow To Equity	15.92	6.91	31.74	8.81	16.44
Free Cashflow To Firm	16.77	8.11	31.74	8.81	16.44

SOURCE: CGS-CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Jun-15A	Jun-16A	Jun-17A	Jun-18F	Jun-19F
Total Cash And Equivalents	53.6	48.2	58.6	61.5	71.8
Total Debtors	59.5	120.6	91.5	103.2	108.8
Inventories	17.5	18.1	38.1	43.0	45.3
Total Other Current Assets	2.5	2.5	2.1	2.1	2.1
Total Current Assets	133.1	189.4	190.3	209.8	228.1
Fixed Assets	8.2	10.0	38.7	47.4	54.7
Total Investments	2.8	2.8	2.8	2.8	2.8
Intangible Assets	5.9	28.1	28.1	28.1	28.1
Total Other Non-Current Assets	3.0	1.6	1.6	1.6	1.6
Total Non-current Assets	19.9	42.5	71.2	79.9	87.2
Short-term Debt	1.8	0.2	0.2	0.2	0.2
Current Portion of Long-Term Debt					
Total Creditors	30.4	78.3	89.7	96.2	99.3
Other Current Liabilities	0.6	1.8	1.8	1.8	1.8
Total Current Liabilities	32.8	80.3	91.7	98.2	101.3
Total Long-term Debt	0.3	0.7	0.7	0.7	0.7
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.5	2.7	2.7	2.7	2.7
Total Non-current Liabilities	2.8	3.4	3.4	3.4	3.4
Total Provisions	0.4	0.2	0.2	0.2	0.2
Total Liabilities	36.0	83.9	95.3	101.8	104.9
Shareholders' Equity	91.6	119.1	131.0	145.7	160.8
Minority Interests	25.4	28.9	35.6	42.3	49.6
Total Equity	117.0	148.0	166.6	188.0	210.4

Key Ratios

	Jun-15A	Jun-16A	Jun-17A	Jun-18F	Jun-19F
Revenue Growth	7.1%	94.7%	18.8%	6.0%	5.4%
Operating EBITDA Growth	(5%)	126%	44%	(8%)	6%
Operating EBITDA Margin	11.0%	12.8%	15.5%	13.5%	13.5%
Net Cash Per Share (RM)	0.23	0.18	0.23	0.24	0.28
BVPS (RM)	0.41	0.47	0.51	0.57	0.63
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	8.7%	21.4%	22.3%	23.0%	22.0%
Net Dividend Payout Ratio	NA	26.9%	16.9%	21.7%	24.6%
Accounts Receivables Days	190.3	132.2	130.7	113.2	116.9
Inventory Days	60.56	38.31	48.77	67.46	70.67
Accounts Payables Days	89.65	64.11	77.40	89.05	93.28
ROIC (%)	18.9%	45.9%	39.2%	32.9%	30.0%
ROCE (%)	11.1%	22.6%	24.7%	20.2%	19.2%
Return On Average Assets	8.4%	15.6%	16.0%	13.0%	12.6%

Key Drivers

	Jun-15A	Jun-16A	Jun-17A	Jun-18F	Jun-19F
ASP (% chg, main prod./serv.)	0.0%	6.5%	13.0%	0.0%	0.0%
Unit sales grth (% , main prod./serv.)	7.1%	52.1%	19.1%	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: CGS-CIMB RESEARCH, COMPANY DATA

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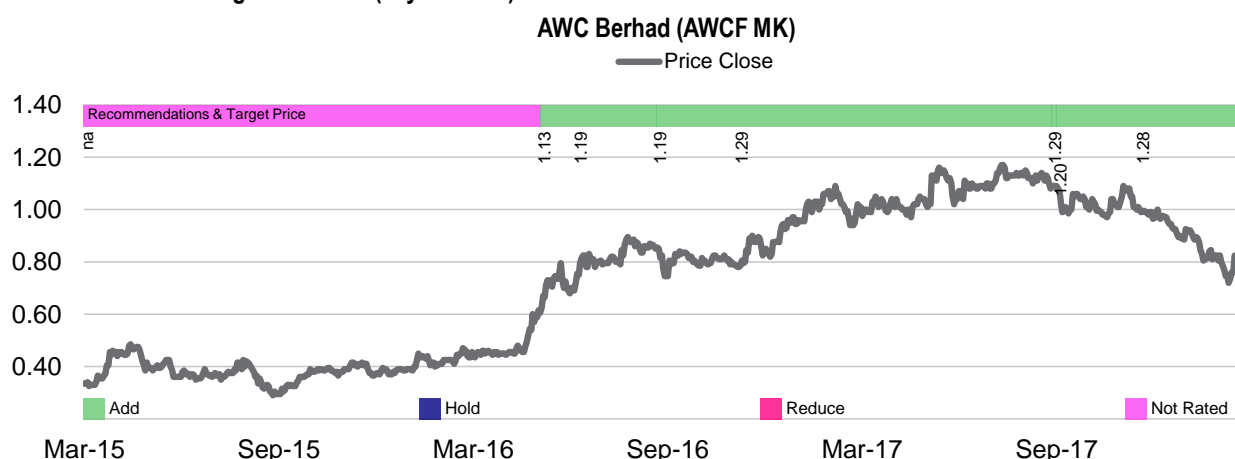
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	Rating Distribution (%)	Investment Banking clients (%)
Add	58.5%	6.4%
Hold	31.7%	2.6%
Reduce	9.0%	0.7%

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

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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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:

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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