

16 May 2017

Property | Real Estate Oper & Svcs

## AWC Bhd

**Not Rated**

### A Small-Cap Company With Global Ambitions

**AWC has a strong outstanding orderbook of MYR1.15bn as at 1 Jan 2017. We believe the company is moving in the right direction to win more contracts in the future, driven by synergies across all its divisions, ie facilities, environment and engineering. Its *STREAM AWCS* system provides robust margins for the group with a strong presence in Malaysia, Singapore, the UAE, and Hong Kong. Based on 2018F P/E of 13x (below the 3-year historical forward sector average of 15x), we value AWC at MYR1.62. We do not have a rating on the stock.**

**Solid facilities management division.** Prospects at the facilities management division remain solid, with recently-renewed concessions to provide integrated facilities management (IFM) services to the Southern Region (comprising the states of Johor, Malacca, Negeri Sembilan) and the Sarawak state building. We believe the concessions would provide a stable stream of revenue in the facilities segment for the next 10 years, with the company receiving MYR52m pa for the first five years, followed by MYR59m pa for the remaining five years. As AWC also carries out IFM work under the commercial and healthcare segment, we believe the segment should continue to account for 39-43% of FY17F-19F revenue.

**Huge potential for environment division.** This division's earnings more than doubled in FY16, due to improvements in all the geographical regions (Malaysia, Singapore, the UAE and Hong Kong). Significantly, its *STREAM AWCS* system has been installed in the underground areas of Al Raha beach. As the beach area is currently only 15% occupied, AWC is expected to pull in over MYR150-200m worth of contracts over the next 10 years. Similarly, in Singapore, the Housing & Development Board (HDB) has made it compulsory to have the waste collection system installed in all its future buildings, as well as its old buildings going through major renovations. We expect AWC to continue to benefit from strong demand for automated pneumatic waste collection systems (AWCS) in the future.

**Plumbing & rainwater harvesting expert.** The engineering division has recently expanded with the completion of the acquisition of two new companies – Qudotech SB (Qudotech) and DD Techniche SB (DDT). After the acquisitions, Qudotech managed to secure close to MYR100m worth of contracts for plumbing works. We expect plumbing and rain water harvesting to provide synergies to AWC and present cross-selling opportunities.

**Strong orderbook.** Revenue in 1HFY17 (Jun) rose 46% YoY, while earnings increased by an exponential 113% YoY. We expect its results to continue to be strong, driven by a large outstanding orderbook of MYR1.15bn as at 1 Jan 2017 with approximately MYR428m to be recognised up to 30 Jun 2018. We expect *STREAM AWCS* to continue to gain momentum from securing contracts for high-profile developments in Malaysia, Singapore, Hong Kong and Abu Dhabi.

**Key risks** include non-renewal of concessions (especially from the Federal Government), failure to secure similar jobs in the future, and poor execution of projects which may lead to reputational risk thereby negatively affecting the future flow of orders.

Forecasts and Valuations	Jun-15	Jun-16	Jun-17F	Jun-18F	Jun-19F
Total turnover (MYRm)	128	249	304	339	379
Reported net profit (MYRm)	7.8	17.1	23.5	25.9	30.5
Recurring net profit (MYRm)	7.8	17.1	23.5	25.9	30.5
Recurring net profit growth (%)	16.9	118.2	37.4	10.2	17.5
Recurring EPS (MYR)	0.03	0.08	0.10	0.12	0.14
DPS (MYR)	na	0.03	0.03	0.04	0.04
Recurring P/E (x)	32.9	15.1	11.0	10.0	8.5
P/B (x)	2.83	2.43	2.09	1.67	1.45
Dividend Yield (%)	na	2.2	3.0	3.3	3.9
Return on average equity (%)	9.2	17.3	20.4	18.6	18.2
Return on average assets (%)	5.2	8.7	9.1	9.0	9.6
Net debt to equity (%)	(43.9)	(32.3)	(30.1)	(31.2)	(35.4)
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Target Price:	N/A
Price:	MYR1.15
Market Cap:	USD69.3m
Bloomberg Ticker:	AWCF MK

#### Share Data

Avg Daily Turnover (MYR/USD)	2.24m/0.50m
52-wk Price low/high (MYR)	0.68 - 1.15
Free Float (%)	47
Shares outstanding (m)	225
Estimated Return	NA

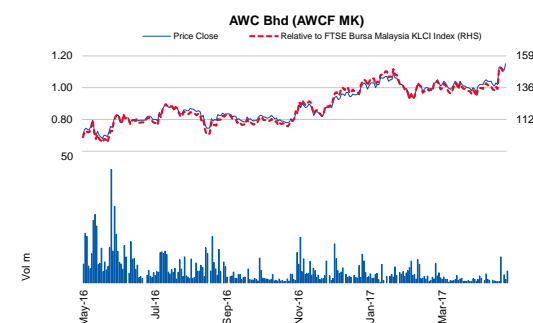
#### Shareholders (%)

K-Capital Sdn Bhd	30.4
EVLI Fund Management	4.6

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	21.7	17.3	13.9	36.1	62.0
Relative	13.5	14.7	10.0	27.2	52.9

Source: Bloomberg



Source: Bloomberg

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## Financial Exhibits

Financial model updated on : 2017-05-15.

Asia		<b>Financial summary</b>	<b>Jun-15</b>	<b>Jun-16</b>	<b>Jun-17F</b>	<b>Jun-18F</b>	<b>Jun-19F</b>
Malaysia		Recurring EPS (MYR)	0.03	0.08	0.10	0.12	0.14
Property		EPS (MYR)	0.03	0.08	0.10	0.12	0.14
<b>AWC Bhd</b>		DPS (MYR)	0.00	0.03	0.03	0.04	0.04
Bloomberg	AWCF MK	BVPS (MYR)	0.41	0.47	0.55	0.69	0.79
<b>Buy</b>		Weighted avg adjusted shares (m)	225	225	225	225	225
<b>Valuation basis</b>		<b>Valuation metrics</b>	<b>Jun-15</b>	<b>Jun-16</b>	<b>Jun-17F</b>	<b>Jun-18F</b>	<b>Jun-19F</b>
P/E		Recurring P/E (x)	32.9	15.1	11.0	10.0	8.5
<b>Key drivers</b>		P/E (x)	32.9	15.1	11.0	10.0	8.5
STREAM AWCS is an internationally-recognised brand with a presence in Malaysia, Singapore, HK and Abu Dhabi.		P/B (x)	2.83	2.43	2.09	1.67	1.45
<b>Key risks</b>		FCF Yield (%)	(1.5)	0.5	2.6	0.7	6.6
Delays in projects and slower pick-up in green technology.		Dividend Yield (%)	0.0	2.2	3.0	3.3	3.9
<b>Company Profile</b>		EV/EBITDA (x)	28.2	8.0	5.9	5.0	4.0
AWC is an investment holding company that provides integrated facilities management and engineering services.		EV/EBIT (x)	34.5	8.5	6.2	5.2	4.1
		<b>Income statement (MYRm)</b>	<b>Jun-15</b>	<b>Jun-16</b>	<b>Jun-17F</b>	<b>Jun-18F</b>	<b>Jun-19F</b>
		Total turnover	128	249	304	339	379
		Gross profit	41	78	94	104	117
		EBITDA	8	30	40	45	54
		Depreciation and amortisation	(1)	(2)	(2)	(2)	(2)
		Operating profit	7	28	38	44	52
		Net interest	(0)	0	0	0	(0)
		Income from associates & JVs	0	0	0	0	0
		Pre-tax profit	13	30	40	44	51
		Taxation	(1)	(6)	(8)	(9)	(11)
		Minority interests	(4)	(6)	(8)	(9)	(10)
		Recurring net profit	8	17	24	26	30
		<b>Cash flow (MYRm)</b>	<b>Jun-15</b>	<b>Jun-16</b>	<b>Jun-17F</b>	<b>Jun-18F</b>	<b>Jun-19F</b>
		Change in working capital	21.9	(9.0)	(12.9)	(20.6)	(9.4)
		Cash flow from operations	(2.4)	3.8	9.2	4.2	19.6
		Capex	(1.5)	(2.4)	(2.4)	(2.4)	(2.4)
		Cash flow from investing activities	26.6	(9.3)	2.6	2.6	2.7
		Proceeds from issue of shares	4.7	3.5	0.0	0.0	0.0
		Dividends paid	0.0	0.0	(5.6)	(7.7)	(8.5)
		Cash flow from financing activities	3.9	2.3	(5.6)	(7.7)	(8.5)
		Cash at beginning of period	25.4	53.6	44.7	55.9	67.6
		Net change in cash	28.1	(3.2)	6.2	(0.9)	13.8
		Ending balance cash	53.6	50.3	50.9	55.0	81.4
		<b>Balance sheet (MYRm)</b>	<b>Jun-15</b>	<b>Jun-16</b>	<b>Jun-17F</b>	<b>Jun-18F</b>	<b>Jun-19F</b>
		Total cash and equivalents	54	45	56	68	84
		Tangible fixed assets	8	10	13	13	14
		Intangible assets	9	30	30	30	30
		Total investments	3	3	3	3	3
		Total assets	153	241	277	302	334
		Short-term debt	2	0	5	5	5
		Total long-term debt	0	1	5	5	5
		Other liabilities	3	3	2	2	4
		Total liabilities	36	105	124	118	127
		Shareholders' equity	92	107	124	155	179
		Minority interests	25	29	29	29	29
		Total equity	117	135	153	184	208
		Net debt	(51)	(44)	(46)	(57)	(74)
		Total liabilities & equity	153	241	277	302	334
		<b>Key metrics</b>	<b>Jun-15</b>	<b>Jun-16</b>	<b>Jun-17F</b>	<b>Jun-18F</b>	<b>Jun-19F</b>
		Revenue growth (%)	7.1	94.1	22.4	11.5	11.6
		Recurrent EPS growth (%)	16.6	117.7	37.4	10.2	17.5
		Gross margin (%)	32.0	31.5	30.8	30.7	31.0
		Operating EBITDA margin (%)	6.4	12.1	13.2	13.4	14.1
		Net profit margin (%)	6.1	6.9	7.7	7.6	8.0
		Dividend payout ratio (%)	0.0	32.9	32.9	32.9	32.9
		Capex/sales (%)	1.1	1.0	0.8	0.7	0.6
		Interest cover (x)	13.3	54.5	119.9	89.7	63.9

Source: Company data, RHB

## Harnessing Green Growth

### Company background

AWC is an investment holding company that provides integrated facilities management (IFM) and engineering services, specialising in quality engineering services. The company provides total asset management services, such as integrated facilities management and engineering services to building owners. It is also an international leader in the design and supply of AWCS, with a proven track record in Malaysia, Singapore and the Middle East. Known for harnessing new technology, AWC is provider of green building services, offering energy management solutions.

### Management

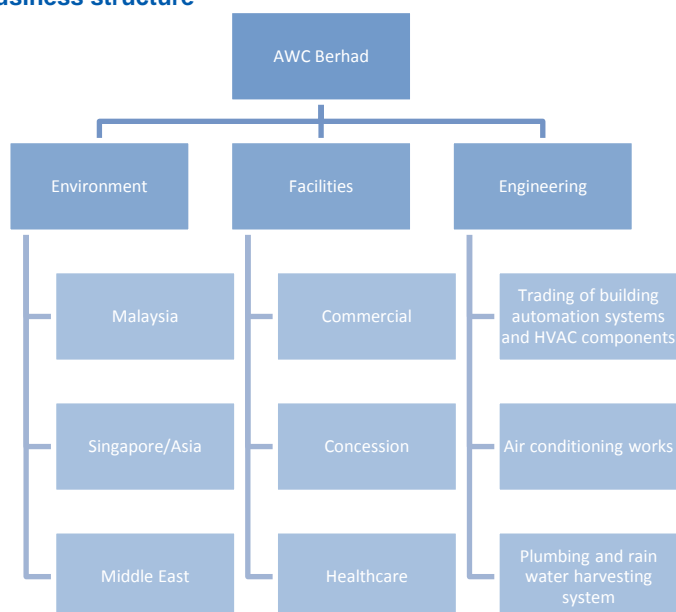
All three divisions are helmed by three different managing directors (MDs)/CEOs with more than 20 years of experience in their respective areas. The group is led by its MD, Dato' Ahmad Kabeer since May 2013, who is also the largest shareholder in the company. He is a former banker from the Bank of Nova Scotia and is a lecturer at Universiti Sains Malaysia.

- i. **Facilities division – Nik Adnan bin Nik Mohd Salleh** is responsible for the day-to-day running of all three segments in the division, ie concession, commercial and healthcare. He has more than 20 years of experience in waste collection and public cleansing management. Prior to joining AWC in 2012, he held various senior management positions in Propel-Johnson Control SB, Alam Flora SB and Saudi ASMA Environmental Solutions in Jeddah.
- ii. **Engineering division – Tan Siew Kheng** is the founder and MD of Qudotech and DDT. AWC completed the acquisition of 100% of both these companies in Oct 2015. He has extensive experience in resident engineering as well as experience in the management and construction of hotels, hospitals, golf resorts, as well as high rise offices and condominium.
- iii. **Environment division – Chea Thean Teik** has 20 years of experience in the area of buildings' mechanical & electrical (M&E) services, mechanical handling engineering, project management & contract administration, central vacuum systems and automated waste collection systems.

### Business structure

The business structure of the group is divided into three divisions, namely environment, facilities and engineering. All the businesses for these divisions are carried out by a few other subsidiaries.

Figure 1: AWC's business structure



Source: Company data

## Facilities division

This segment focuses on IFM services for buildings and facilities. This includes biomedical, facilities engineering maintenance services, security and cleaning services. The main source of income from this division is derived from the concession from the Federal Government to provide IFM to the Southern Region (Negeri Sembilan, Melaka and Johor) as well as Sarawak state.

This concession has recently been renewed by the Government at an improved rate of MYR52m pa for the first five years, then stepped up to MYR59m pa for the remaining five years. The renewed concession duration is effective from 1 Jan 2016 to 31 Dec 2025, for a total contract value of MYR555m.

On top of the concession, the group recently introduced a critical asset refurbishment programme (CARP) for government buildings. This programme includes repairs, refurbishments and replacement of critical assets in the buildings. The programme is worth MYR14m pa for 10 years, amounting to a total contract value of MYR140m.

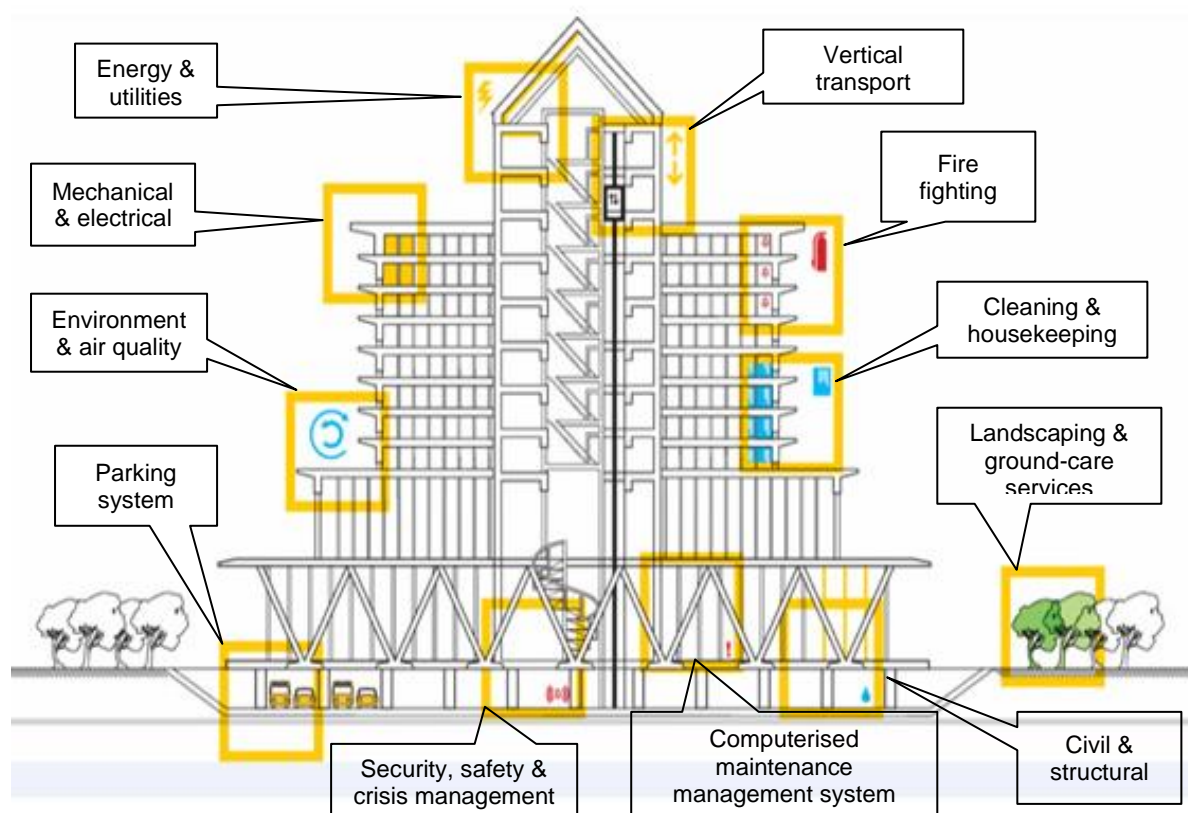
Besides government buildings, this division also actively carries out its services to the commercial and healthcare segments, with contracts ranging from one to three years. The ongoing projects in the division include Menara Celcom, Lembaga Pelabuhan Bintulu, Hospital Rehabilitasi Cheras, Menara Felda, Menara Persekutuan Melaka, the Customs Immigration and Quarantine Complex, Cheras Leisure Mall and Hospital Shah Alam.

This division contributed 39% (MYR96.7m) of overall group revenue in FY16, with 55% (MYR51.3m) of that derived from the government concession.

Subsidiaries involved in this division include:

- i. Ambang Wira SB;
- ii. AWC Facility Management SB;
- iii. Environmental & Landscape Services SB.

**Figure 2: Facilities division – services scope**



Source: Company data

### Environment division

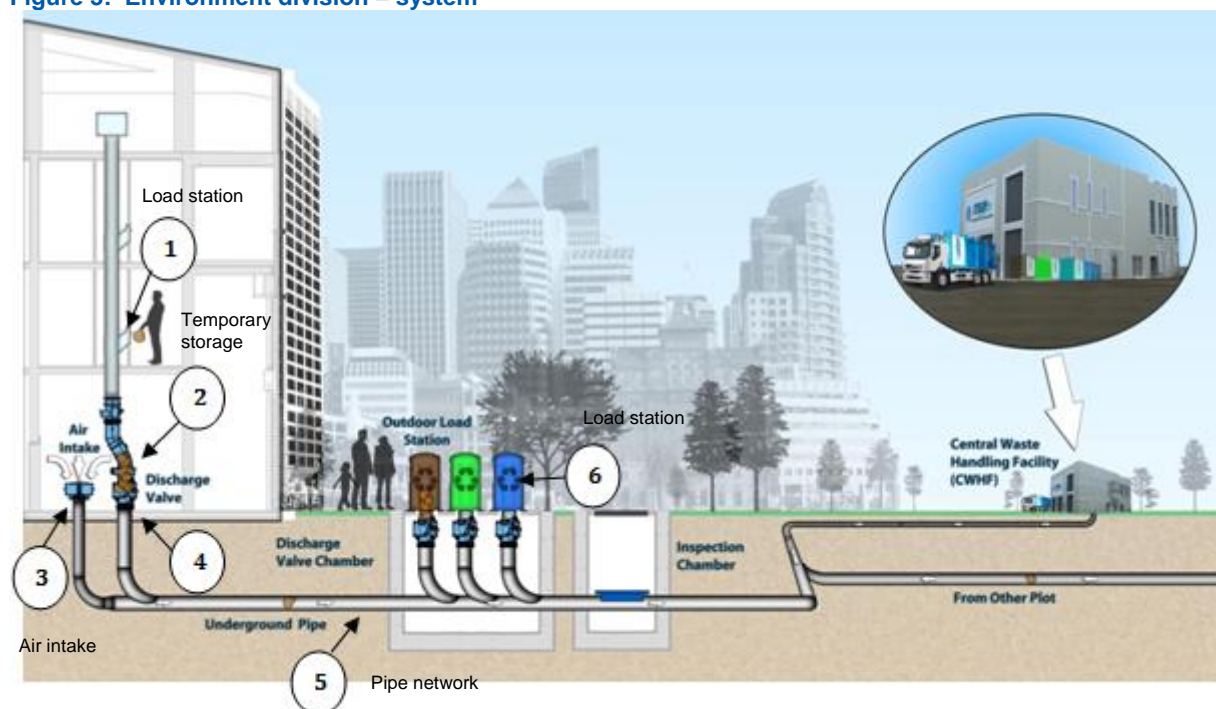
The environment division is the only division that has a strong global presence. It was started by its founder, Sri Skanda Rajah, as a vacuum company offering central vacuum systems by the name of Nexa. In 1993, the brand name *STREAM* was established to cover the range of products of the company, including waste material collection. After attracting a joint venture (JV) partner in Aldes Corporation of France in 1996, the company renamed itself Nexaldes. The JV has led to the business expanding to over 25 countries.

In 2004, AWC acquired a controlling stake in Nexaldes. After the acquisition, it expanded into the Middle East and now has a regional office in the UAE. The waste collection system has now become a major part of AWC's business. The division designs, supplies, installs, tests and commissions the automated pneumatic waste collection system under the brand *STREAM AWCS*, with ongoing projects in Malaysia, Singapore, Hong Kong and the Middle East.

Significantly, the *STREAM* system was installed in the underground areas of Al Raha beach in 2007. As the beach area is currently only 15% occupied, we expect AWC to pull in over MYR150-200m worth of contracts over the next 10 years. Similarly, in Singapore, the Housing & Development Board has made it compulsory to have the AWCS installed in all its future buildings as well as its old buildings that are going through major renovations. We expect AWC to continue to benefit from strong demand for AWCS in the future.

This division more than doubled its earnings in FY16, due to improvements in all the geographical regions it covers (Malaysia, Singapore UAE and Hong Kong). Although this division contributed 30% of group revenue in FY16, it contributed 55% of the group's net profit. This is mainly due to its lucrative net margin of 17.5%.

**Figure 3: Environment division – system**



Source: Company

Figure 4: Al Raha beach, Abu Dhabi



Source: Company

## Engineering division

The engineering division is divided into two subsections:

- i. The distribution of several international brands of building controls and engineering components for heating, ventilation & air conditioning (HVAC) systems;
- ii. Plumbing and water harvesting after the completion of the acquisition of two new companies, namely Qudotech and DDT in Oct 2015.

In the HVAC subsection, ongoing projects include Xiamen University, Capital City 21 Johor, Lake Point Residence 2, Elite Pavilion and Education Hub in Singapore. On the plumbing and water harvesting subsection, post-acquisition, Qudotech managed to secure close to MYR100m worth of contracts for plumbing works. These include some high-profile projects such as KL118 Tower, The Astaka, Iskandar Malaysia, Puteri Cove Residences, The Sentral Residence and Signature Tower, Tun Razak Exchange.

This division contributed about 31% of the group's revenue in FY16. We expect the plumbing and rain water harvesting subsection to provide synergies for AWC and present cross-selling opportunities to win more contracts.

## Investment Thesis

**Strong orderbook.** Revenue in 1HFY17 rose 46% YoY while profit expanded by a greater 113% YoY. We expect results to continue to be strong, driven by a large outstanding orderbook of MYR1.15bn as at 1 Jan 2017. Approximately MYR428m of that is to be recognised up to 30 Jun 2018. We imputed FY17-19 growth of 10-15% pa in all business divisions for FY18 and FY19.

We expect *STREAM AWCS* to continue to gain momentum from securing contracts for high-profile developments in Malaysia, Singapore, Hong Kong and Abu Dhabi, while long concession terms in the facilities division should provide long-term earnings visibility. We forecast AWC to achieve a 3-year net profit CAGR of 21% for FY16-19F.

**Balance sheet/cash flows.** The company has been in a net cash position for many years, given management's prudent balance sheet approach. As at Dec 2016, AWC was able to maintain its strong net cash position of MYR86.4m.

**Dividend.** Despite having no fixed dividend policy, AWC paid 2.5 sen of dividend in FY16, which translated to a dividend payout of 32.9%. We expect a payout ratio of at least 20% going forward, based on our forecast for FY17-19.

## Valuation And Recommendation

We value the stock based on 2018F P/E of 13x, which is at a discount to the 3-year historical forward sector P/E average of 15.1x. We believe this is undemanding, considering AWC's projected robust earnings CAGR.

We like AWC for its huge potential in the environment division, and the company's strong outstanding orderbook of MYR1.15bn. Our fair value for the stock is MYR1.62 per share.

Figure 5: Peer comparison

Name	Bloomberg ticker	Market Cap (USDm)	Rating	Price (MYRm)	Core P/E FY17F (x)	Core P/E FY18F (x)	ROE FY17F (%)	ROE FY18F (%)	Dividend yield	Net Gearing	3-year historical forward P/E (x)
AWC Bhd	AWCF MK	67	Not Rated	1.15	13.73	12.39	16.3	16.5	2.6%	Net cash	9.69
UEM Edgenta	UEME MK	600	BUY	3.13	12.96	11.31	13.5	14.1	4.8%	23%	14.82
GFM Services	GFM MK	70	Not Rated	0.72	18.59	NA	NA	NA	2.1%	Net cash	15.38
<b>Average ex-AWC</b>					<b>15.78</b>				<b>3.4%</b>		<b>15.1</b>

Note: Based on share price data as of mid-day 15 May 2017

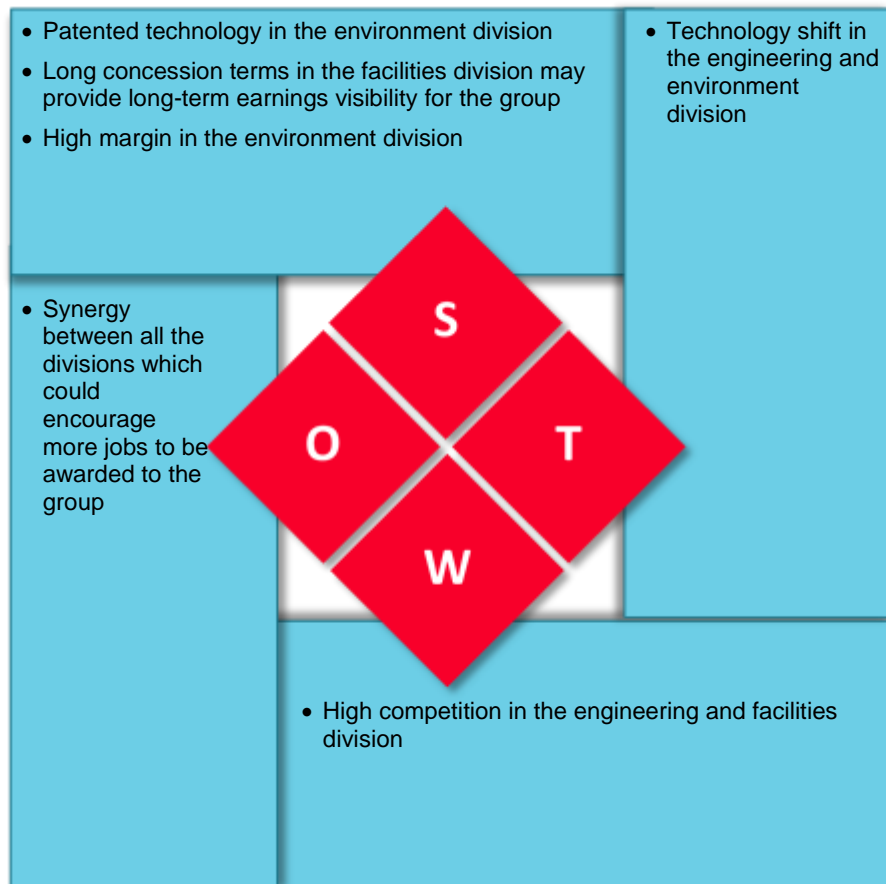
Source: Bloomberg

## Key Risks

Key risks for the group include:

- Non-renewal of IFM concessions in Johor, Malacca, Negeri Sembilan and Sarawak state by the Federal Government, which currently represent about 21% of the group's total revenue;
- Execution risks, as any poor execution of projects or delay in projects may lead to reputational risks that could negatively affect the inflow of new orderbook;
- Slower pick-up in green technology, which could result in lower demand for *STREAM AWCS*;
- Rising competition from new companies that could offer similar services.

## SWOT Analysis



## Recommendation Chart



Source: RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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