

Malaysia

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	RM0.82
Target price:	RM1.26
Previous target:	RM1.00
Up/downside:	55.1%
CGS-CIMB / Consensus:	24.0%
Reuters:	AWCF.KL
Bloomberg:	AWCF MK
Market cap:	US\$53.22m
	RM219.7m
Average daily turnover:	US\$0.19m
	RM0.77m
Current shares o/s:	257.2m
Free float:	62.1%

*Source: Bloomberg

Key changes in this note

FY19-21F EPS raised by 9.7-13.9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.5	22.6	-22.4
Relative (%)	7.3	15.7	-23.8

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

Trackwork acquisition is a go!

- AWC announced that its resolution to purchase a 60% stake in Trackwork (TWS) for RM43.5m has been approved by its shareholders in an EGM.
- We are positive on this acquisition. We raise our FY19-21F EPS by 9.7-13.9% to account for TWS's contribution from 2QFY19F.
- Maintain Add, with higher TP of RM1.26 (11.2x CY20F P/E).

Received approval to acquire 60% stake of Trackwork

AWC today announced that it has obtained the approval of its shareholders in an EGM to acquire a 60% stake in Trackwork & Supplies SB (TWS) for RM43.5m. The balance 40% stake in TWS will be retained by its existing owner Trakniaga. The purchase values TWS at 8x CY18F P/E, based on profit guarantees of RM8m for FY18F and RM12m for FY19F (Sep year-end). The acquisition is slated to be completed by mid-Oct. Note that TWS has over 18 years of experience in rail-related industry services.

Funded through combination of cash and issuance of new shares

The purchase will be funded by RM20m cash and issuance of new shares in tranches. The 1st tranche of 11.5m shares will be issued at RM1.00/share upon date of completion of acquisition. The rest of new shares will be issued upon achieving the profit guarantee target for FY18 and FY19. The no. of shares and issuance price for each tranche will be based on the 5-day volume weighted average price (VWAP) after the day of the signed audited financial statements of TWS for each profit guarantee period (FY18 and FY19).

Prospects remain bright for TWS

We gather that TWS has an outstanding order book of RM70m, with a tender book of ~RM900m. In spite of recent cancellation and/or deferment of major rail projects in Malaysia, we opine that TWS is well positioned to benefit from rail projects that are not cancelled. Rail projects allowed to proceed under the new government includes MRT2, LRT3, and Gemas-JB double tracking rail project.

FY19-21F EPS up 9.7-13.9% after inputting TWS contribution

After inputting earnings contribution from a 60% stake in TWS, our FY19-21 EPS forecasts increase 9.7-13.9%. This is also post inputting an enlarged share base of 292.5m which is based on the scenario that: i) TWS delivers both profit guarantees (FY18F and FY19F), and ii) new shares are issued at RM1.00/share.

Maintain Add, TP raised to RM1.26

With our EPS upgrade and valuation rollover to end-CY19F, our TP rises to RM1.26, still based on 11.2x P/E, 10% discount to its bigger market cap peer UEM Edgenta's current P/E. We continue to like AWC, given its: i) attractive valuation at 7.3x CY19F P/E, 28% discount to its 5-year historical mean of 10.1x, ii) healthy balance sheet (RM44.4m net cash), and iii) stronger earnings prospects ahead. Key downside risk: contract execution delays.

Financial Summary	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (RMm)	296.1	304.0	372.6	404.5	446.4
Operating EBITDA (RMm)	45.49	34.72	53.37	59.84	64.77
Net Profit (RMm)	21.89	21.38	28.56	31.52	34.65
Core EPS (RM)	0.08	0.08	0.10	0.11	0.12
Core EPS Growth	14.1%	(0.7%)	27.3%	10.4%	9.9%
FD Core P/E (x)	10.57	10.64	8.36	7.58	6.89
DPS (RM)	0.010	0.005	0.010	0.010	0.010
Dividend Yield	1.23%	0.61%	1.23%	1.23%	1.23%
EV/EBITDA (x)	4.10	5.83	4.18	3.59	3.16
P/FCFE (x)	6.67	41.36	34.37	10.60	10.18
Net Gearing	(34.6%)	(32.4%)	(29.6%)	(32.9%)	(35.4%)
P/BV (x)	1.59	1.58	1.35	1.16	1.01
ROE	15.8%	14.9%	17.4%	16.5%	15.7%
% Change In Core EPS Estimates			9.7%	13.7%	13.9%
CIMB/consensus EPS (x)			1.10	1.11	1.18

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Trackwork acquisition is a go!

Call/put option in place as part of acquisition ➤

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

- Call option: AWC has the option to purchase all TWS shares owned by Trakniaga from the expiry of the profit guarantee period (FY18-19F) to the 5th anniversary of the completion of this acquisition.
- Put option: Trakniaga has the option to require AWC to purchase all TWS shares it owns any time during a six-month period post the expiry of the call option period.

The option price will be calculated based on this formula: $(A \times B \times 7.25x)$

A: Core PAT (exclude non-recurring or exceptional items) based on the latest audited TWS financial statements

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

Diversification of AWC's principal activities ➤

In tandem with the approval for this acquisition, AWC has also obtained shareholder approval to undertake a diversification of the principal activities of itself and its subsidiaries to include rail-related works. This is due to AWC expecting contribution from TWS to exceed 25% of its net profit (FY6/18: RM21.4m).

TWS not liable for settlement amount for Fajabaru's claim ➤

To recap, AWC on 5 Jun announced that TWS and one of its international principals, Gemac, have received a demand letter from a customer, Fajabaru (FBC MK, Non-rated), for RM19m in regards to defective equipment supplied. As a result, AWC had postponed the completion of TWS's acquisition by three months to reassess the implication of this claim.

AWC highlighted that all three parties had agreed to a settlement amount of RM14.1m for this demand letter in three tranches. Gemac has also on 14 Jun issued a letter to TWS stating that it will be solely responsible for the full payment of the settlement sum, and that TWS would be fully discharged from all liabilities and obligations in regards to this settlement amount.

To protect its own interest, AWC had withhold RM18m out of the RM20m cash consideration due to Trakniaga for the acquisition of a 60% stake in TWS. This balance consideration will be released to Trakniaga in stages upon fulfillment of various milestones on the settlement amount to Fajabaru by Gemac.

Figure 1: Payment schedule

Conditions for release of balance cash consideration To Trakniaga	Balance cash consideration (RMm)
First settlement sum to Fajabaru from Gemac	3.5
Second settlement sum to Fajabaru from Gemac	4.9
Final settlement sum to Fajabaru from Gemac	5.6
Remaining figure	3.9
Total	18.0

SOURCES: CIMB RESEARCH, COMPANY REPORTS

Details of acquisition ➤

Figure 2: Enlarged share base

	Upon completion of acquisition	2nd Tranche*	3rd Tranche*
Existing no. of shares** (m shares)	269.6	281.1	287.1
No. of new shares to be issued (m shares)	11.5	6.0	6.0
Increase in share base (%)	4.3%	2.1%	2.1%
Enlarged share base (m shares)	281.1	287.1	293.1

*assuming issuance price of RM1.00 per share

** does not take into account any ESOS options

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Earnings revision post acquisition of a 60% stake in TWS

RMm	2018A	2019F			2020F			2021F		
		Old	New	chg	Old	New	chg	Old	New	chg
Revenue	304	328	373	14%	348	404	16%	385	446	16%
EBITDA	35	40	53	33%	42	60	42%	46	65	41%
Core pretax profit	33	39	52	33%	41	57	40%	44	62	40%
Core net profit	21	23	29	26%	24	32	30%	27	35	30%
Core EPS	8	9	10	10%	9	11	14%	10	12	14%

SOURCES: CIMB, COMPANY REPORTS

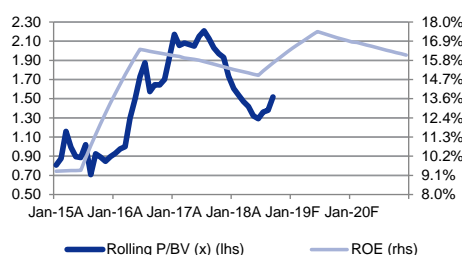
Figure 4: SOP-based target price (post-acquisition)

Share capital (m)	293.1
CY20 EPS (sen)	11.3
Target P/E	11.2
Target price (RM)	1.26

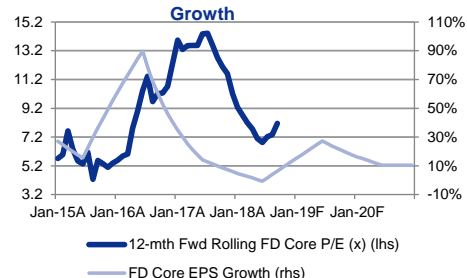
SOURCES: CIMB, COMPANY REPORTS

BY THE NUMBERS

P/BV vs ROE



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



Profit & Loss

(RMm)	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Total Net Revenues	296.1	304.0	372.6	404.5	446.4
Gross Profit	85.4	81.8	105.6	117.3	128.3
Operating EBITDA	45.5	34.7	53.4	59.8	64.8
Depreciation And Amortisation	(6.5)	(2.6)	(3.2)	(3.5)	(3.5)
Operating EBIT	39.0	32.1	50.2	56.4	61.3
Financial Income/(Expense)	0.4	1.4	1.4	1.1	1.1
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)	39.4	33.4	51.6	57.5	62.4
Exceptional Items					
Pre-tax Profit	39.4	33.4	51.6	57.5	62.4
Taxation	(8.7)	(7.0)	(11.9)	(13.2)	(14.3)
Exceptional Income - post-tax					
Profit After Tax	30.7	26.5	39.7	44.2	48.0
Minority Interests	(8.8)	(5.1)	(11.1)	(12.7)	(13.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	21.9	21.4	28.6	31.5	34.6
Recurring Net Profit	19.7	21.0	28.6	31.5	34.6
Fully Diluted Recurring Net Profit	19.7	21.0	28.6	31.5	34.6

Cash Flow

(RMm)	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
EBITDA	45.49	34.72	53.37	59.84	64.77
Cash Flow from Inv. & Assoc.					
Change In Working Capital	20.53	(7.34)	(19.56)	(9.07)	(11.97)
(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	(8.23)	(6.96)	(11.86)	(13.22)	(14.34)
Cashflow From Operations	57.79	20.41	21.95	37.55	38.46
Capex	(26.50)	(15.00)	(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	(26.50)	(15.00)	(15.00)	(15.00)	(15.00)
Debt Raised/(repaid)	0.00	0.00	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(8.96)	(1.47)	(2.93)	(2.93)	(2.93)
Preferred Dividends					
Other Financing Cashflow	0.45	0.60	0.60	0.60	0.60
Cash Flow From Financing	(8.51)	(0.87)	(2.33)	(2.33)	(2.33)
Total Cash Generated	22.78	4.55	4.62	20.21	21.13
Free Cashflow To Equity	31.29	5.41	6.95	22.55	23.46
Free Cashflow To Firm	31.29	5.41	6.95	22.55	23.46

SOURCES: CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Total Cash And Equivalents	58.6	63.1	68.6	89.7	111.8
Total Debtors	91.5	99.9	122.5	133.0	146.8
Inventories	38.1	41.6	51.0	55.4	61.2
Total Other Current Assets	2.1	2.1	2.1	2.1	2.1
Total Current Assets	190.3	206.7	244.2	280.2	321.8
Fixed Assets	38.7	52.4	64.2	75.7	87.2
Total Investments	2.8	2.8	2.8	2.8	0.8
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	71.2	84.9	96.7	108.2	117.7
Short-term Debt	0.2	0.2	0.2	0.2	0.2
Current Portion of Long-Term Debt					
Total Creditors	89.7	94.4	106.8	112.5	120.1
Other Current Liabilities	1.8	1.8	1.8	1.8	1.8
Total Current Liabilities	91.7	96.4	108.8	114.6	122.2
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	95.3	100.0	112.4	118.1	125.7
Shareholders' Equity	131.0	150.9	176.5	205.1	236.8
Minority Interests	35.6	40.7	51.9	64.6	76.8
Total Equity	166.6	191.6	228.4	269.7	313.6

Key Ratios

	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue Growth	18.8%	2.6%	22.6%	8.5%	10.4%
Operating EBITDA Growth	42.6%	(23.7%)	53.7%	12.1%	8.2%
Operating EBITDA Margin	15.4%	11.4%	14.3%	14.8%	14.5%
Net Cash Per Share (RM)	0.23	0.21	0.23	0.30	0.38
BVPS (RM)	0.51	0.51	0.60	0.70	0.81
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	22.1%	20.8%	23.0%	23.0%	23.0%
Net Dividend Payout Ratio	8.37%	5.17%	7.25%	6.55%	5.98%
Accounts Receivables Days	130.7	114.9	108.9	115.6	114.4
Inventory Days	48.67	65.52	63.34	67.83	66.86
Accounts Payables Days	77.24	86.48	83.61	89.54	88.26
ROIC (%)	38.7%	29.6%	38.8%	35.0%	33.7%
ROCE (%)	24.9%	18.6%	24.4%	23.0%	21.3%
Return On Average Assets	15.8%	11.6%	15.9%	15.5%	14.8%

Key Drivers

	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
ASP (% chg, main prod./serv.)	13.0%	0.0%	0.0%	0.0%	0.0%
Unit sales grth (% , main prod./serv.)	19.1%	7.0%	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

SOURCES: CIMB RESEARCH, COMPANY REPORTS

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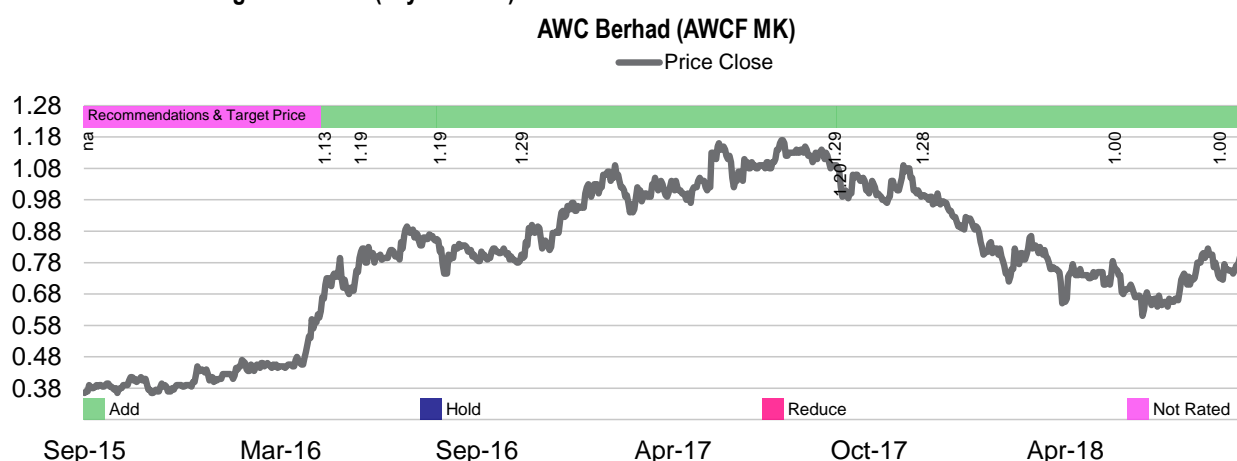
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	Rating Distribution (%)	Investment Banking clients (%)
Add	62.3%	4.5%
Hold	26.2%	2.5%
Reduce	9.3%	0.8%

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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- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
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:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.