

Stock Digest

Results Note – AWC Bhd

Wednesday, 29 Aug, 2018



Malacca Securities Sdn Bhd

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Prospects Remain Sanguine

Results Highlights

- AWC posted a 25.5% Y.o.Y drop in its 4QFY18 net profit to RM4.4 mln, from RM5.9 mln previously, dragged down by projects delays in certain engineering and environment contracts as well as cost overruns which has resulted to a fall in bottomline margins to 4.7%, from 6.9% in 4QFY17. Revenue, however, gained 9.5% Y.o.Y to RM94.2 mln, from RM86.0 mln, mainly due to higher billings from the IFM segment. The group has also proposed a final dividend of 0.5 sen a share with the entitlement and payment dates to be announced later.
- Consequently, full-year net profit fell marginally to RM21.4 mln (-2.9% Y.o.Y), from RM22.0 mln earlier, although revenue added 2.5% Y.o.Y to RM304.0 mln, from RM296.5 mln last year.
- The reported net profit was within our expectations as the net profit met 101.6% of our full-year net profit forecast of RM21.0 mln. However, revenue outperformed our expectations, accounting for 113.3% of our estimated revenue of RM268.3 mln, mainly attributed to higher-than-expected billings from the STREAM and engineering contracts.
- Segmentally, the IFM's pretax profit (including inter-segment transactions) more than tripled to RM19.5 mln, from RM6.2 mln last year, boosted by four new IFM contracts in Putrajaya as well as higher contribution from CARP. On the downside, weaker pretax earnings contributions were recorded by the Environment and Engineering segments at RM12.6 mln (-41.2% Y.o.Y) and RM3.0 mln (-75.4 % Y.o.Y) respectively that continued to weigh on the group's earnings amid struggles with cost overruns and project delays.

Financial Highlights					
FYE June (MYR mln)	2016A	2017A	2018A	2019F	2020F
Revenue	248.5	184.8	304.0	282.7	317.5
EBITDA	31.6	41.6	34.7	37.6	43.4
Net Profit	17.1	22.0	21.4	22.9	26.0
Revenue Growth (%)	94.1	-25.6	64.5	-7.0	12.3
EBITDA Growth (%)	122.7	31.5	-16.5	8.4	15.4
Net Profit Growth (%)	111.9	28.6	-2.9	7.1	13.4
EPS (sen)	6.4	8.2	7.9	8.5	9.6
P/E(x)	12.0	9.3	9.6	8.9	7.9
DPS (sen)	2.5	2.0	0.5	2.0	2.2
Dividend Yield (%)	3.3	2.6	0.7	2.6	2.9
BVPS (RM)	0.5	0.6	0.7	N/A	N/A
P/BV (x)	1.4	1.2	1.0	N/A	N/A
ROE (%)	14.4	15.6	13.0	N/A	N/A

Source: Company Data, MSSB Research

BUY

Share Price: RM0.76

Target Price: RM0.90

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): 269.5

Market Capital (RM mln): 204.8

Par Value (RM): N/A

Major Shareholders:

K-Capital Bhd 30.7%

Employees Provident

Fund Board 6.4%

Tan Keng Hee 4.1%

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Prospects

Despite the weaker FY18 results yesterday, we still believe that AWC's fundamentals remain intact given its sizable orderbook of RM1.06 bln which will drive the group's earnings visibility until 2025 and sturdy balance sheet with low borrowings. We expect a recovery in FY19 in both the revenue and net profit as the group plays catch-up on previously delayed projects. Earnings will also be driven by ongoing cost savings initiatives, in-addition to the higher turnover across all of its three business segments. Consequently, AWC's net profit and revenue is expected to grow at a three-year CAGR of 5.8% and 19.8% to RM26.0 mln and RM317.5 mln respectively to FY20.

The group has recently secured the extension for two IFM contracts awarded by the Putrajaya Group totaling RM9.8 mln, accounting to about 4.9% of our estimated orderbook replenishment, while AWC's internal tenderbook stands at RM1.7 bln as at 1st July 2018.

Separately, Gemac Engineering Co. Ltd (Gemac) has announced that it will be solely responsible for the full payment of the settlement sum worth RM14.1 mln and has fully discharged Trackwork from all obligations in relation to the settlement amount.

To recap, Trackwork and Gemac (one of Trackwork's international principal) had received a demand letter for RM19.0 mln worth of claims for defective machines supplied.

Moving forward, we remain positive on the proposed acquisition of Trackwork, which is likely to go through, in our view, as AWC has resolved the issues arising from a damages claim served to Trackwork earlier and the group expects to complete the acquisition of Trackwork by October 2018.

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Valuation and Recommendation

As the reported earnings were within our expectations, we make no changes to our FY19 earnings and revenue forecasts, while we introduce our FY20 net profit and revenue estimates at RM26.0 mln and RM317.5 mln respectively.

We maintain our **BUY** call on AWC with an unchanged target price of RM0.90 by ascribing an unchanged target PER of 10.6x to AWC's unchanged FY19 EPS of 8.5 sen, as the group's fundamentals remain sound given its ability to generate positive long-term earnings from its sizable orderbook of more than RM1.0 bln and solid balance sheet strength. Our target price 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 slower-than-expected orderbook replenishment rate 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.

Quarterly Performance					
FYE June (MYR mln)	4QFY18	4QFY17	%Change Y.o.Y	3QFY18	%Change Y.o.Y
Revenue	94.2	86.0	9.5%	75.3	25.1%
EBITDA	6.9	12.4	-44.5%	11.7	-41.0%
Depreciation & Amortisation	-0.6	-1.7	-62.8%	-0.6	0.2%
Net Interest Income/(Expense)	0.9	-0.3	-460.2%	0.1	617.6%
Profit before tax	7.2	10.4	-31.1%	11.2	-35.7%
Net Profit	4.4	5.9	-25.5%	6.9	-35.9%
Basic EPS (Sen)	1.6	2.2	-25.5%	2.5	-35.9%

Source: Company Data, MSSB Research

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Income Statement					
FYE June (MYR mln)	2016A	2017A	2018A	2019F	2020F
Revenue	248.5	184.8	304.0	282.7	317.5
EBITDA	31.6	41.6	34.7	37.6	43.4
Depreciation & Amortisation	-1.8	-2.5	-2.6	-2.9	-3.3
Net Interest Income/(Expense)	0.3	-0.4	1.4	-0.2	-0.2
Pre-tax Profit	30.1	38.7	33.4	34.5	39.9
Effective Tax Rate	21.4%	20.1%	21.0%	22.0%	22.5%
Net Profit	17.1	22.0	21.4	22.9	26.0
EBITDA Margin	12.7%	22.5%	11.4%	13.3%	13.7%
Pre-tax Margin	12.1%	20.9%	11.0%	12.2%	12.6%
Net Margin	6.9%	11.9%	7.0%	8.1%	8.2%

Source: Company Data, MSSB Research

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