Stock Digest

Results Note – AWC Bhd

Monday, 05 Jun, 2017

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Still On Par

Results Highlights

- AWC Bhd's 3QFY17 net profit fell 12.6% Y.o.Y to RM5.0 mln, from RM5.8 mln previously, due to weaker performance from its engineering divisions - caused by project delays in the quarter under review, albeit slightly offset by stronger revenue contribution from the facilities division. Revenue was also down by 10.5% Y.o.Y to RM67.4 mln vs. RM75.3 mln last year.

- Cumulatively, the group's 9MFY17 net profit surged 45.8% Y.o.Y to RM15.7 mln, from RM10.8 mln in the previous corresponding year, on higher revenue from to commencement of projects secured last year. Revenue also grew 16.1% Y.o.Y to RM201.2 mln, from RM173.3 mln last year.

- AWC's reported earnings were broadly within our expectations as it accounts to 70.6% of our full-year estimated net profit of RM22.2 mln, while the reported revenue amounts to 74.5% of our estimated FY17 revenue of RM282.2 mln.

- Segmentally, all three segments – namely the IFM (+121.5% Y.o.Y), engineering (+5.0% Y.o.Y) and environment (+58.7% Y.o.Y) segments continue to post strong 9MFY17 pretax profit growth, following the commencement of new contracts secured last year and better margins. AWC also has a strong balance, with a net cash position of RM63.4 mln due to its asset-light business model.

Financial Highlights

FYE June (MYR mln)	2014A	2015A	2016A	2017F	2018F
Revenue	119.5	128.0	248.5	298.3	326.1
EBITDA	15.0	14.2	31.6	42.4	47.4
Net Profit	7.0	8.1	17.1	28.0	32.9
Revenue Growth (%)	*-17.6*	*7.1*	*94.1*	*20.0*	*9.3*
EBITDA Growth (%)	*30.9*	*-5.0*	*121.9*	*34.3*	*11.7*
Net Profit Growth (%)	*52.6*	*16.3*	*111.9*	*63.7*	*17.4*
EPS (sen)	2.6	3.0	6.4	7.5	8.7
P/E(x)	39.0	33.6	15.8	13.6	11.8
DPS (sen)	0.0	0.0	2.5	2.5	2.5
Dividend Yield (%)	0.0	0.0	2.5	2.5	2.5
BVPS (RM)	0.40	0.44	0.56	N/A	N/A
P/BV (x)	2.5	2.3	1.8	N/A	N/A
ROE (%)	8.8	8.8	14.4	N/A	N/A

Source: Company Data, MSSB Research

BUY

Share Price: RM1.02
Target Price: RM1.20

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): 266.1

Market Capital (RM mln): 271.4

Par Value (RM): N/A

Major Shareholders:

K-Capital Bhd	30.5%
EVLI Fund Management Company Ltd	4.6%
Tan Keng Hee	4.6%

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Prospects

Moving forward, we expect the IFM division to remain a strong contender as the group's main revenue contributor, mainly due to the commencement of maintenance work for the Hospital Shah Alam Selangor (HSAS) and the recognition of higher revenue from the renewed IFM concession contract. The IFM contributed about 43.2% of the group's total revenue of RM67.4 mln in 3QFY17 and we think that the aforementioned division-to-group revenue ratio will stay largely the same, ranging around 40.0% to 43.0% in the coming quarters.

On the other hand, the environment division's topline fell to RM11.2 mln (-44.0%) in the 3QFY17, dragged down by project delays, coupled with the exceptional results reported in 3QFY16, due to the completion of certain big ticket projects. We think that the environment division will play catch up in the last quarter, coupled with the commencement of new contracts previously secured. We continue to like this segment for its strong double-digit EBITDA margins, which we think will contribute positively to the growth prospects moving forward.

Meanwhile, revenue growth for the engineering division was flattish at RM24.1 mln, from RM24.4 mln previously. The engineering division has also secured a contract for Media City in the Klang Valley worth RM4.2 mln for plumbing works via its plumbing subsidiary Qudotech Sdn Bhd. The project is expected to be completed in June 2019. We understand that certain projects - Xiamen University and Capital 21 will be completed by FY17, although we are positive that the revenue gap will be filled by new air-conditioning projects which will be commencing in the near future.

Valuation and Recommendation

Although the reported earnings were within our estimates, we increase our FY18 net profit and revenue forecast slightly by 2.8% and 3.8% to RM23.0 mln and RM326.1 mln respectively to reflect improving margins and stronger project recognition. Subsequently we raise our call on AWC to **BUY** (from HOLD) with a higher target price of RM1.20. Our target price is derived from ascribing a higher target PER of 14.0x (from 13.0x) to our rolled-over FY18 EPS of 8.7 sen. The target PER was revised higher in-tandem with the higher valuation of small cap stocks in the recent rally.

Risk to our recommendation and target price include failure to replenish its targeted orderbook 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 heating, ventilation & air-conditioning (HVAC) market.

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Quarterly Performance					
FYE June (MYR mln)	3QFY17	3QFY16	%Change Y.o.Y	2QFY17	%Change Y.o.Y
Revenue	**67.4**	**75.3**	-10.5%	**75.6**	-10.9%
EBITDA	**11.1**	**9.5**	16.1%	**11.1**	0.2%
Depreciation & Amortisation	**1.8**	**0.7**	145.8%	**1.5**	20.2%
Net Interest Income/(Expense)	**-0.1**	**0.0**	-452.9%	**-0.2**	-50.6%
Profit before tax	**9.2**	**8.9**	3.8%	**9.4**	-1.6%
Net Profit	**5.0**	**5.8**	-12.6%	**5.2**	-3.6%
Basic EPS (Sen)	**1.9**	**2.2**	-12.6%	**2.0**	-3.6%

Source: Company Data, MSSB Research

Income Statement					
FYE June (MYR mln)	2014A	2015A	2016A	2017F	2018F
Revenue	119.5	128.0	248.5	298.3	326.1
EBITDA	15.0	14.2	31.6	42.4	47.4
Depreciation & Amortisation	1.8	1.5	1.8	6.3	5.0
Net Interest Income/(Expense)	0.5	0.1	0.3	-0.2	-0.2
Pre-tax Profit	13.8	12.8	30.1	36.0	42.2
Effective Tax Rate	*27.6%*	*8.6%*	*21.4%*	*22.0%*	*22.0%*
Net Profit	7.0	8.1	17.1	28.0	32.9
EBITDA Margin	*12.5%*	*11.1%*	*12.7%*	*14.2%*	*14.5%*
Pre-tax Margin	*11.5%*	*10.0%*	*12.1%*	*12.1%*	*12.9%*
Net Margin	*5.8%*	*6.3%*	*6.9%*	*9.4%*	*10.1%*

Source: Company Data, MSSB Research

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