

# Stock Digest

## Results Note – AWC Bhd

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## Slight Compression, But To Catch Up

### Results Highlights

- AWC's 1QFY18 net profit fell 6.9% Y.o.Y to RM5.1 mln, from RM5.4 mln last year, mainly due to weaker contribution from its engineering and waste management divisions, following the delivery of big-ticket projects in 1QFY17, coupled with project delays, albeit slightly offset by stronger sales contribution from the IFM segment. Revenue, meanwhile, came in 1.4% Y.o.Y lower at RM66.2 mln, from RM67.1 mln previously.
- AWC's results were slightly below our expectations, accounting to only 21.7% and 20.4% of our FY18 forecast net profit of RM23.3 mln and revenue of RM324.6 mln respectively. The difference was due to unexpected delays in the execution of new projects, although we expect AWC's earnings to play catch-up in coming quarters.
- The IFM segment continues to see earnings growth, following a significant jump in PBT, which more than tripled to RM6.8 mln, from RM2.1 mln in 1QFY17 - mainly due to higher income from the new IFM projects secured in the last few months.
- On the other hand, the waste management and engineering segments underperformed in the quarter under review, weighed down by project delays as well as lower margins following the completion of certain large-scale projects in the previous corresponding quarter. AWC's waste management unit posted a PBT of RM2.9 mln (-58.2% Y.o.Y), while the Engineering division slipped into the red with a loss of RM1.5 mln.
- Despite the softer quarter, we maintain a positive outlook on AWC's earnings growth prospects that is poised for a five-year CAGR of 30.6% to RM26.6 mln in FY19, supported by a strong orderbook of slightly more than RM1.0 bln and solid balance sheet with a sizable cash pile of RM67.5 mln and minimal borrowings.

Financial Highlights					
FYE June (MYR mln)	2015A	2016A	2017A	2018F	2019F
Revenue	128.0	248.5	296.1	324.6	335.2
EBITDA	14.2	31.6	45.9	48.7	54.4
Net Profit	8.1	17.1	21.6	23.5	26.6
Revenue Growth (%)	7.1	94.1	19.2	9.6	3.2
EBITDA Growth (%)	-5.3	122.7	45.4	6.0	11.8
Net Profit Growth (%)	16.3	111.9	26.1	9.0	13.0
EPS (sen)	3.0	6.4	8.1	8.8	9.9
P/E(x)	33.1	15.6	12.4	11.4	10.1
DPS (sen)	0.0	2.5	0.0	2.0	2.0
Dividend Yield (%)	0.0	2.5	0.0	2.0	2.0
BVPS (RM)	0.4	0.6	0.6	N/A	N/A
P/BV (x)	2.3	1.8	1.6	N/A	N/A
ROE (%)	8.8	14.4	0.2	N/A	N/A

Source: Company Data, MSSB Research

### BUY

Share Price: RM1.00  
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): 267.6

Market Capital (RM mln): 291.3

Par Value (RM): N/A

Major Shareholders:

K-Capital Bhd	30.3%
Employees Provident Fund Board	6.6%
EVLI Fund Management Company Ltd	4.6%

### Disclaimer

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## Prospects

Moving forward, we expect the IFM segment to remain as AWC's core revenue driver, further strengthened by the award of the new contracts from Jabatan Kerja Raya between August to September 2017. Long-term projects like the 10-year government concession and CARP contracts will also continue to support group earnings over the remaining seven years of its contract tenure, alongside higher margins from selected IFM projects.

Despite the softer results from the engineering and environment in the current quarter – due to project delays, we believe that earnings from both divisions will recover as the projects play catch up in the coming quarters. However, we do foresee some margin compression in the environment division in FY18, following the delivery of several higher margins projects last year. Meanwhile, the Capital 21 project is on track to meet its completion target in FY18 and will be replaced by new heating, ventilation & air-conditioning (HVAC) contracts that has commenced.

Overall, we think AWC is on track to maintain its positive earnings growth momentum, driven by growing sales from the IFM segment. We also continue to like AWC for its balance mix of stable and recurring IFM revenue stream coupled with more profitable margins from the engineering and environment segments. AWC's outstanding order book is estimated to stand at about RM1.08 bln, while balance sheet remains solid, with a sizable cash pile of RM67.5 mln and minimal borrowings.

## Valuation and Recommendation

Although the reported earnings fell short of our estimates, we leave our FY18 revenue forecast unchanged at RM324.6 mln, but tweaked our FY18 earnings (+0.8%) to include slightly higher interest income. Consequently, we maintain our **BUY** recommendation on AWC with an unchanged target price of RM1.20. Our target price is derived from ascribing an unchanged target PER of 14.0x to our revised FY18 EPS of 8.8 sen (from 8.7 sen) – 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 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 HVAC market.

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Quarterly Performance					
FYE June (MYR mln)	1QFY18	1QFY17	%Change Y.o.Y	4QFY17	%Change Y.o.Y
Revenue	66.2	67.1	-1.4%	86.0	-23.0%
EBITDA	9.8	11.4	-13.9%	12.4	-21.0%
Depreciation & Amortisation	1.7	1.5	10.7%	1.7	-0.2%
Net Interest Income/(Expense)	0.0	0.2	-117.7%	-0.3	-83.1%
Profit before tax	8.1	10.1	-20.2%	10.4	-22.9%
Net Profit	5.1	5.4	-6.9%	5.9	-14.2%
Basic EPS (Sen)	1.9	2.0	-6.9%	2.2	-14.2%

Source: Company Data, MSSB Research

Income Statement					
FYE June (MYR mln)	2015A	2016A	2017A	2018F	2019F
Revenue	128.0	248.5	296.1	324.6	335.2
EBITDA	14.2	31.6	45.9	48.7	54.4
Depreciation & Amortisation	1.5	1.8	6.5	7.0	7.5
Net Interest Income/(Expense)	0.1	0.3	-0.4	-0.1	0.2
Pre-tax Profit	12.8	30.1	39.1	41.6	47.1
Effective Tax Rate	8.6%	21.4%	22.3%	21.0%	21.0%
Net Profit	8.1	17.1	21.6	23.5	26.6
EBITDA Margin	11.1%	12.7%	15.5%	15.0%	16.2%
Pre-tax Margin	10.0%	12.1%	13.2%	12.8%	14.0%
Net Margin	6.3%	6.9%	7.3%	7.2%	7.9%

Source: Company Data, MSSB Research

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