

## Malaysia

### ADD (no change)

Consensus ratings\*: Buy 2 Hold 0 Sell 0

Current price: RM0.87  
Target price: RM1.28  
Previous target: RM1.28  
Up/downside: 47.7%  
CGS-CIMB / Consensus: -0.2%

Reuters: AWC.F.KL  
Bloomberg: AWC.F.MK  
Market cap: US\$59.63m

RM232.8m

Average daily turnover: US\$0.20m

RM0.80m

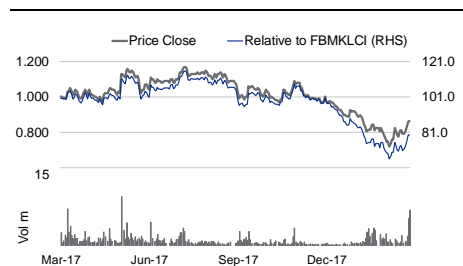
Current shares o/s: 256.0m

Free float: 62.1%

\*Source: Bloomberg

### Key changes in this note

No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.1	-10.8	-12.6
Relative (%)	6.1	-18.4	-19.6

### 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

### A rail play

- Yesterday, we hosted a meeting between AWC's management and the investment community. 14 analysts and fund managers attended the meeting.
- There were no major surprises, with discussions centering on AWC's proposed acquisition of a 60% stake in Trackworks and Supplies Sdn Bhd.
- Trackworks' RM120m outstanding orderbook over the next two years is expected to help Trackworks to achieve its RM20m profit guarantee in FY18-19F.
- With this acquisition, AWC plans to secure rail-related asset management jobs by working with government organisations or rail owners.
- Based on our initial estimates, this acquisition could raise FY18-20F EPS by 3.7-30.4%. This could add another 10.9% to our existing target price of RM1.28.

### A well-attended meeting

Yesterday, we hosted a meeting between AWC's management and 14 buy-side analysts and fund managers. AWC was represented by group CFO Mr Richard Voon, Mr Mohan Kumar, CEO of AWC Rail Sdn Bhd, and Hisham Najmuddeen, VP in the CEO's Office. Representing Trackworks were CEO Mr Alwyn Kong and director Mr. Gabriel Goh. Key takeaways were: i) details on the proposed acquisition, ii) Trackworks' current orderbook, and iii) AWC's plans to venture into rail management.

### Earnings-accretive acquisition

AWC views the valuation of this acquisition at 8x CY18F P/E (based on profit guarantees of RM8m in FY18F and RM12m in FY19F (Sep year-end)) as fair. Besides taking into account the 2-year profit guarantee, Trackworks' valuations were determined based on its strong earnings track record and established background in rail-related works. The deal also features a put-call option, valid for a period of 5 years upon the completion of the transaction, allowing AWC to acquire the remaining 40% stake it does not own.

### Trackworks' current orderbook stands at RM120m

We gathered that Trackworks' current orderbook stood at RM120m over the next two years. This consists mainly of supply, installation and commissioning of various track materials and track-related machineries. Trackworks also has a tenderbook amounting to RM600m and it is confident it can achieve a conservative hit rate of 10%. Trackworks has worked with many reputable names in the rail industry, such as Prasarana, MRT, KTM and Express Rail Link.

### Planning to obtain rail asset management jobs

AWC also highlighted plans to use Trackworks as a platform to venture into rail asset management. Using UK's rail network as a model, AWC plans to introduce rail asset management programmes by working with rail asset owners and the Malaysian government. This will be based on either a concession model or contract basis. With more than RM150bn worth of rail projects in the nation's pipeline, AWC is targeting to manage RM1.5bn worth of rail assets, in particular rail tracks.

### Maintain Add

Based on our back-of-the-envelope calculations, this acquisition could increase AWC's FY18-20F EPS by 3.7-30.4%. However, we are not incorporating potential earnings accretion into our estimates pending the completion of the transaction. Maintain our Add call on the stock and SOP-based target price of RM1.28. Downside risks to our view include the unexpected cessation of awarded contracts and termination of this proposed acquisition.

### Financial Summary

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue (RMm)	249.3	296.1	313.9	331.0	355.5
Operating EBITDA (RMm)	31.90	45.94	42.29	44.78	47.67
Net Profit (RMm)	17.30	21.59	21.15	22.74	24.22
Core EPS (RM)	0.068	0.069	0.083	0.089	0.095
Core EPS Growth	89.8%	2.3%	19.6%	7.5%	6.5%
FD Core P/E (x)	12.80	12.52	10.47	9.74	9.14
DPS (RM)	0.025	0.020	0.025	0.030	0.035
Dividend Yield	2.89%	2.31%	2.89%	3.47%	4.05%
EV/EBITDA (x)	6.36	4.34	4.80	4.47	4.17
P/FCFE (x)	32.06	6.98	25.15	13.47	13.34
Net Gearing	(32.0%)	(34.6%)	(32.2%)	(33.7%)	(34.3%)
P/BV (x)	1.86	1.69	1.52	1.38	1.26
ROE	16.4%	14.1%	15.3%	14.8%	14.4%
CIMB/consensus EPS (x)			0.95	0.96	1.00

SOURCE: COMPANY DATA, CGS-CIMB FORECASTS

**Figure 1: Trackworks' orderbook (outstanding over the next 2 years)**

No.	Summary of details (general)	Contract sum (approximate)
1	Supply of track materials - KTMB Track rehabilitation projects (various packages across Malaysia) through various contractors	RM30m
2	Supply of track materials - KVDT	RM11m
3	Supply of workshop equipment, machinery and machine spares - KTMB + Prasarana + various contractors	RM70m
4	Supply of track materials and track related machineries - MRT2 through various contractors	RM9m
<b>Approximate Grand Total</b>		<b>RM120m</b>
5	Commissions from Principals (across multiple projects)	RM6.8m

SOURCE: CIMB RESEARCH, COMPANY

**Figure 2: SOP-based target price**

Share capital (m)	259
CY19 EPS (sen)	9.2
Target P/E	11.2
Value of business (RM/share)	1.03
Net cash position (RM)	0.25
<b>Target price (RM)</b>	<b>1.28</b>

SOURCES: CIMB, COMPANY REPORTS

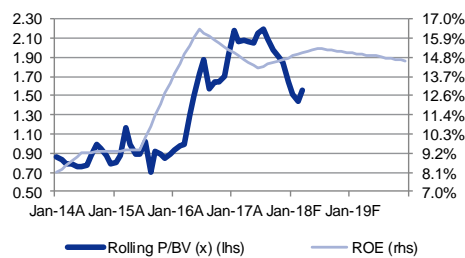
**Figure 3: Sector comparison**

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US\$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY18F	CY19F		CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F
Hartalega Holdings	HART MK	Hold	11.10	11.35	4,708	34.6	29.0	32.5%	8.91	7.82	26.9%	28.7%	25.1	21.0	1.6%	1.9%
Kossan Rubber Industries	KRI MK	Add	8.20	9.57	1,343	22.1	19.2	20.1%	4.11	3.71	19.2%	20.3%	13.5	11.7	2.3%	2.6%
Supermax Corp	SUCB MK	Hold	2.60	2.35	437	14.8	13.3	17.8%	1.45	1.35	9.9%	10.5%	10.3	9.5	2.0%	2.3%
Top Glove Corporation	TOPG MK	Add	9.70	10.00	3,121	26.5	21.7	19.1%	5.27	4.70	20.4%	22.8%	19.2	15.1	1.9%	2.3%
Karex Berhad	KAREX MK	Reduce	0.87	0.78	222	43.7	31.2	-14.3%	1.65	1.59	3.7%	5.2%	22.8	17.4	0.6%	0.8%
Riverstone Holdings	RSTON SP	Add	1.03	1.28	580	15.5	13.4	14.1%	3.12	2.71	21.1%	21.6%	10.2	8.6	2.6%	3.0%
AWC Berhad	AWCF MK	Add	0.87	1.28	60	10.1	9.4	10.8%	1.44	1.31	14.9%	14.6%	5.0	4.6	3.2%	3.8%
Daibochi Plastic & Packag	DPP MK	Reduce	2.40	2.02	202	22.5	20.5	21.8%	3.78	3.42	17.4%	17.5%	9.7	8.1	2.6%	2.7%
Wellcall Holdings	WELL MK	Hold	1.49	1.55	190	15.2	14.4	19.1%	5.84	5.00	40.2%	37.5%	10.4	9.3	4.1%	4.1%
Thong Guan Industries	TGI MK	Add	3.05	5.90	106	4.4	4.1	12.3%	0.72	0.64	17.0%	16.4%	3.9	3.4	3.8%	4.3%
Tomypak Holdings	TOMY MK	Reduce	0.80	0.62	85	14.7	13.3	17.7%	2.41	2.18	16.9%	17.2%	6.9	5.7	4.0%	4.0%
Oceancash Pacific Bhd	OCP MK	Add	0.54	0.93	31	9.4	8.0	16.4%	1.28	1.13	14.3%	15.1%	6.2	4.9	1.7%	1.9%
<b>Weighted Average</b>						<b>32.3</b>	<b>27.0</b>	<b>27.5%</b>	<b>7.2</b>	<b>6.3</b>	<b>25.9%</b>	<b>27.8%</b>	<b>22.6</b>	<b>18.7</b>	<b>2.2%</b>	<b>2.6%</b>

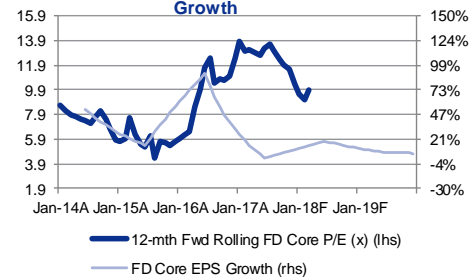
SOURCE: CIMB, COMPANY REPORTS

## BY THE NUMBERS

**P/BV vs ROE**



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



### Profit & Loss

(RMm)	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
<b>Total Net Revenues</b>	<b>249.3</b>	<b>296.1</b>	<b>313.9</b>	<b>331.0</b>	<b>355.5</b>
<b>Gross Profit</b>	<b>79.1</b>	<b>85.8</b>	<b>94.5</b>	<b>102.8</b>	<b>112.2</b>
<b>Operating EBITDA</b>	<b>31.9</b>	<b>45.9</b>	<b>42.3</b>	<b>44.8</b>	<b>47.7</b>
Depreciation And Amortisation	(1.8)	(6.5)	(6.5)	(6.6)	(6.7)
<b>Operating EBIT</b>	<b>30.1</b>	<b>39.5</b>	<b>35.8</b>	<b>38.2</b>	<b>41.0</b>
Financial Income/(Expense)	0.3	(0.4)	0.3	0.3	0.3
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
<b>Profit Before Tax (pre-EI)</b>	<b>30.4</b>	<b>39.1</b>	<b>36.1</b>	<b>38.5</b>	<b>41.3</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>30.4</b>	<b>39.1</b>	<b>36.1</b>	<b>38.5</b>	<b>41.3</b>
Taxation	(6.5)	(8.7)	(8.3)	(8.5)	(9.1)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>23.9</b>	<b>30.4</b>	<b>27.8</b>	<b>30.0</b>	<b>32.3</b>
Minority Interests	(6.6)	(8.8)	(6.6)	(7.3)	(8.0)
Preferred Dividends					
FX Gain/(Loss) - post-tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>17.3</b>	<b>21.6</b>	<b>21.2</b>	<b>22.7</b>	<b>24.2</b>
Recurring Net Profit	17.3	17.7	21.2	22.7	24.2
<b>Fully Diluted Recurring Net Profit</b>	<b>17.3</b>	<b>17.7</b>	<b>21.2</b>	<b>22.7</b>	<b>24.2</b>

### Cash Flow

(RMm)	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
<b>EBITDA</b>	<b>31.90</b>	<b>45.94</b>	<b>42.29</b>	<b>44.78</b>	<b>47.67</b>
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(13.79)	20.53	(10.18)	(4.87)	(6.98)
(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	(6.50)	(8.23)	(8.30)	(8.47)	(9.10)
<b>Cashflow From Operations</b>	<b>11.61</b>	<b>58.24</b>	<b>23.81</b>	<b>31.44</b>	<b>31.59</b>
Capex	(3.50)	(26.50)	(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
<b>Cash Flow From Investing</b>	<b>(3.50)</b>	<b>(26.50)</b>	<b>(15.00)</b>	<b>(15.00)</b>	<b>(15.00)</b>
Debt Raised/(repaid)	(1.20)	0.00	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(7.40)	(8.96)	(6.40)	(7.68)	(8.96)
Preferred Dividends					
Other Financing Cashflow	0.15	0.45	0.60	0.60	0.60
<b>Cash Flow From Financing</b>	<b>(8.45)</b>	<b>(8.51)</b>	<b>(5.80)</b>	<b>(7.08)</b>	<b>(8.36)</b>
Total Cash Generated	(0.34)	23.23	3.01	9.36	8.23
<b>Free Cashflow To Equity</b>	<b>6.91</b>	<b>31.74</b>	<b>8.81</b>	<b>16.44</b>	<b>16.59</b>
<b>Free Cashflow To Firm</b>	<b>8.11</b>	<b>31.74</b>	<b>8.81</b>	<b>16.44</b>	<b>16.59</b>

SOURCE: CGS-CIMB RESEARCH, COMPANY DATA

## BY THE NUMBERS... cont'd

### Balance Sheet

(RMm)	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Total Cash And Equivalents	48.2	58.6	61.5	71.8	81.0
Total Debtors	120.6	91.5	103.2	108.8	116.9
Inventories	18.1	38.1	43.0	45.3	48.7
Total Other Current Assets	2.5	2.1	2.1	2.1	2.1
<b>Total Current Assets</b>	<b>189.4</b>	<b>190.3</b>	<b>209.8</b>	<b>228.1</b>	<b>248.6</b>
Fixed Assets	10.0	38.7	47.4	54.7	61.8
Total Investments	2.8	2.8	2.8	2.8	2.8
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
<b>Total Non-current Assets</b>	<b>42.5</b>	<b>71.2</b>	<b>79.9</b>	<b>87.2</b>	<b>94.3</b>
Short-term Debt	0.2	0.2	0.2	0.2	0.2
Current Portion of Long-Term Debt					
Total Creditors	78.3	89.7	96.2	99.3	103.7
Other Current Liabilities	1.8	1.8	1.8	1.8	1.8
<b>Total Current Liabilities</b>	<b>80.3</b>	<b>91.7</b>	<b>98.2</b>	<b>101.3</b>	<b>105.7</b>
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
<b>Total Non-current Liabilities</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>
Total Provisions	0.2	0.2	0.2	0.2	0.2
<b>Total Liabilities</b>	<b>83.9</b>	<b>95.3</b>	<b>101.8</b>	<b>104.9</b>	<b>109.3</b>
Shareholders' Equity	119.1	131.0	145.7	160.8	176.0
Minority Interests	28.9	35.6	42.3	49.6	57.6
<b>Total Equity</b>	<b>148.0</b>	<b>166.6</b>	<b>188.0</b>	<b>210.4</b>	<b>233.7</b>

### Key Ratios

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
Revenue Growth	94.7%	18.8%	6.0%	5.4%	7.4%
Operating EBITDA Growth	126%	44%	(8%)	6%	6%
Operating EBITDA Margin	12.8%	15.5%	13.5%	13.5%	13.4%
Net Cash Per Share (RM)	0.18	0.23	0.24	0.28	0.31
BVPS (RM)	0.47	0.51	0.57	0.63	0.69
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	21.4%	22.3%	23.0%	22.0%	22.0%
Net Dividend Payout Ratio	26.9%	16.9%	21.7%	24.6%	26.9%
Accounts Receivables Days	132.2	130.7	113.2	116.9	116.2
Inventory Days	38.31	48.77	67.46	70.67	70.73
Accounts Payables Days	64.11	77.40	89.05	93.28	93.37
ROIC (%)	45.9%	39.2%	32.9%	30.0%	29.4%
ROCE (%)	22.6%	24.7%	20.2%	19.2%	18.5%
Return On Average Assets	15.6%	16.0%	13.0%	12.6%	12.5%

### Key Drivers

	Jun-16A	Jun-17A	Jun-18F	Jun-19F	Jun-20F
ASP (% chg, main prod./serv.)	6.5%	13.0%	0.0%	0.0%	0.0%
Unit sales grth (% , main prod./serv.)	52.1%	19.1%	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

SOURCE: CGS-CIMB RESEARCH, COMPANY DATA

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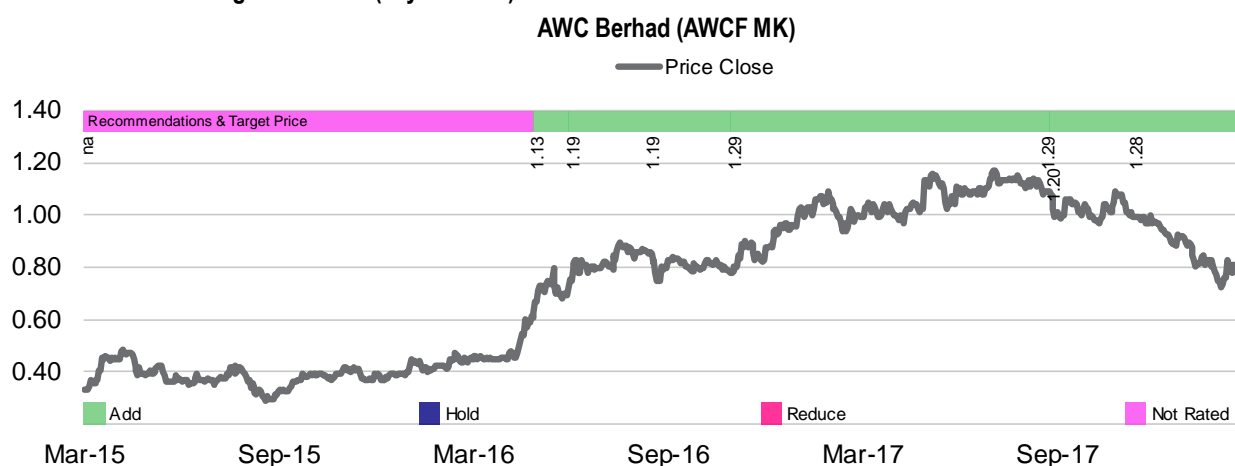
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Reduce	9.0%	0.7%

#### 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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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.*

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Definition:

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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.

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Definition:

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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