

Company Note

I Malaysia

ADD (no change)

Consensus ratings*: Buy 0 Hold 1 Sell 0

Current price: RM0.95
 Target price:  RM1.29
 Previous target: RM1.29
 Up/downside: 35.9%
 CIMB / Consensus: 29.1%

Reuters: AWC.F.KL
 Bloomberg: AWC.F MK
 Market cap: US\$55.88m

Average daily turnover: US\$0.77m
 RM248.1m
 RM3.43m

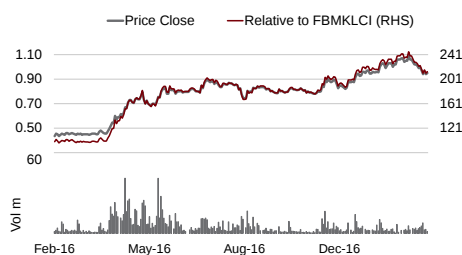
Current shares o/s: 256.0m

Free float: 66.0%

*Source: Bloomberg

Key changes in this note

 No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6.9	8	106.5
Relative (%)	-8	3.4	104.4

Major shareholders	% held
Dato' Ahmad Kabeer	34.0

Analyst(s)



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AWC Berhad

2QFY17: Earnings still robust

- 1HFY17 net profit of RM10.7m was in line at 51% of our FY6/17 estimate.
- Interim dividend of 1 sen/share was announced, in line with our expectations.
- Revenue rose by 45.7% in 1HFY17 but net profit expanded by 113.1% yoy to RM10.7m, thanks to a better performance by all divisions.
- Order book (until end-CY18F) stood at ~RM428m as of 1 Jan, with strong potential for new contracts, especially STREAM projects and healthcare facility management.
- The stock is trading at 10x CY18 P/E (ex-cash of RM86.4m). Maintain Add. Our target price is unchanged at RM1.29.

A robust 1HFY17

1HFY17 revenue rose to RM142.8m (45.7% yoy), with the highest revenue growth from the engineering segment (107.4% yoy to RM53.7m), followed by facilities (31.1% yoy) and environment (18.2% yoy). Consequently, 1HFY17 net profit increased to RM10.7m (113% yoy) and EBITDA margin expanded by 5.1% pts to 15.7%. Overall, results were in-line with expectations, making up 51% of full-year estimates.

Environment segment the clear winner in 1HFY17

The environment segment continued to be most profitable segment in 1HFY17, with PBT of RM12.4m (126% yoy) thanks to higher-margin projects (STREAM) and a RM1.8m bad debt recovered in 1QFY17. The group's engineering also recorded strong 1HFY17 PBT of RM5.4m (217% yoy), benefiting from the higher progress billing of its ongoing projects.

RM428m outstanding order book (until end-CY18F)

As at 1 Jan 17, we estimate AWC's outstanding order book (until end-CY18F) stood at ~RM428m. This consists of projects under: i) facilities (~RM226m), ii) STREAM, its proprietary waste collection system (~RM118m), and iii) engineering (~RM87m). The group targets more contract wins in future to replenish order book, with strong potential in healthcare facility management and projects using STREAM. AWC believes increase in construction projects will lead to more engineering project wins moving forward.

DPS of 1 sen announced

AWC announced DPS of 1 sen, which is in line with our expectations. Although the group has no formal dividend policy, management has indicated that it would, at the very least, match the 2.5 sen DPS that it paid in FY16, barring any unforeseen circumstances. The group's net cash position has increased to RM86.4m at end-Dec 16, which translates into net cash of RM0.33/share.

Maintain Add; TP stands at RM1.29

Given the in-line 1HFY17 earnings, we make no changes to our earnings estimates. We also maintain our Add rating and SOP-based target price of RM1.29. AWC now trades at 10x CY18 P/E, which we deem attractive, with decent dividend yields of 3.7-4.7% for FY17-19F. Any contract wins and/or higher-than-expected dividends could be re-rating catalysts for the stocks. A downside risk to our view is unfavourable timing of earnings recognition due to delays in projects.

Financial Summary	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Revenue (RMm)	128.0	249.3	277.8	294.4	295.7
Operating EBITDA (RMm)	14.15	31.90	37.00	41.23	42.27
Net Profit (RMm)	8.03	17.30	20.81	23.36	24.09
Core EPS (RM)	0.036	0.072	0.081	0.091	0.094
Core EPS Growth	15%	102%	13%	12%	3%
FD Core P/E (x)	26.68	13.22	11.69	10.41	10.10
DPS (RM)	-	0.025	0.035	0.040	0.045
Dividend Yield	0.00%	2.63%	3.68%	4.21%	4.74%
EV/EBITDA (x)	13.29	6.59	5.97	5.15	4.73
P/FCFE (x)	13.45	33.11	10.60	9.42	7.85
Net Gearing	(43.9%)	(32.0%)	(34.7%)	(39.5%)	(45.3%)
P/BV (x)	2.34	2.04	1.86	1.69	1.55
ROE	9.4%	16.4%	16.6%	17.0%	16.0%
CIMB/consensus EPS (x)			1.06	1.07	

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Jun (RM m)	2QFY17	2QFY16	yoy %	qoq%	2QFY17	2QFY16	yoy %	Prev.	Comments
			chg	chg	Cum	Cum	chg	FY17F	
Revenue	75.6	60.2	25.7	12.7	142.8	98.0	45.7	277.8	Concession rate increase, Shah Alam hospital and STREAM progress billings
Cost of sales	(64.6)	(52.4)	23.1	15.9	(120.4)	(87.6)	37.4	(240.8)	
EBITDA	11.1	7.7	42.7	(3.0)	22.4	10.4	115.6	37.0	
EBITDA margin (%)	14.6	12.9	1.7	(2.4)	15.7	10.6	5.1	13.3	
Depreciation	(1.5)	(0.8)	88.8	(5.8)	(3.0)	(1.3)	124.0	(1.7)	Higher depreciation from higher PPE
EBIT	9.6	7.0	37.6	(2.6)	19.4	9.1	114.3	35.3	
Net interest expense	(0.2)	0.2	(240.5)	(197.6)	0.1	0.2	(73.3)	0.1	Net cash position stands at RM86.4m
Pretax profit	9.4	7.1	30.9	(7.4)	19.5	9.3	109.8	35.8	
Tax	(1.8)	(1.7)	3.7	(3.5)	(3.7)	(2.2)	70.5	(8.2)	
Tax rate (%)	19.3	24.3	(5.0)	0.8	18.9	23.2	(4.3)	23.0	Lower tax rates due to foreign subsidiaries
Minority interests	(2.3)	(1.7)	40.4	(16.5)	(5.1)	(2.1)	141.7	(6.7)	
Net profit	5.2	3.7	39.3	(4.0)	10.7	5.0	113.1	20.8	At 51.4% of our full-year forecasts
Core net profit	5.2	3.7	39.3	(4.0)	10.7	5.0	113.1	20.8	
EPS (sen)	2.0	1.4	39.3	(4.0)	4.1	2.08	97.8	8.0	Within expectations
Core EPS (sen)	2.0	1.4	39.3	(4.0)	4.1	2.08	97.8	8.0	

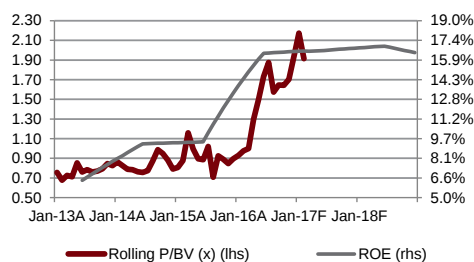
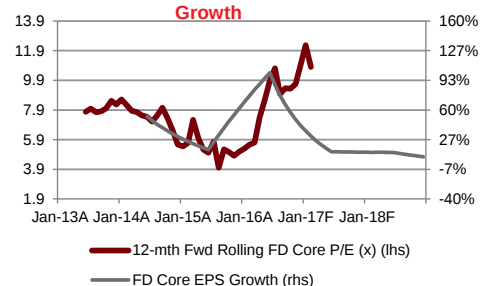
SOURCES: CIMB, COMPANY REPORTS

Figure 2: SOP-based target price

Share capital (m)	256
CY18 EPS (sen)	9.5
Target P/E	11.2
Value of business (RM/share)	1.06
FY17F net cash per share	0.23
Target price	1.29

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-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Total Net Revenues	128.0	249.3	277.8	294.4	295.7
Gross Profit	40.9	79.1	78.7	87.2	93.0
Operating EBITDA	14.1	31.9	37.0	41.2	42.3
Depreciation And Amortisation	(1.5)	(1.8)	(1.7)	(1.8)	(1.9)
Operating EBIT	12.7	30.1	35.3	39.4	40.4
Financial Income/(Expense)	0.1	0.3	0.4	0.5	0.5
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)	12.8	30.4	35.7	40.0	40.9
Exceptional Items					
Pre-tax Profit	12.8	30.4	35.7	40.0	40.9
Taxation	(1.1)	(6.5)	(8.2)	(9.2)	(9.4)
Exceptional Income - post-tax					
Profit After Tax	11.7	23.9	27.5	30.8	31.5
Minority Interests	(3.6)	(6.6)	(6.7)	(7.4)	(7.4)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8.0	17.3	20.8	23.4	24.1
Recurring Net Profit	8.0	17.3	20.8	23.4	24.1
Fully Diluted Recurring Net Profit	8.0	17.3	20.8	23.4	24.1

Cash Flow

(RMm)	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
EBITDA	14.15	31.90	37.00	41.23	42.27
Cash Flow from Inv. & Assoc.					
Change In Working Capital	5.83	(13.79)	20.65	(4.73)	(0.38)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2.40)	0.00	0.00	0.00	0.00
Net Interest (Paid)/Received	0.00	0.00	0.00	0.00	0.00
Tax Paid	(2.59)	(6.50)	(8.21)	(9.19)	(9.41)
Cashflow From Operations	14.99	11.61	49.44	27.31	32.48
Capex	(1.46)	(3.50)	(26.50)	(1.50)	(1.50)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	3.24	0.00	0.00	0.00	0.00
Cash Flow From Investing	1.78	(3.50)	(26.50)	(1.50)	(1.50)
Debt Raised/(repaid)	(0.86)	(1.20)	0.00	0.00	0.00
Proceeds From Issue Of Shares					
Shares Repurchased	0.00				
Dividends Paid	(7.35)	(7.40)	(8.96)	(10.24)	(11.52)
Preferred Dividends					
Other Financing Cashflow	0.00	0.15	0.45	0.60	0.60
Cash Flow From Financing	(8.21)	(8.45)	(8.51)	(9.64)	(10.92)
Total Cash Generated	8.57	(0.34)	14.43	16.17	20.06
Free Cashflow To Equity	15.92	6.91	22.94	25.81	30.98
Free Cashflow To Firm	16.77	8.11	22.94	25.81	30.98

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Total Cash And Equivalents	53.6	48.2	58.6	74.7	94.7
Total Debtors	59.5	120.6	91.3	96.8	97.2
Inventories	17.5	18.1	38.1	40.3	40.5
Total Other Current Assets	2.5	2.5	2.5	2.6	2.6
Total Current Assets	133.1	189.4	190.6	214.4	235.0
Fixed Assets	8.2	10.0	38.7	38.4	38.0
Total Investments	2.8	2.8	2.8	2.8	2.8
Intangible Assets	5.9	28.1	28.1	28.1	28.1
Total Other Non-Current Assets	3.0	1.6	1.6	1.6	1.6
Total Non-current Assets	19.9	42.5	71.2	70.9	70.5
Short-term Debt	1.8	0.2	0.2	0.2	0.2
Current Portion of Long-Term Debt					
Total Creditors	30.4	78.3	89.6	92.6	92.9
Other Current Liabilities	0.6	1.8	1.8	1.8	1.8
Total Current Liabilities	32.8	80.3	91.7	94.7	94.9
Total Long-term Debt	0.3	0.7	0.7	0.7	0.7
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2.5	2.7	2.7	2.7	2.7
Total Non-current Liabilities	2.8	3.4	3.4	3.4	3.4
Total Provisions	0.4	0.2	0.2	0.2	0.2
Total Liabilities	36.0	83.9	95.2	98.2	98.5
Shareholders' Equity	91.6	119.1	131.0	144.1	156.6
Minority Interests	25.4	28.9	35.6	43.0	50.4
Total Equity	117.0	148.0	166.5	187.1	207.1

Key Ratios

	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
Revenue Growth	7.1%	94.7%	11.4%	6.0%	0.5%
Operating EBITDA Growth	(5%)	126%	16%	11%	3%
Operating EBITDA Margin	11.0%	12.8%	13.3%	14.0%	14.3%
Net Cash Per Share (RM)	0.23	0.18	0.23	0.29	0.37
BVPS (RM)	0.41	0.47	0.51	0.56	0.61
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	8.7%	21.4%	23.0%	23.0%	23.0%
Net Dividend Payout Ratio	NA	26.9%	30.9%	31.5%	34.4%
Accounts Receivables Days	190.3	132.2	139.2	116.6	119.7
Inventory Days	60.56	38.31	51.47	69.05	72.78
Accounts Payables Days	89.65	64.11	81.70	91.15	96.07
ROIC (%)	18.9%	45.9%	35.0%	36.2%	35.6%
ROCE (%)	11.1%	22.6%	22.6%	22.5%	20.7%
Return On Average Assets	8.4%	15.6%	14.3%	14.4%	13.7%

Key Drivers

	Jun-15A	Jun-16A	Jun-17F	Jun-18F	Jun-19F
ASP (% chg, main prod./serv.)	0.0%	6.5%	13.0%	0.0%	0.0%
Unit sales grth (% , main prod./serv.)	7.1%	52.1%	19.1%	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: CIMB RESEARCH, COMPANY DATA

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Score Range:	90 - 100	80 - 89	70 - 79	Below 70 or	No Survey Result
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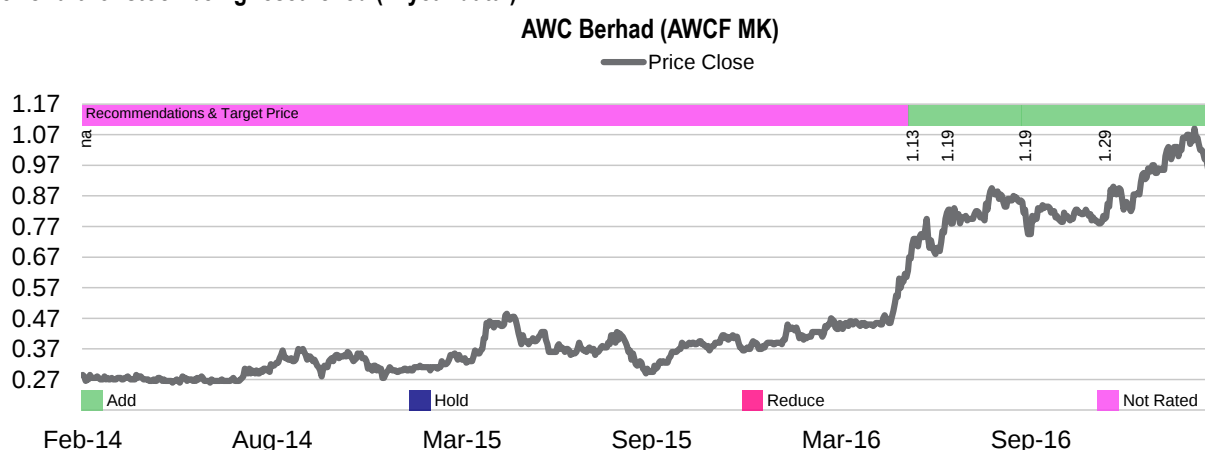
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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2016		
1626 companies under coverage for quarter ended on 31 December 2016		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.4%	5.4%
Hold	29.6%	1.4%
Reduce	11.6%	0.4%

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 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BCP** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** – Good, n/a, **BH** – Good, Declared, **BIGC** – Excellent, Declared, **BJC** – Good, n/a, **BLS** – Very Good, Certified, **BPP** – not available, n/a, **BTS** – Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** – Excellent, Certified, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Good, n/a, **GFPT** – Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** – Excellent, n/a, **GUNKUL** – Very Good, Declared,

HANA - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** - Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** - Good, n/a, **IVL** - Excellent, Certified, **JAS** - not available, Declared, **JASIF** - not available, n/a, **JUBILE** - Good, Declared, **KAMART** - not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** - Good, Certified, **KKP** - Excellent, Certified, **KSL** - Very Good, Declared, **KTB** - Excellent, Certified, **KTC** - Excellent, Certified, **LH** - Very Good, n/a, **LPN** - Excellent, Declared, **M** - Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** - Good, Declared, **MALEE** - Very Good, Declared, **MBKET** - Very Good, Certified, **MC** - Very Good, Declared, **MCOT** - Excellent, Declared, **MEGA** - Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** - Very Good, Declared, **NYT** - Excellent, n/a, **OISHI** - Very Good, n/a, **PLANB** - Very Good, Declared, **PSH** - not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** - Excellent, Declared, **RATCH** - Excellent, Certified, **ROBINS** - Very Good, Declared, **RS** - Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** - Excellent, Certified, **SAWAD** - Good, n/a, **SC** - Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** - not available, n/a, **SCC** - Excellent, Certified, **SCN** - Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** - Very Good, Declared, **STA** - Very Good, Declared, **STEC** - Excellent, n/a, **SVI** - Excellent, Certified, **TASCO** - Very Good, Declared, **TCAP** - Excellent, Certified, **THAI** - Very Good, Declared, **THANI** - Very Good, Certified, **THCOM** - Excellent, Certified, **THRE** - Very Good, Certified, **THREL** - Very Good, Certified, **TICON** - Very Good, Declared, **TISCO** - Excellent, Certified, **TK** - Very Good, n/a, **TKN** - Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TPCH** - Good, n/a, **TIPIP** - not available, n/a, **TRUE** - Very Good, Declared, **TTW** - Very Good, Declared, **TU** - Excellent, Declared, **UNIQ** - not available, Declared, **VGI** - Excellent, Declared, **WHA** - not available, Declared, **WHART** - not available, n/a, **WORK** - not available, n/a.

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

CIMB Recommendation Framework

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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.

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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.