

Company Note

Malaysia

ADD (no change)

Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	RM1.02
Target price:	RM1.29
Previous target:	RM1.29
Up/downside:	26.6%
CIMB / Consensus:	2.5%
Reuters:	AWCF.KL
Bloomberg:	AWCF MK
Market cap:	US\$62.73m
	RM268.0m
Average daily turnover:	US\$0.41m
	RM1.82m
Current shares o/s:	256.0m
Free float:	66.0%
*Source: Bloomberg	

Key changes in this note

■ No change.



Price performance	1M	3M	12M
Absolute (%)	-1.9	0	45.7
Relative (%)	-1.7	-4.2	37.4

Major shareholders	% held
Dato' Ahmad Kabeer	34.0

Analyst(s)



Walter AW

T (60) 3 2261 9093

E walter.aw@cimb.com

AWC Berhad

3QFY17: Weaker-than-expected core net profit

- 9MFY6/17 core net profit was below expectations, making up 65% of our FY17 forecast and 63% of Bloomberg consensus estimate.
- The weaker-than-expected 3QFY17 results were mainly due to slower progress billings, especially in the engineering and environment divisions.
- Nevertheless, 9MFY17 core net profit rose to RM13.6m (+26.3% yoy) due to higher contribution from environment and facilities divisions.
- Outstanding order book for the next two years remains healthy at RM374m.
- We maintain our Add call, with an unchanged SOP-based target price of RM1.29.

9MFY17 below expectations

9MFY17 revenue grew 21.3% yoy to RM210m mainly driven by its facilities (+26% yoy) and engineering (+50% yoy) divisions. Its EBITDA margin climbed to 14.9% (+3.5% pts yoy) owing to reversal of certain costs that were formerly recognised by facilities division. Accordingly, its 9MFY17 core net profit rose to RM13.6m (+26.3% yoy) after stripping out one-off gains of RM2.1m (write back of provision for retirement benefit). Overall, this was below expectations, at 65% of our FY17 forecast and 63% of consensus.

Weaker qoq performance due to slower progress billing

Sequentially, AWC's 3QFY17 revenue and core net profit declined to RM67.4m (-10.9% qoq) and RM2.9m (-43.8% qoq), respectively. The weaker-than-expected results were attributed to slower progress billings, especially in the environment and engineering divisions. Accordingly, 3QFY17 EBITDA margin also declined to 13.3% (-1.3% pt qoq). We expect higher project recognition in 4QFY17 from both segments, as more works are completed.

Strong growth in all divisions

Facilities segment reported stronger results as both 9MFY17 revenue and pretax profit (PBT) rose 26% yoy and 121% yoy, respectively. This was thanks to the renewal of its concession agreement and more projects undertaken such as Hospital Shah Alam. The engineering division also performed admirably, with 9MFY17 revenue and PBT rising by 49.7% and 5% respectively. Nevertheless, the environment division formed the bulk of total PBT (49% of 9MFY17 PBT) at RM15.9m (+58.7% yoy).

Outstanding order book of RM374m for the next two years

As at end-3QFY17 (31 Mar 17), AWC's estimated total outstanding order book is RM374m for the next two years. This consists of projects under: i) facilities (RM196m), ii) engineering (~RM83m), and iii) environment-STREAM, proprietary waste collection system (~RM95m). We gather that AWC intends to solidify its position as a total service provider, with targeted contract wins in all divisions. However, the group will keep leveraging its key strengths, i.e. its facility management segment and STREAM projects.

Maintain Add

We maintain our Add call with an SOP-based target price of RM1.29. Despite 3QFY17 results below expectations, we are holding off making any changes to our estimates pending an update with the management in the near term. In our view, a potential catalyst for the share price in the near term is substantial contract wins in tandem with the roll-out of large scale construction projects. Downside risks to our view: project delays and lower contract wins.

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)	28.64	14.19	12.55	11.18	10.84
DPS (RM)	-	0.025	0.035	0.040	0.045
Dividend Yield	0.00%	2.45%	3.43%	3.92%	4.41%
EV/EBITDA (x)	14.41	7.12	6.46	5.59	5.15
P/FCFE (x)	14.44	35.55	11.39	10.12	8.43
Net Gearing	(43.9%)	(32.0%)	(34.7%)	(39.5%)	(45.3%)
P/BV (x)	2.51	2.19	1.99	1.81	1.67
ROE	9.4%	16.4%	16.6%	17.0%	16.0%
CIMB/consensus EPS (x)			0.92	0.90	0.80

SOURCE: COMPANY DATA, CIMB FORECASTS

Figure 1: Results comparison

FYE Jun (RM m)	3Q FY17	3Q FY16	yoy % chg	qoq% chg	3QFY17 Cum	3QFY16 Cum	yoy % chg	Prev. Comments FY17F
Revenue	67.4	75.3	(10.5)	(10.9)	210.2	173.3	21.3	277.8 Strong revenue growth from both facilities and engineering divisions
Cost of sales	(58.5)	(65.8)	(11.2)	(9.5)	(178.8)	(153.4)	16.5	(240.8)
EBITDA	9.0	9.5	(6.0)	(18.8)	31.4	19.9	57.7	37.0
EBITDA margin (%)	13.3	12.7	0.6	(1.3)	14.9	11.5	3.5	13.3
Depreciation	(1.8)	(0.7)	>100	20.2	(4.8)	(2.1)	>100	(1.7) Higher depreciation in tandem with increase in PPE
EBIT	7.2	8.8	(18.2)	(24.8)	26.7	17.9	49.2	35.3
Net interest expense	(0.1)	0.0	nm	(50.6)	(0.1)	0.3	nm	0.1 Net cash position stands at RM63.4m (3QFY17)
Exceptionals	2.1	0.0	nm	nm	2.1	0.0	nm	0.0 One-off gains from write-back of provision for retirement benefits
Pretax profit	9.2	8.9	3.8	(1.6)	28.7	18.1	58.0	35.8
Tax	(2.7)	(1.8)	52.8	49.4	(6.4)	(3.9)	62.5	(8.2)
Tax rate (%)	29.3	19.9	9.4	10.0	22.2	21.6	0.6	23.0 9MFY17 tax rate is lower than statutory tax rate due to lower tax rates for its
Minority interests	(1.5)	(1.3)	10.2	(36.6)	(6.6)	(3.5)	90.8	(6.7) Singapore subsidiary
Net profit	5.0	5.8	(12.6)	(3.6)	15.7	10.8	45.8	20.8
Core net profit	2.9	5.8	(49.1)	(43.8)	13.6	10.8	26.3	20.8
EPS (sen)	1.9	2.2	(14.6)	(4.3)	6.0	4.4	38.0	8.0
Core EPS (sen)	1.9	2.2	(14.6)	(4.3)	6.0	4.4	38.0	8.0 Below expectations, met only 65% of our FY17F estimates

SOURCES: CIMB, COMPANY REPORTS

Figure 2: 9MFY17 Segmental revenue and pretax profit (PBT)

FYE Dec (RM m)	3QFY17 cum	3QFY16 cum	yoy % chg	Comments
Facilities	87.9	69.8	25.9	
Environment	47.8	53.8	(11.2)	Decline in 9MFY17 revenue due to project delays
Engineering	74.5	49.8	49.7	Strong growth due to more contract wins
Total Revenue	210.2	173.3	21.3	

FYE Dec (RM m)	3QFY17 cum	3QFY16 cum	yoy % chg	Comments
Facilities	12.2	5.5	121.5	Higher profitability from renewal of concession
Environment	15.9	10.0	58.7	Environment continues to be main earnings contributor
Engineering	4.3	4.1	5.0	
Total PBT	32.3	19.6	65.2	

SOURCES: CIMB, COMPANY REPORTS

Figure 3: 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

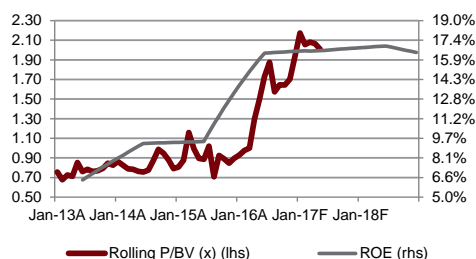
Figure 4: Sector comparisons

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 (%)	
						CY17	CY18		CY17	CY18	CY17	CY18	CY17	CY18	CY17	CY18
Hartalega Holdings	HART MK	Hold	6.20	5.44	2,385	29.3	19.7	8.2%	5.8	5.2	20.1%	20.9%	21.5	18.3	1.7%	1.9%
Kossan Rubber Industries	KRI MK	Add	6.32	7.20	946	21.0	16.6	1.7%	3.5	3.2	20.7%	21.1%	12.8	10.4	2.1%	3.0%
Supermax Corp	SUCB MK	Hold	2.04	2.15	319	12.3	10.9	2.9%	1.2	1.1	10.2%	10.5%	9.4	9.2	2.5%	2.8%
Top Glove Corporation	TOPG MK	Add	5.32	5.65	1,561	19.4	17.9	0.5%	3.2	3.0	17.8%	17.2%	12.9	12.2	2.6%	2.8%
Karex Berhad	KAREX MK	Hold	2.05	2.32	481	33.0	25.7	3.7%	3.8	3.4	12.2%	13.9%	23.2	18.4	0.8%	1.0%
Riverstone Holdings	RSTON SP	Add	1.04	1.11	557	19.2	17.1	2.2%	3.7	3.2	20.3%	20.1%	11.6	10.0	2.3%	2.6%
AWC Berhad	AWCF MK	Add	1.05	1.29	65	12.2	11.3	18.7%	2.0	1.8	20.7%	21.1%	5.8	5.1	3.6%	4.0%
Daibochi Plastic & Packa	DPP MK	Reduce	2.75	1.93	176	26.5	20.0	10.3%	3.6	3.2	13.8%	17.0%	14.5	11.1	2.2%	3.0%
Wellcall Holdings	WELL MK	Hold	2.31	2.23	179	18.5	15.7	2.1%	7.4	7.1	41.5%	45.9%	12.3	10.8	3.1%	3.0%
Thong Guan Industries	TGI MK	Add	4.47	5.72	132	12.5	11.6	18.4%	1.1	1.0	17.3%	16.7%	5.1	4.1	4.3%	4.6%
Tomypak Holdings	TOMY MK	Reduce	2.48	1.88	97	14.6	13.0	0.8%	2.7	2.4	19.1%	19.5%	8.4	7.0	2.1%	2.1%
Oceancash Pacific Bhd	OCP MK	Add	0.73	0.88	38	13.5	11.3	13.0%	1.9	1.7	14.8%	15.6%	9.2	7.6	1.1%	1.2%
Weighted Average						23.5	18.2	4.6%	4.2	3.8	19.0%	19.5%	16.0	13.8	2.1%	2.4%

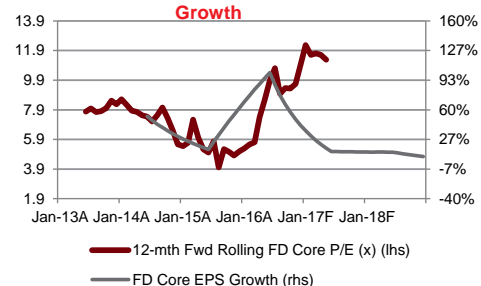
SOURCES: CIMB, COMPANY REPORTS

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 Invt. & 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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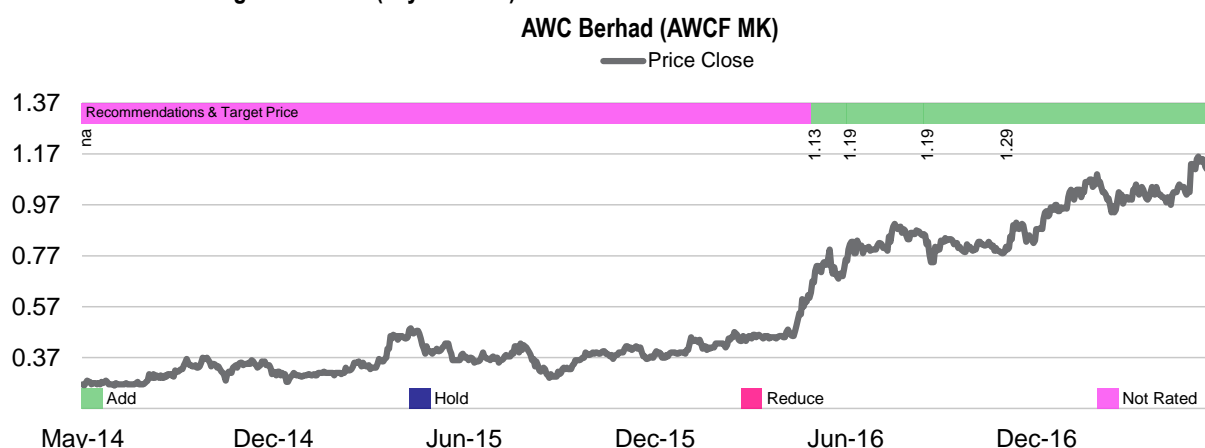
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1244 companies under coverage for quarter ended on 31 March 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	55.9%	5.2%
Hold	30.0%	1.6%
Reduce	10.4%	0.3%

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, **BGP** – 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, **BLA** – 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,

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- Companies certified by CAC

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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:

- 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.

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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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