

Stock Digest

Results Note – AWC Bhd

Wednesday, 28 Nov, 2018



Malacca Securities Sdn Bhd

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Results On Track

Highlights

- AWC Bhd's 1QFY19 net profit registered a 19.9% Y.o.Y jump to RM2.1 mln as opposed to RM1.8 mln a year ago, largely underpinned by improved contribution from the IFM and Engineering segments as well as lower operating cost. Revenue, however, grew slightly by 3.5% Y.o.Y to RM68.5 mln, from RM66.2 mln in the same quarter last year. AWC has also declared final single-tier dividend of 0.5 sen per share, payable on 28th December 2018.
- The reported earnings and revenue were in-line with our estimates, accounting to 21.4% and 24.2% of our previous full-year projected net profit and revenue of RM28.3 mln and RM282.7 mln respectively. Moving forward, we expect higher earnings, in-tandem with the recognition of profit guarantee from Trackwork (approximately RM6.0 mln per year).
- Meanwhile, the Engineering segment's pretax profit grew more than ten-fold to RM1.2 mln, from RM0.1 mln in 1QFY18 on improved margins, although ongoing project delays continued to weigh on its topline. Pretax earnings from IFM contracts also rose by 14.7% Y.o.Y to RM5.6 mln vs. RM4.9 mln previously, mainly due to stronger revenue recorded. On the downside, pretax contribution from STREAM projects fell by about 5.2% to RM2.7 mln (from RM2.9 mln), dragged down by weaker topline and lower bad debt writebacks (1QFY19: RM5,000 vs 1QFY18: RM550,000).

Financial Highlights

FYE June (MYR mln)	2016A	2017A	2018A	2019F	2020F
Revenue	248.5	184.8	304.0	282.7	317.5
EBITDA	31.6	41.6	34.8	37.6	43.4
Net Profit	17.1	22.0	21.7	29.3	32.5
Revenue Growth (%)	94.1	-25.6	64.5	-7.0	12.3
EBITDA Growth (%)	122.7	31.5	-16.3	8.2	15.4
Net Profit Growth (%)	111.9	28.6	-1.6	35.1	11.0
EPS (sen)*	6.0	7.7	7.5	10.2	11.1
P/E(x)	13.4	10.5	10.6	7.9	7.2
DPS (sen)	2.5	2.0	1.0	2.3	2.5
Dividend Yield (%)	3.1	2.5	1.3	2.9	3.2
BVPS (RM)	0.5	0.6	0.7	N/A	N/A
P/BV (x)	1.6	1.4	1.2	N/A	N/A
ROE (%)	14.4	15.6	13.2	N/A	N/A

Based on enlarged outstanding shares of 287.6 mln(After adjusting for issuance of shares in relation to Trackwork acquisition)

Source: Company Data, MSSB Research

BUY

Share Price: RM0.80

Target Price: RM1.25

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): 287.7

Market Capital (RM mln): 225.4

Par Value (RM): N/A

Major Shareholders:

K-Capital Bhd 29.4%

Employees Provident

Fund Board 6.6%

Dato' Ahmad Kabeer Bin 4.5%

Mohamed Nagoor

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Prospects

AWC's outstanding orderbook of approximately RM920.5 mln will provide earnings visibility until 2020, while the IFM segment remains as a key revenue contributor, accounting for about 72% of the entire orderbook, followed by STREAM and engineering projects.

The group is also reviewing its air conditioning operations (under the Engineering division) for possible restructuring as the long overdue Capital 21 project reaches its tail-end, while the plumbing segment is expected to remain slow due to ongoing delays by the main contractors.

Separately, the High Court has fixed the hearing of the legal case between AWC's subsidiary, Qudotech and BUCG (M) Sdn Bhd on 14th December 2018. To recap, AWC had filed a claim against the latter on 20th September 2018 for a sum of RM2.1 mln in relation to unpaid balance of a contract awarded by the BUCG. However, BUCG retaliated by filing a counterclaim of approximately RM11.0 mln against Qudotech in November. Subsequently, we had excluded the potential legal damages from our forecasts due to the uncertainties surrounding the aforementioned claims and its timeframe at the current juncture.

All-in-all, we think that there is ample opportunity for AWC to achieve higher bottomline growth moving forward due to steady recurring income from IFM, new contribution from railway maintenance and engineering segment (i.e: via acquisition of Trackwork), ongoing cost management strategies and healthy balance sheet.

Meanwhile, AWC's tenderbook of RM956.0 mln as at 28th August 2018 will also ensure business continuity. The tenders are primarily IFM bids, followed by engineering and environment projects.

Valuation and Recommendation

Although the reported results were within our expectations, we adjusted our forecast net profit for FY19-FY20 by 2.0%-3.0% after accounting for slight changes in depreciation and net interest costs.

We maintain our **BUY** recommendation on AWC with a higher target price of RM1.25 (from RM1.20), by ascribing an unchanged target PER of 12.0x to its FY19-EPS of 10.2 sen as we remain positive on AWC's long-term earnings accretion from recurring IFM projects, new revenue stream from railway maintenance-related contracts and ongoing cost efficiency measures. Our target PER remain at a discount to its closest peer, UEM Edgenta Bhd, mainly due to AWC'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

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industry that could lead to unforeseen cost increases and reputational damage. Escalating utility cost and increases 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.

Quarterly Performance					
FYE June (MYR mln)	1QFY19	1QFY18	%Change Y.o.Y	4QFY18	%Change Y.o.Y
Revenue	68.5	66.2	3.5%	94.2	-27.3%
EBITDA	9.7	9.8	-1.2%	6.9	40.8%
Depreciation & Amortisation	-0.7	-1.7	-61.5%	-0.6	3.5%
Net Interest Income/(Expense)	0.1	0.0	-359.1%	0.9	-87.9%
Profit before tax	9.2	8.1	13.6%	7.2	27.2%
Net Profit	6.1	5.1	19.9%	4.4	38.1%
Basic EPS (Sen)	2.1	1.8	19.9%	1.5	38.1%

Source: Company Data, MSSB Research

Income Statement					
FYE June (MYR mln)	2016A	2017A	2018A	2019F	2020F
Revenue	248.5	184.8	304.0	282.7	317.5
EBITDA	31.6	41.6	34.8	37.6	43.4
Depreciation & Amortisation	-1.8	-2.5	-2.6	-2.9	-3.3
Net Interest Income/(Expense)	0.3	-0.4	1.9	0.4	0.6
Pre-tax Profit	30.1	38.7	34.0	35.1	40.7
Effective Tax Rate	21.4%	20.1%	21.0%	22.0%	22.5%
Net Profit	17.1	22.0	21.7	29.3	32.5
EBITDA Margin	12.7%	22.5%	11.4%	13.3%	13.7%
Pre-tax Margin	12.1%	20.9%	11.2%	12.4%	12.8%
Net Margin	6.9%	11.9%	7.1%	10.4%	10.2%

Source: Company Data, MSSB Research

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