3Q19: Slow ramp up

Gabungan AQRS' 3Q19 results were below expectations. Slow earnings ramp up as the resumption of high-value works on the Light Rail Transit Line 3 (LRT3) will only start in December 2019. The relaunch of the property division generated RM136m bookings up to 27 November 2019. Given the delay in winning new contracts and slow ramp up of LRT3 works, we cut our core 2019-22E EPS forecasts by 31-36%. 2020E PER of 9x is attractive. AQRS remains our top sector BUY with reduced target price of RM1.62, based on 20% discount to RNAV.

Below expectations

Net profit of RM33m (-34% yoy) in 9M19 comprised only 49-53% of market consensus and our FY19 forecasts of RM63-68m. AQRS saw slow progress billings for its construction division due to lower contribution from the LRT3 project. Revenue fell 30% yoy to RM333m with both construction (-28% yoy) and property (-60% yoy) divisions generating lower revenue.

Lower profit margin

PBT margin eased to 13.8% in 9M19 from 15.0% in 9M18 as its high-margin KotaSAS project is at the tail end, while AQRS is incurring high promotion cost to market its new (E'Island) and relaunched (The Peak) properties. Hence, PBT saw a sharper 40% yoy decline to RM46m in 9M19.

Good prospects to replenish the order book

AQRS has submitted tenders for East Coast Rail Link subcontracts and Pan Borneo Highway Sabah packages along with its partner Suria Capital. However, the award of packages for the 2 projects have been slow. Prospects are good for AQRS to win new contracts and maintained its target of RM1.5bn in 2019. Property sales in 9M19 is lagging its target property sales of RM250m in 2019. Given the slow ramp up in progress billings and delay in winning new contracts, we cut our core 2019-2022E EPS forecasts by 31-36%.

Reaffirm BUY call with a lower TP of RM1.65

We cut our RNAV/share for AQRS to RM2.02 (from RM2.28) to reflect lower construction arm valuation (sustainable earnings assumption reduced to RM70m from RM80m) and higher net debt in 3Q19. Based on the same 20% discount to RNAV, we cut our 12-month TP to RM1.62 from RM1.82. Maintain our BUY call. Downside risks: slower order book replenishment and weak property sales.

Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	2019E	2020E	2021E
Revenue (RMm)	465.8	582.5	430.0	573.8	500.2
EBITDA (RMm)	94.5	105.7	84.0	110.7	117.8
Pretax profit (RMm)	104.2	87.3	71.0	96.0	102.9
Net profit (RMm)	67.4	63.6	50.0	69.6	74.6
EPS (sen)	16.5	13.6	10.1	14.1	15.1
PER (x)	7.3	8.9	11.9	8.6	8.0
Core net profit (RMm)	32.8	69.8	50.0	69.6	74.6
Core EPS (sen)	8.0	14.9	10.1	14.1	15.1
Core EPS growth (%)	101.7	85.7	(31.8)	39.1	7.2
Core PER (x)	15.1	8.1	11.9	8.6	8.0
Net DPS (sen)	2.0	3.0	4.0	4.0	4.0
Dividend Yield (%)	1.7	2.5	3.3	3.3	3.3
EV/EBITDA (x)	6.1	6.8	9.1	7.1	6.0
Chg in EPS (%)			(36.2)	(30.5)	(34.8)
Affin/Consensus (x)			0.8	0.8	0.7

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Gabungan AQRS

AQRS MK
Sector: Construction

RM1.21 @ 29 November 2019

BUY (maintain)

Upside 34%

Price Target: RM1.62

Previous Target: RM1.82

Price Performance

	1M	3M	12M
Absolute	-6.2%	0.0%	47.8%
Rel to KLCI	-5.2%	2.1%	60.5%

Stock Data

Issued shares (m)	493.4
Mkt cap (RMm)/(US$m)	597/143
Avg daily vol - 6mth (m)	1.1
52-wk range (RM)	0.66-1.54
Est free float	53.4%
BV per share (RM)	1.02
P/BV (x)	1.18
Net cash/ (debt) (RMm) (3Q19)	(138.9)
ROE (2019E)	12.9%
Derivatives	No
	(Warr 18/23, WP RM0.35, EP RM1.12)
Shariah Compliant	Yes

Key Shareholders

Ganjaran Gembira Sdn Bhd	10.9%
Ow Chee Cheoon	6.9%
KWAP	6.4%
EPF	6.2%

Source: Affin Hwang, Bloomberg

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High order book and unsold property stocks

The government review of the LRT3 project to cut cost led to slower construction progress billings. The launch of E'Island Lake Haven and relaunch of The Peak condominium projects generated bookings of RM136m and sales of RM45m. But we believe revenue recognition from these projects was low in 3Q19. High remaining construction order book of RM1.8bn and property unbilled sales of RM89m will sustain revenue growth in 2H19. Unsold property units worth RM532m and completed units of worth RM59m will support property sales. Net gearing increased to 0.27x at end-3Q19 compared to 0.16x at end-2018 due to negative operating cash flow of RM66.6m in 9M19. But we believe its financial position will improve as property sales accelerate.

Fig 1: Results comparison

FYE 31 Dec (RMm)	3Q18	2Q19	3Q19	QoQ % chg	YoY % chg	9M18	9M19	% YoY	9M19 Comments
Revenue	159.3	128.0	118.8	*(7.2)*	*(25.4)*	474.0	333.1	*(29.7)*	Revenue was lower across all divisions: construction (-28% yoy) due to slower LRT3 progress billings, while property development (-60% yoy) due to lower contribution from The Peak project.
Operating costs	(133.8)	(109.0)	(99.6)	*(8.6)*	*(25.6)*	(393.5)	(278.3)	*(29.3)*	Lower cost due to cost control measures implemented.
EBITDA	**25.5**	**19.0**	**19.2**	***0.9***	***(24.6)***	**80.5**	**54.8**	***(31.8)***	
EBITDA margin (%)	*16.0*	*14.9*	*16.2*	*1.3ppt*	*0.2ppt*	*17.0*	*16.5*	*-0.5ppt*	
Depreciation	(3.5)	(2.2)	(2.1)	*(2.5)*	*(38.6)*	(10.1)	(7.4)	*(27.2)*	
EBIT	**22.0**	**16.9**	**17.1**	***1.4***	***(22.4)***	**70.4**	**47.5**	***(32.5)***	
Interest expense	(1.1)	(0.8)	(1.1)	*39.0*	*(4.8)*	(4.7)	(3.1)	*(34.4)*	Lower interest expense yoy due to capitalisation of interest for property projects.
Interest income	0.8	0.5	0.3	*(27.2)*	*(57.9)*	4.1	1.2	*(70.9)*	
Associates	0.4	0.2	0.1	*(60.6)*	*(76.9)*	1.1	0.4	*(60.6)*	
Exceptional gain/(loss)	0.0	(0.0)	0.0	*NA*	*(94.3)*	0.3	(0.0)	*NA*	
Pre-tax profit	**22.1**	**16.8**	**16.5**	***(1.8)***	***(25.6)***	**71.2**	**46.0**	***(35.4)***	
Core pre-tax profit	**22.1**	**16.8**	**16.5**	***(1.9)***	***(25.5)***	**70.8**	**46.0**	***(35.0)***	
Taxation	(4.6)	(5.7)	(5.1)	*(9.5)*	*11.6*	(17.8)	(12.5)	*(29.7)*	
Tax rate (%)	*20.7*	*33.7*	*31.1*	*-2.7ppt*	*10.4ppt*	*25.0*	*27.2*	*2.2ppt*	
Minorities	(0.5)	(0.6)	(0.0)	*(95.9)*	*(95.4)*	(0.7)	(0.3)	*(52.9)*	
Net profit	**17.0**	**10.5**	**11.3**	***7.4***	***(33.6)***	**52.6**	**33.1**	***(37.1)***	Below expectations
EPS (sen)	2.9	2.2	1.9	*(13.5)*	*(35.9)*	8.9	5.4	*(39.1)*	
Core net profit	**17.0**	**10.6**	**11.3**	***7.1***	***(33.5)***	**52.3**	**33.1**	***(36.6)***	Below expectations. Exclude one-off gains.

Source: Company, Affin Hwang

Fig 2: Segmental operating profit breakdown

FYE 31 Dec (RMm)	3Q18	2Q19	3Q19	% QoQ	% YoY	9M18	9M19	YoY
Construction	25.7	18.5	19.2	*4.1*	*(25.4)*	71.7	45.1	*(37.1)*
Property devt	(5.2)	(2.6)	(2.0)	*(25.1)*	*(62.1)*	(6.0)	(0.6)	*(89.5)*
Others	1.3	0.6	(0.5)	*NA*	*NA*	12.5	1.7	*(86.4)*
Elimination	0.3	0.3	(0.3)	*NA*	*NA*	(7.1)	(0.2)	*(96.8)*
Total	**22.1**	**16.8**	**16.5**	**(1.8)**	***(25.6)***	**71.2**	**46.0**	***(35.4)***

Source: Company, Affin Hwang

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	3Q18	2Q19	3Q19	QoQ	YoY	9M18	9M19	YoY
Construction	16.9	14.9	16.6	*1.6ppt*	*-0.4ppt*	16.8	14.6	*-2.2ppt*
Property devt	(117.1)	(101.8)	226.4	*328.2ppt*	*343.5*	(15.8)	(4.2)	*11.7ppt*
Total	**13.9**	**13.1**	**13.9**	***0.8ppt***	***0.0ppt***	**15.0**	**13.8**	***-1.2ppt***

Source: Company, Affin Hwang

Fig 4: Change in RNAV and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 12x avg earnings of RM70m	100	840	960	(13)
Pre-cast concrete @ PE 12x avg earnings of RM5m	49	60	60	0
Property development @ NPV at 8.6% WACC	100	309	308	0
Petronas Chemical Basecamp, Sipitang @ NPV at 8.6% WACC	100	37	37	0
Net cash/(debt)		(139)	(103)	34
RNAV		**1,107**	**1,261**	**(12)**
No. of shares (m shrs)		493	493	0
RNAV/share (RM)		**2.24**	**2.56**	**(12)**
New shares from warrants conversion (m)		119	119	0
Fully-diluted no. of shares (m)		613	613	0
Fully-diluted RNAV/share (RM)		**2.02**	**2.28**	**(11)**
Target price at 20% discount to RNAV/share		**1.62**	**1.82**	**(11)**

Source: Affin Hwang

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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