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## Game changer in the making

We gather that Gabungan AQRS is pursuing a multi-billion Ringgit subcontract package for the East Coast Rail Link (ECRL) project. It is exploring a tie up with a potential partner to bid for the project. It has also submitted RM2.2bn worth of tenders for the Pan Borneo Highway (PBH) Sabah together with Suria Capital. AQRS launched properties with net gross development value (GDV) of RM940m in 2Q19 to drive long-term earnings and FCF growth. AQRS is one of our top market and sector BUYs with lifted target price (TP) of RM1.88, based on 20% discount to RNAV.

### Potential ECRL beneficiary

We gather that AQRS is looking to tie-up with a large Bumiputera contractor to bid for ECRL subcontract works. Finding a Bumiputera partner with a large balance sheet will allow the joint venture to bid for a multi-billion Ringgit subcontract under the Bumiputera category, which is less competitive due to preferential treatment and fewer bidders. AQRS' cost advantage is its established construction operation in KotaSAS, which will have an ECRL station, and it has access to quarry stone supplies in Pahang.

### Launched property projects

AQRS launched the E'Island Residence affordable condominium and re-launched The Peak condominium in 2Q19. AQRS achieved bookings of RM75m in 1H19, mostly for its E'island project. Take-up rate remains low due to weak property market conditions. Bank borrowings to finance both property projects are low and hence it is able to weather the weak demand and offer a rent-to-own scheme for The Peak.

### Trimmed earnings forecasts

AQRS has good prospects to grow its remaining order book of RM1.96bn, equivalent to 3.6x FY18 construction revenue. We assume it will secure RM1.5bn worth of new contracts in 2019E and RM1bn p.a. in 2020-21E. But we cut our core EPS by 3-5% in 2019-21E to reflect slower new contract awards and dilutive impact from the exercise of warrants.

### Raised target price

We raise our TP to RM1.88 from RM1.65 by narrowing the discount to RNAV to 20% from 30% previously. With the launch of new property projects, the monetisation of its land bank is closer at hand and hence we believe it is unjustified to give zero value to its property arm in our previous TP. AQRS is our top sector BUY given attractive valuations and a potential ECRL project beneficiary. Downside risk: slower order book replenishment.

### Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	2019E	2020E	2021E
Revenue (RMm)	465.8	582.5	430.6	571.0	655.9
EBITDA (RMm)	94.5	105.7	123.5	152.4	168.8
Pretax profit (RMm)	104.2	87.3	104.0	132.8	151.7
Net profit (RMm)	67.4	63.6	78.5	100.2	114.5
EPS (sen)	16.5	13.6	15.9	20.3	23.2
PER (x)	8.6	10.4	8.9	6.9	6.1
Core net profit (RMm)	32.8	69.8	78.5	100.2	114.5
Core EPS (sen)	8.0	14.9	15.9	20.3	23.2
Core EPS growth (%)	101.7	85.7	7.0	27.6	14.2
Core PER (x)	17.6	9.5	8.9	6.9	6.1
Net DPS (sen)	2.0	3.0	4.0	4.0	4.0
Dividend Yield (%)	1.4	2.1	2.8	2.8	2.8
EV/EBITDA (x)	7.0	7.7	6.8	5.7	4.5
Chg in EPS (%)			(4.6)	(4.3)	(2.8)
Affin/Consensus (x)			1.0	1.0	1.0

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

## Company Update

# Gabungan AQRS

AQRS MK

Sector: Construction

**RM1.41 @ 11 July 2019**
**BUY (maintain)**

Upside 32%

**Price Target: RM1.88**

Previous Target: RM1.65



## Price Performance

	1M	3M	12M
Absolute	5.2%	0.7%	25.1%
Rel to KLCI	3.5%	-2.6%	25.8%

## Stock Data

Issued shares (m)	493.2
Mkt cap (RMm)/(US\$m)	695.5/169.0
Avg daily vol - 6mth (m)	3.9
52-wk range (RM)	0.70-1.50
Est free float	55.1%
BV per share (RM)	0.99
P/BV (x)	1.4
Net cash/ (debt) (RMm) (1Q19)	(94.6)
ROE (2019E)	19.6%
Derivatives	No
(Warr 18/23, WP RM0.43, EP RM1.12)	
Shariah Compliant	Yes

## Key Shareholders

Ganjaran Gembira Sdn	10.9%
Ow Chee Cheoon	6.9%
Brahmal Vasudevan	5.9%

Source: Affin Hwang, Bloomberg

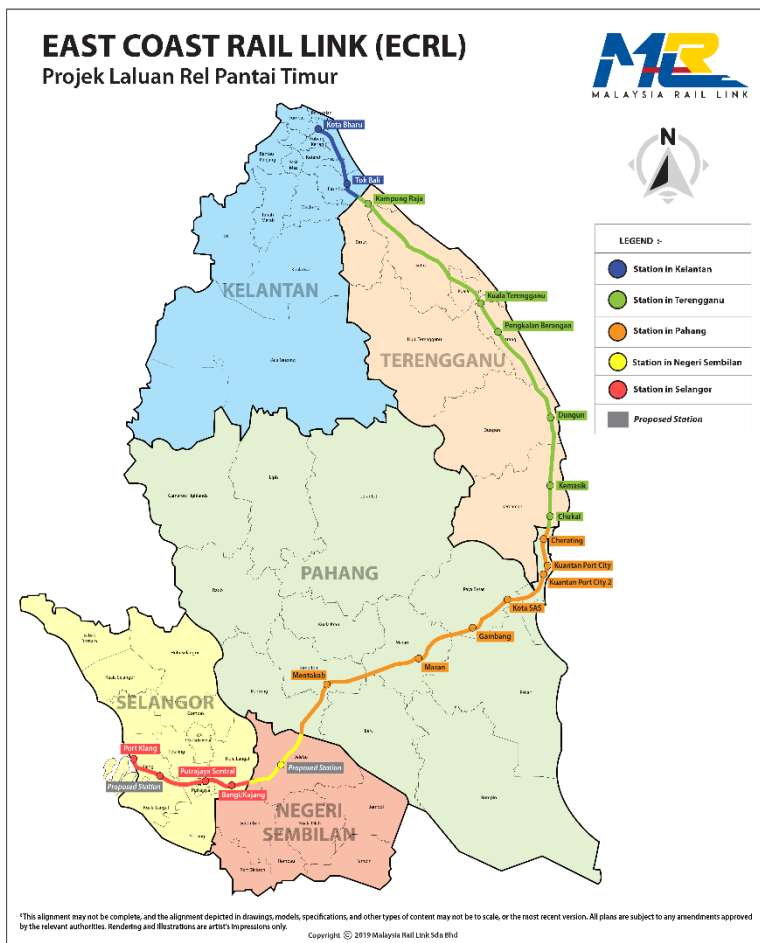
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**Potential large package for ECRL**

Under the Malaysia-China ECRL agreement, 40% of ECRL contract value of RM44bn, ie, RM17.6bn, will be awarded to local contractors. Based on the typical Bumiputera contractor allocation at 30% of total contract value, AQRS could bid for packages worth about RM5.3bn. There is potential upside to our earnings forecasts if AQRS wins a higher value of new contracts than our assumptions of RM1.5bn in 2019E and RM1bn p.a. in 2020-21E.

**Fig 1: Proposed alignment for East Coast Rail Link**



Source: Malaysia Rail Link

**Earnings is sensitive to new contract assumptions**

Core EPS is sensitive to change in construction new contract and EBIT margin assumptions as the construction division remains the main earnings contributor, contributing 68-88% of group EBIT in 2019-21E. Based on our sensitivity analysis, every additional RM100m new contracts secured in 2019 above our assumption will boost core EPS by 0.4-1.0% in 2019-21E. Based on our sensitivity analysis, every 1ppt increase in EBIT margin in 2019 above our assumption will boost core EPS by 0.7-2.1% in 2019-21E.

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Fig 2: Core EPS sensitivity to change in new contract assumptions

FYE 31 Dec	Base case (RMm)	Change (RMm)	2019E EPS chg (%)	2020E EPS chg (%)	2021E EPS chg (%)
<b>New contracts</b>					
2019E	1,500	+100	0.4	0.6	1.0
2020E	1,000	+100	0.0	0.3	0.5
2021E	1,000	+100	0.0	0.0	0.5

Source: Affin Hwang estimates

Fig 3: Core EPS sensitivity to change in construction EBIT assumptions

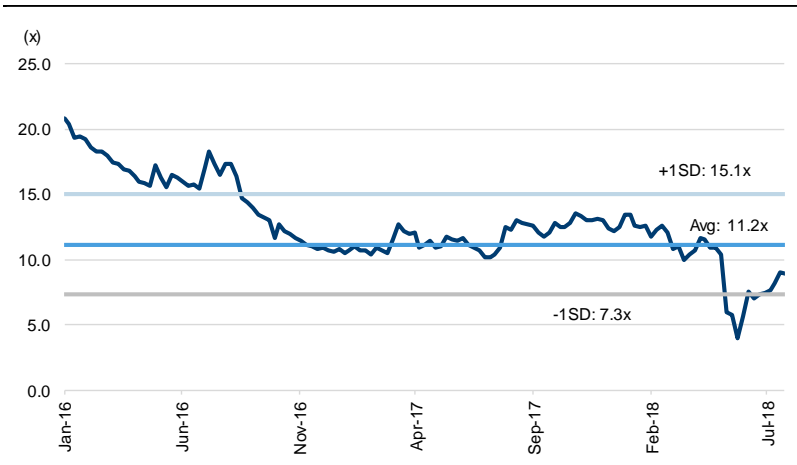
FYE 31 Dec	Base case (RMm)	Change (RMm)	2019E EPS chg (%)	2020E EPS chg (%)	2021E EPS chg (%)
<b>EBIT margin</b>					
2019E	8.0	+1 ppt	0.7	1.2	2.1
2020E	8.0	+1 ppt	0.0	0.4	0.7
2021E	8.0	+1 ppt	0.0	0.0	0.7

Source: Affin Hwang estimates

**Attractive valuations**

AQRS is trading at attractive 2019E PER of 9x compared to its 12-month forward mean PER of 11x and construction sector weighted-average PER of 18x. We are projecting strong 3-year core EPS CAGR of 17% in 2019-21E. Applying a narrower discount to RNAV of 20% (compared to 30% previously), we raise our TP to RM1.88 from RM1.65 previously. At our new TP of RM1.88, implied 2020E core PER remains undemanding at 9x. AQRS remains our one of our top market and sector BUYs. Potential upside to our new TP is 32%.

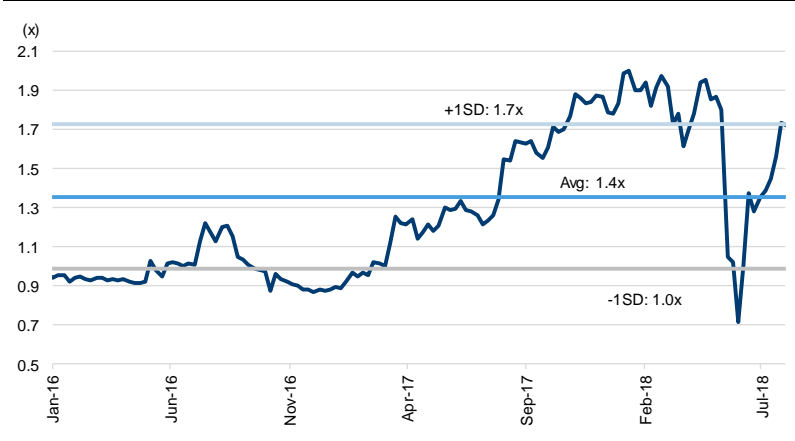
Fig 4: AQRS 12-month forward PER



Source: Bloomberg, Affin Hwang

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Fig 5: AQRS 12-month forward PBV



Source: Bloomberg, Affin Hwang

Fig 6: Construction/infrastructure sector peer comparison

Company Name	Rating	Share Pr (RM)	TP (RM)	Mkt Cap (RM bn)	Year end	Core PE (x)	Core EPS growth (%)	EV/EBITDA (x)	P/BV (x)	ROE (%)	Div Yield (%)	RNAV/share	Sh Pr discount to RNAV	TP Discount to RNAV		
UM CORP	HOLD	2.35	2.20	8.5	Mar	19.0	17.2	17.3	10.7	12.4	0.8	4.0	2.3	2.74	14	10
GAMUDA	HOLD	3.90	4.08	9.6	Jul	15.5	15.5	(8.9)	(6.9)	11.8	1.3	8.3	3.1	4.08	4	0
MRCB	HOLD	0.95	0.90	4.2	Dec	50.4	35.0	70.0	43.9	35.6	0.9	1.7	1.8	1.50	37	40
WCT	HOLD	1.10	0.96	1.6	Dec	16.0	12.1	(5.9)	28.9	16.4	0.5	2.9	1.6	1.93	43	50
SUNWAY CONSTRUCTION	BUY	2.14	2.24	2.8	Dec	18.0	17.3	1.7	4.2	9.5	4.2	23.4	3.3	2.49	14	10
GABUNGAN AQRS	BUY	1.41	1.88	0.7	Dec	8.9	6.9	7.0	27.6	6.8	2.1	14.9	2.8	2.35	40	30
WZ SATU	SELL	0.27	0.14	0.2	Aug	n.m	n.m	(68.5)	76.8	n.m	0.8	(8.6)	0.0	0.17	-54	10
PINTARAS	BUY	2.53	3.16	0.4	Jun	8.9	9.3	51.9	(4.4)	4.1	1.3	14.6	7.9	NA	NA	NA
TALIWORKS	BUY	0.91	1.14	1.8	Dec	26.2	18.1	96.3	45.2	14.8	1.8	6.9	6.6	1.26	28	10
HSS ENGINEERING	BUY	1.18	1.30	0.6	Dec	41.1	23.5	(35.5)	74.9	19.7	2.6	6.3	0.0	NA	NA	NA
<b>Average</b>				<b>30.4</b>		<b>18.5</b>	<b>17.0</b>	<b>7.3</b>	<b>7.4</b>	<b>13.1</b>	<b>1.6</b>	<b>5.7</b>	<b>2.9</b>	<b>2.1</b>	<b>16</b>	<b>20</b>

Source: Company, Affin Hwang

Fig 7: Change in RNAV and target price assumptions

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 12x avg earnings of RM80m	100	960	960	0
Pre-cast concrete @ PE 12x avg earnings of RM5m	49	60	60	0
Property development @ NPV at 8.6% WACC	100	313	313	0
Petronas Chemical Basecamp, Sipitang @ NPV at 8.6% WACC	100	37	37	0
Net cash/(debt)		(95)	(95)	0
<b>RNAV</b>		<b>1,275</b>	<b>1,275</b>	<b>0</b>
No. of shares (m shrs)		479	479	0
<b>RNAV/share (RM)</b>		<b>2.66</b>	<b>2.66</b>	<b>0</b>
New shares from warrants conversion (m)		119	119	0
Fully-diluted no. of shares (m)		599	599	0
<b>Fully-diluted RNAV/share (RM)</b>		<b>2.35</b>	<b>2.35</b>	<b>0</b>
<b>Target price at 20% discount to RNAV/share</b>		<b>1.88</b>	<b>1.65</b>	<b>14</b>

Source: Affin Hwang

## Gabungan AQRS – FINANCIAL SUMMARY

### Profit & Loss Statement

FYE 31 Dec (RMm)	2017	2018	2019E	2020E	2021E
<b>Revenue</b>	<b>465.8</b>	<b>582.5</b>	<b>430.6</b>	<b>571.0</b>	<b>655.9</b>
Operating expenses	(371.3)	(476.8)	(307.1)	(418.6)	(487.2)
<b>EBITDA</b>	<b>94.5</b>	<b>105.7</b>	<b>123.5</b>	<b>152.4</b>	<b>168.8</b>
Depreciation	(15.5)	(12.6)	(15.1)	(17.6)	(20.1)
<b>EBIT</b>	<b>79.1</b>	<b>93.1</b>	<b>108.3</b>	<b>134.7</b>	<b>148.7</b>
Net int income/(expense)	(9.5)	(0.5)	(9.0)	(9.0)	(6.4)
Associates' contribution	0.0	0.9	4.7	7.1	9.4
Forex gain/(loss)	0.0	0.0	0.0	0.0	0.0
Exceptional gain/(loss)	34.7	(6.2)	0.0	0.0	0.0
<b>Pretax profit</b>	<b>104.2</b>	<b>87.3</b>	<b>104.0</b>	<b>132.8</b>	<b>151.7</b>
Tax	(32.6)	(21.6)	(22.9)	(29.2)	(33.4)
Minority interest	(4.2)	(2.2)	(2.6)	(3.3)	(3.8)
<b>Net profit</b>	<b>67.4</b>	<b>63.6</b>	<b>78.5</b>	<b>100.2</b>	<b>114.5</b>

### Balance Sheet Statement

FYE 31 Dec (RMm)	2017	2018	2019E	2020E	2021E
Fixed assets	66.0	63.9	98.8	131.1	160.1
Other long term assets	36.5	36.9	40.4	45.7	52.8
<b>Total non-current assets</b>	<b>102.4</b>	<b>100.8</b>	<b>139.2</b>	<b>176.9</b>	<b>212.8</b>
Cash and equivalents	136.4	130.5	90.6	(12.9)	42.6
Stocks	223.3	379.0	(28.1)	493.3	41.1
Debtors	572.0	199.8	134.8	371.4	210.2
Other current assets	50.7	613.0	613.0	613.0	613.0
<b>Total current assets</b>	<b>982.4</b>	<b>1,322.3</b>	<b>810.3</b>	<b>1,464.8</b>	<b>906.9</b>
Creditors	286.7	557.8	66.6	761.3	189.8
Short term borrowings	159.0	176.7	206.7	124.0	74.4
Other current liabilities	208.1	181.3	311.2	307.5	308.2
<b>Total current liabilities</b>	<b>653.8</b>	<b>915.8</b>	<b>584.5</b>	<b>1,192.8</b>	<b>572.4</b>
Long term borrowings	29.2	29.0	29.8	29.8	29.8
Other long term liabilities	0.1	0.2	0.2	0.2	0.2
<b>Total long term liabilities</b>	<b>29.3</b>	<b>29.2</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>
<b>Shareholders' Funds</b>	<b>393.7</b>	<b>474.2</b>	<b>332.0</b>	<b>412.5</b>	<b>507.3</b>
Minority interests	8.1	3.9	6.5	9.8	13.6

### Cash Flow Statement

FYE 31 Dec (RMm)	2017	2018	2019E	2020E	2021E
EBIT	79.1	93.1	108.3	134.7	148.7
Depreciation & amortisation	15.5	12.6	15.1	17.6	20.1
Working capital changes	54.3	(87.9)	(19.2)	(63.3)	41.9
Cash tax paid	(13.8)	(33.9)	(22.9)	(29.2)	(33.4)
Others	14.7	(7.8)	(4.3)	(2.0)	3.0
<b>Cashflow from operation</b>	<b>149.7</b>	<b>(23.9)</b>	<b>77.1</b>	<b>57.9</b>	<b>180.3</b>
Capex	(1.4)	(6.0)	(50.0)	(50.0)	(49.0)
Disposal/(purchases)	(9.1)	(38.3)	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
<b>Cash flow from investing</b>	<b>(10.4)</b>	<b>(44.3)</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(49.0)</b>
Debt raised/(repaid)	(80.1)	47.7	0.0	(82.7)	(49.6)
Equity raised/(repaid)	54.3	56.1	0.0	0.0	0.0
Net interest income/(exp)	(0.4)	1.9	(9.0)	(9.0)	(6.4)
Dividends paid	(8.9)	(29.8)	(19.7)	(19.7)	(19.7)
Others	(164.6)	(51.8)	0.0	0.0	0.0
<b>Cash flow from financing</b>	<b>(199.7)</b>	<b>24.1</b>	<b>(28.8)</b>	<b>(111.4)</b>	<b>(75.7)</b>
<b>Free Cash Flow</b>	<b>148.4</b>	<b>(29.9)</b>	<b>27.1</b>	<b>7.9</b>	<b>131.3</b>

Source: Company, Affin Hwang estimates

### Key Financial Ratios and Margins

FYE 31 Dec (RMm)	2017	2018	2019E	2020E	2021E
<b>Growth</b>					
Revenue (%)	41.1	25.1	(26.1)	32.6	14.9
EBITDA (%)	43.4	11.8	16.8	23.4	10.8
Core net profit (%)	111.1	112.8	12.6	27.6	14.2
<b>Profitability</b>					
EBITDA margin (%)	20.3	18.1	28.7	26.7	25.7
PBT margin (%)	22.4	15.0	24.2	23.3	23.1
Net profit margin (%)	14.5	10.9	18.2	17.6	17.5
Effective tax rate (%)	31.3	24.7	22.0	22.0	22.0
ROA (%)	3.1	2.4	3.2	3.6	3.9
Core ROE (%)	8.9	16.1	19.5	26.9	24.9
ROCE (%)	15.4	18.7	21.1	25.5	25.9
Dividend payout ratio (%)	12.8	22.5	25.1	19.7	17.2
<b>Liquidity</b>					
Current ratio (x)	1.5	1.4	1.4	1.2	1.6
Op. cash flow (RMm)	149.7	(23.9)	77.1	57.9	180.3
Free cashflow (RMm)	148.4	(29.9)	27.1	7.9	131.3
FCF/share (sen)	34.5	(6.3)	5.5	1.6	26.6
<b>Asset management</b>					
Debtors turnover (days)	448.2	125.2	114.3	237.4	116.9
Stock turnover (days)	175.0	237.5	(23.8)	315.4	22.9
Creditors turnover (days)	224.7	349.5	56.4	486.7	105.6
<b>Capital structure</b>					
Net gearing (%)	13.2	15.9	43.9	40.4	12.1
Interest cover (x)	NA	NA	NA	NA	NA

### Quarterly Profit & Loss

FYE 31 Dec (RMm)	1Q18	2Q18	3Q18	4Q18	1Q19
<b>Revenue</b>	<b>127.5</b>	<b>187.2</b>	<b>159.3</b>	<b>111.3</b>	<b>86.3</b>
Operating expenses	(103.3)	(156.4)	(133.8)	(85.3)	(69.8)
<b>EBITDA</b>	<b>24.1</b>	<b>30.8</b>	<b>25.5</b>	<b>26.0</b>	<b>16.6</b>
Depreciation	(3.3)	(3.4)	(3.5)	(2.5)	(3.0)
<b>EBIT</b>	<b>20.9</b>	<b>27.5</b>	<b>22.0</b>	<b>23.5</b>	<b>13.5</b>
Net int income/(expense)	0.3	(0.6)	(0.3)	0.1	(0.9)
Associates' contribution	0.6	0.1	0.4	(0.1)	0.1
Forex gain/(loss)	0.0	0.0	0.0	0.0	0.0
Exceptional items	0.3	0.0	0.0	(6.5)	0.0
<b>Pretax profit</b>	<b>22.0</b>	<b>27.0</b>	<b>22.1</b>	<b>17.0</b>	<b>12.8</b>
Tax	(5.4)	(15.8)	(4.6)	(3.8)	(1.8)
Minority interest	(0.1)	(0.6)	(0.5)	(1.5)	0.2
<b>Net profit</b>	<b>16.5</b>	<b>10.7</b>	<b>17.0</b>	<b>11.8</b>	<b>11.3</b>
<b>Core net profit</b>	<b>16.2</b>	<b>10.7</b>	<b>17.0</b>	<b>18.3</b>	<b>11.3</b>
<b>Margins (%)</b>					
EBITDA	18.9	16.5	16.0	23.4	19.2
PBT	17.2	14.4	13.9	15.3	14.8
Net profit	12.9	5.7	10.7	10.6	13.0

**Equity Rating Structure and Definitions**


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<b>BUY</b>	Total return is expected to exceed +10% over a 12-month period
<b>HOLD</b>	Total return is expected to be between -5% and +10% over a 12-month period
<b>SELL</b>	Total return is expected to be below -5% over a 12-month period
<b>NOT RATED</b>	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.*

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