

Out think. Out perform.

Property drag

Gabungan AQRS' 2Q19 results remained weak with the property division, incurring a net loss of RM1.6m. Weak property sales and the slow progress billings on the Light Rail Transit Line 3 (LRT3) project contributed to the 39% yoy drop in 1H19 net profit to RM22m. We cut our core EPS by 5-13% in 2019-22E. We expect earnings growth to accelerate in 2H19 and new contract wins to expand its order book in 2H19. AQRS remains our top sector BUY with reduced target price of RM1.82, based on 20% discount to RNAV.

Below expectations

Net profit of RM22m (-39% yoy) in 1H19 comprised only 28-29% of market consensus and our FY19 forecasts of RM75-78m. We were surprised by the slow progress billings for its construction division and weak property sales. Revenue fell 32% yoy to RM214m with both construction (-30% yoy) and property (-52% yoy) divisions generating lower revenue. The government review of the LRT3 project to cut cost led to slower construction progress billings, while the launch of its E'Island Lake Haven condominium project in April saw weak maiden sales (about 25% take-up rate).

Lower profit margin

PBT margin ease to 13.8% in 1H19 from 15.6% in 1H18 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 RM30m in 1H19.

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. AQRS. Prospects are good for AQRS to win new contracts and it maintains target of RM1.5bn in 2019. AQRS maintains target property sales at RM250m in 2019 and introduce a new target of RM300m in 2020.

Reaffirm BUY call with a lower TP of RM1.82

We cut our RNAV/share for AQRS to RM2.56 (from RM2.66) to reflect lower property arm valuation, higher net debt in 2Q19 and dilution from new shares issued as dividends. Based on the same 20% discount to RNAV, we cut our TP to RM1.82 from RM1.88. Maintain our BUY call.. Downside risk: slower order book replenishment.

Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	2019E	2020E	2021E
Revenue (RMm)	465.8	582.5	468.0	503.9	787.0
EBITDA (RMm)	94.5	105.7	102.9	131.8	157.2
Pretax profit (RMm)	104.2	87.3	90.2	118.6	143.7
Net profit (RMm)	67.4	63.6	68.1	89.5	108.5
EPS (sen)	16.5	13.6	13.8	18.1	22.0
PER (x)	7.4	9.0	8.8	6.7	5.6
Core net profit (RMm)	32.8	69.8	68.1	89.5	108.5
Core EPS (sen)	8.0	14.9	13.8	18.1	22.0
Core EPS growth (%)	101.7	85.7	(7.2)	31.4	21.2
Core PER (x)	15.2	8.2	8.8	6.7	5.6
Net DPS (sen)	2.0	3.0	4.0	4.0	4.0
Dividend Yield (%)	1.6	2.5	3.3	3.3	3.3
EV/EBITDA (x)	6.1	6.9	7.4	5.5	4.5
Chg in EPS (%)			(13.2)	(10.6)	(5.3)
Affin/Consensus (x)			0.9	0.9	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Gabungan AQRS

AQRS MK

Sector: Construction

RM1.22 @ 22 August 2019
BUY (maintain)

Upside 49%

Price Target: RM1.82

Previous Target: RM1.88



Price Performance

	1M	3M	12M
Absolute	-15.3%	-1.6%	+1.2%
Rel to KLCI	-12.6%	-1.7%	+13.3%

Stock Data

Issued shares (m)	493.4
Mkt cap (RMm)/(US\$m)	602/144
Avg daily vol - 6mth (m)	2.2
52-wk range (RM)	0.66-1.54
Est free float	54.6%
BV per share (RM)	1.02
P/BV (x)	1.2
Net cash/ (debt) (RMm) (2Q19)	(103.3)
ROE (2019E)	17.1%
Derivatives	No
(Warr 18/23, WP RM0.385, EP RM1.12)	
Shariah Compliant	Yes

Key Shareholders

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

Source: Affin Hwang, Bloomberg

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High order book and unsold property stocks

Revenue jumped 48% qoq to RM128m, mainly driven by the resumption of works on the LRT3 in May and higher progress billings for its KotaSAS and SUKE highway projects. High remaining construction order book of RM2bn and property unbilled sales of RM90m will sustain revenue growth in 2H19. Unsold property units worth RM532m and completed units of worth RM41m will support property sales.

Fig 1: Results comparison

FYE 31 Dec (RMm)	2Q18	1Q19	2Q19	QoQ % chg	YoY % chg	1H18	1H19	YoY % chg	1H19 Comments
Revenue	187.2	86.3	128.0	48.2	(31.6)	314.7	214.3	(31.9)	Revenue was lower across all divisions: construction (-30% yoy) due to slower LRT3 progress billings, while property development (-52% yoy) due to lower contribution from The Peak project.
Operating costs	(156.4)	(69.8)	(109.0)	56.2	(30.3)	(259.7)	(178.7)	(31.2)	
EBITDA	30.8	16.6	19.0	14.8	(38.2)	55.0	35.6	(35.2)	
<i>EBITDA margin (%)</i>	16.5	19.2	14.9	-4.3ppt	-1.6ppt	17.5	16.6	4.8ppt	
Depreciation	(3.4)	(3.0)	(2.2)	(28.3)	(34.9)	(6.6)	(5.2)	(21.2)	
EBIT	27.5	13.5	16.9	24.5	(38.6)	48.3	30.4	(37.1)	
Interest expense	(1.6)	(1.3)	(0.8)	(41.5)	(51.5)	(3.6)	(2.0)	(43.4)	Lower interest expense yoy due to capitalisation of interest for property projects.
Interest income	1.0	0.4	0.5	15.1	(53.8)	3.3	0.9	(74.0)	
Associates	0.1	0.1	0.2	91.2	70.3	0.7	0.3	(51.8)	
Exceptional gain/(loss)	0.0	0.0	(0.0)	n.m	n.m	0.3	(0.0)	n.m	
Pre-tax profit	27.0	12.8	16.8	31.3	(38.0)	49.0	29.5	(39.8)	
Core pre-tax profit	27.0	12.8	16.8	31.5	(37.9)	48.7	29.5	(39.4)	
Taxation	(15.8)	(1.8)	(5.7)	222.6	(64.2)	(13.2)	(7.4)	(44.0)	
<i>Tax rate (%)</i>	58.5	13.7	33.7	20.0ppt	-24.7ppt	27.0	25.1	-3.3ppt	
Minorities	(0.6)	0.2	(0.6)	n.m	(1.8)	(0.2)	(0.3)	47.2	
Net profit	10.7	11.3	10.5	(6.4)	(1.1)	35.6	21.8	(38.7)	Below expectations. Weak 1H19 but expect stronger 2H19 earnings.
EPS (sen)	3.7	2.3	2.2	(6.9)	(42.2)	11.7	4.5	(62.1)	
Core net profit	10.7	11.3	10.6	(6.1)	(0.9)	35.3	21.8	(38.2)	Below expectations. Exclude one-off gains.

Source: Company, Affin Hwang

Fig 2: Segmental operating profit breakdown

FYE 31 Dec (RMm)	2Q18	1Q19	2Q19	% QoQ	% YoY	1H18	1H19	YoY
Construction	22.1	7.5	18.5	146.4	(16.5)	46.0	25.9	(43.6)
Property devt	0.6	4.0	(2.6)	n.m	n.m	(0.8)	1.3	n.m
Others	2.8	1.6	0.6	(63.3)	(79.4)	11.2	2.2	(80.7)
Elimination	1.5	(0.3)	0.3	n.m	(77.3)	(7.3)	0.1	n.m
Total	27.0	12.8	16.8	31.3	(38.0)	49.0	29.5	(39.8)

Source: Company, Affin Hwang

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	2Q18	1Q19	2Q19	QoQ	YoY	1H18	1H19	YoY
Construction	13.3	10.7	14.9	4.3ppt	1.6ppt	16.7	13.4	-3.3ppt
Property devt	3.1	29.4	n.m	n.m	n.m	(2.4)	8.3	10.8ppt
Total	14.4	14.8	13.1	-1.7ppt	-1.4ppt	15.6	13.8	-1.8ppt

Source: Company, Affin Hwang

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Fig 4: Change in RNAV and target price

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	308	313	(2)
Petronas Chemical Basecamp, Sipitang @ NPV at 8.6% WACC	100	37	37	0
Net cash/(debt)		(103)	(95)	9
RNAV		1,261	1,275	(1)
No. of shares (m shrs)		493	479	3
RNAV/share (RM)		2.56	2.66	(4)
New shares from warrants conversion (m)		119	119	0
Fully-diluted no. of shares (m)		613	599	2
Fully-diluted RNAV/share (RM)		2.28	2.36	(4)
Target price at 20% discount to RNAV/share		1.82	1.88	(3)

Source: Affin Hwang

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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