

Gabungan AQRS Berhad

(3794 | AQRS MK) Main | Construction

Maintain BUY

Sluggish contribution from property segment

KEY INVESTMENT HIGHLIGHTS

- **Gabungan AQRS` s earnings in 3QFY19 came in at RM11.3m (-33.6%yoy)**
- **Contribution from construction segment was the largest, representing 89.2% of total revenue**
- **Property`s revenue deteriorated by -60.0%yoy in 9MFY19**
- **We maintain BUY on the stock with a new TP of RM1.65**

Earnings lagged. The group`s earnings shrank -33.6%yoy to RM11.3m in 3QFY2019 due to lower work progress. Notably, revenue in corresponding period last year was at a high-base due to LRT3 contribution. Cumulatively, AQRS recorded PATAMI of RM33.1m (-37.1%yoy) in 9MFY19 which accounted for only 61.0% and 52.9% of our and consensus respective full year estimates. Positively, the group has declared an interim dividend of 1.5sen/share tax exempt amounting to RM7.4 million, implying ~28% payout.

During the period, construction segment made up 89.2% of total revenue. The income in 3QFY19 was largely contributed by the work progress for the Sungai Besi – Ulu Kelang (SUKE) Highway, Pusat Pentadbiran Sultan Ahmad Shah and LRT3. The construction division recorded a PBT of RM19.3m, lower by -25.1%yoy compared to the year before. As of 30 September 2019, AQRS outstanding construction order book stood at RM1.8 billion, which will keep the company busy until 2022. Moving forward, this segment is expected to gain support from growing orderbook with a good mix of both infrastructure and building jobs.

In 3QFY19, property division recorded -RM0.9m revenue, contracting by >-100%yoy from corresponding period last year.

This contraction was mainly attributable to lower work progress on The Peak project as the project was already near its completion stage. AQRS's property development division reported a PBT of -RM1.97m (-62.1%yoy) compared to PBT of -RM5.18m in 3QFY18. This improvement was due to reduction of operating expenses by RM6.9m. Since the launch of E'Island Lake Haven, and the relaunch of The Peak and Contours Melawati Heights, property segment has received RM136m worth of bookings. Up to this quarter, AQRS has signed RM45m worth of sale and purchase agreements for E'Island Lake. Moving ahead, the group expects property development division to be a key contributor to cash flow from 2020 to 2023.

Adjusted Target Price (TP): RM1.65
(previously RM1.72)

RETURN STATISTICS	
Price @ 29th Nov 2019 (RM)	RM1.21
Expected share price return (%)	+36.4
Expected dividend yield (%)	+1.2
Expected total return (%)	+37.6

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-6.2	-5.2
3 months	-3.2	2.1
12 months	+47.8	60.5

KEY STATISTICS

FBM KLCI	1561.74
Syariah compliant	Yes
Issue shares (m)	481.7
Estimated free float (%)	53.4
Market Capitalisation (RM'm)	597.0
52-wk price range	RM0.66–RM1.54
Beta vs FBM KLCI (x)	1.5
Monthly velocity (%)	43.0
Monthly volatility (%)	26.9
3-mth average daily volume (m)	0.89
3-mth average daily value (RM'm)	1.12
Top Shareholders (%)	
Mac Ngan Boon	10.86
FIL Ltd	6.88
Lembaga Tabung Haji	6.43

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Impact on earnings. We trimmed our estimates by -3.2 to -3.5% for FY19E and FY20E respectively as earnings tracked behind our expectation range.

BUY recommendation on the stock with an adjusted TP of RM 1.65. We ascribe a PE multiple of 13x to FY20EPS. Despite construction sector and economic headwinds, AQRS continues to be resilient and managed to efficiently cruise ahead. Moving forward, AQRS is expected to further reduce its total operating cost and interest expense. Accordingly, this will possibly create a more efficient operation, to mitigate adverse sector changes. 

INVESTMENT STATISTICS

FYE Dec	2016	2017	2018	2019E	2020E
Revenue (RM'm)	330.00	469.40	582.47	750.31	966.50
Op/Inc (RM'm)	41.28	82.60	91.81	90.04	115.98
PATAMI (RM'm)	33.30	48.00	63.57	52.52	77.32
EPS (Sen)	7.69	8.70	10.81	8.65	12.74
EPS (Growth)	409.0%	13.2%	24%	-20%	47.2%
PER (x)	12.38	14.0	11.3	14.0	9.5

Source: Company, MIDFR

3QFY19 Results Review

FYE Dec (RM'm)	3Q19	3Q18	2Q19	YoY Chg	QoQ Chg	9MFY19	9MFY18	YoY Chg
Revenue	118.8	159.3	128.0	-25.4%	-7.2%	333.1	474.0	-29.7%
Other Income	1.9	0.9	4.0	106.4%	-51.8%	6.6	4.7	39.2%
Operating Cost	(12.8)	(14.1)	(10.1)	-9.1%	27.4%	(32.7)	(36.6)	-10.5%
Finance Cost	(1.1)	(1.1)	(0.8)	-4.8%	39.0%	(3.1)	(4.7)	-34.4%
Pre-tax profit	16.5	22.1	16.8	-25.6%	-1.8%	46.0	71.2	-35.4%
Taxation	(5.1)	(4.6)	(5.7)	11.6%	-9.5%	(12.5)	(17.8)	-29.7%
PATAMI	11.3	17.0	10.5	-33.6%	7.4%	33.1	52.6	-37.1%
Diluted EPS (sen)	1.9	2.9	1.7	-35.9%	7.5%	5.4	8.9	-39.1%
	3Q19	3Q18	2Q19	+/- ppts	+/- ppts	9MFY19	9MFY18	+/- ppts
Pre-tax margin	13.9%	13.9%	13.1%	0.0	0.8	13.8%	15.0%	-1.2
PATAMI margin	9.5%	10.7%	8.2%	-1.2	1.3	9.9%	11.1%	-1.2
Effective tax rate	31.1%	20.7%	33.7%	10.4	-2.7	27.2%	25.0%	2.2

Segmental breakdown

Revenue	3Q19	3Q18	2Q19	YoY Chg	QoQ Chg	9MFY19	9MFY18	YoY Chg
Construction	115.95	152.008	123.44	-23.7%	-6.1%	309.46	427.5	-27.6%
Property	-0.87	4.424	2.58	-119.6%	-133.7%	15.15	37.91	-60.0%
Others	3.71	2.839	1.97	30.6%	88.3%	8.52	8.5	0.0%
TOTAL	118.8	159.3	128.0	-25.4%	-7.2%	333.1	474.0	-29.7%
PBT	3Q19	3Q18	2Q19	YoY Chg	QoQ Chg	9MFY19	9MFY18	YoY Chg
Construction	19.31	25.78	7.49	-25.1%	157.8%	45.15	71.72	-37.1%
Property	-1.97	-5.18	3.96	-62.1%	-149.7%	-0.63	-6.00	-89.5%
Others	-0.24	1.93	1.58	-112.2%	-114.9%	1.70	12.5	-86.4%
TOTAL	17.11	22.53	13.03	-24.1%	31.3%	46.2	78.2	-40.9%
PBT margin	3Q19	3Q18	2Q19	+/- ppts	+/- ppts	9MFY19	9MFY18	+/- ppts
Construction	17%	17%	6%	-31%	1058%	15%	17%	-219%
Property	NA	-117%	154%	NA	NA	-4%	NA	NA

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.