

23 August 2019 | 2QFY19 Results Review

## Gabungan AQRS Berhad

*Construction progress to accelerate further*

**Maintain BUY**

**Unchanged Target Price (TP): RM1.72**

### INVESTMENT HIGHLIGHTS

- **Gabungan AQRS reported 2QFY19 revenue of RM128.0m**
- **Construction division still the largest revenue contributor representing 96.4% of the group's revenue**
- **The property development division registered revenue decline of -86.2%yoy**
- **Maintain BUY with an unchanged TP of RM 1.72**

#### **AQRS registered RM128.0m (-31.6%yoy) of revenue in 2QFY19.**

Accordingly, the cumulative quantum arrived to RM214.3m in 1HFY19, a decline of -31.9%yoy from the same period last year. For the quarter (2QFY19) under review, the group reported PATAMI of RM10.5m (-44.8%yoy), taking the cumulative number to RM21.8m (-38.7%yoy) in 1HFY19. It constitutes 40.2% and 29.0% of our and market's full year estimates. Qualitatively, the earnings reported were anaemic, but our optimism on the stock is unscathed.

#### **Contribution from construction jobs was the largest, representing 96.4% of revenue in 2QFY19.**

Nonetheless, growth was weakened by the slower progress of high-value packages namely LRT3, clinched back in October 2017. Following the cost review by government, we understand that work progress was already catching up in 3QFY19 against the scheduled work program. We are already seeing that piling works are shifting into higher gear. The superstructure and station works carries significant values of the LRT3 package, with the two components expected to begin generating revenue towards the year end. In consideration of the group's plan to deploy more resources in 2H19, the outlook on progress billings appears encouraging.

#### **During the quarter, the property development division registered**

-86.2%yoy lower revenue of RM2.5m. The negative deviation was mainly due to lower work progress on The Peak project as the project approached its completion stage. In terms of earnings, the segment reported a loss of -RM1.8m compared to a profitable 2QFY18. Moving forward, we expect that the relaunch of The Peak in 3QFY19 will stimulate better take-up rate (currently at 28.3%), buttressed by the initiatives of home ownership scheme and a cashback package. As of June 2019, the group's unbilled sales stood at RM89.6m with unsold property units valued at RM532.2m.

RETURN STATS	
Price (22 August 2019)	RM1.22
Target Price	RM1.72
Expected Share Price Return	+41.0%
Expected Dividend Yield	+0.0%
<b>Expected Total Return</b>	<b>+41.0%</b>

STOCK INFO	
KLCI	1,602.47
Bursa / Bloomberg	5226 / AQRS MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	493.43
Par Value (RM)	1.00
Market cap. (RM'm)	602.0
Price over NA	1.22
52-wk price Range	RM0.66-RM1.54
Beta (against KLCI)	1.59
3-mth Avg Daily Vol	1.40m
3-mth Avg Daily Value	RM1.91m
Major Shareholders (%)	
Ganjaran Gembira	10.86
Ow Chee Cheoon	6.88
Brahmal Vasudevan	5.89
Kenanga Unit Trust	5.83

**Impact on earnings.** The earnings blip in 1HFY19 was expected, given the unique circumstance of unexpected job slowdown. In recognition of this, we make no changes to earning at this juncture. Unless there is material announcement stemmed from Gabungan’s result briefing held today, we expect our annual estimates to remain largely intact.

**Maintain BUY with an unchanged TP of RM 1.72.** Our TP was derived after pegging Gabungan’s FY20 EPS to PE of 13x. The current share price looks appealing, implying a potential return of >40%. Near term catalyst for the stock includes the upcoming tender call of ECRL packages, which will commence in 4QFY19 with construction works to potentially begin within the same quarter. Gabungan’s construction is currently involved with a project in the state of Pahang. Geographically, the site area is located in Kota SAS, in proximity with ECRL stretch for Section B. We are in the view that its geographical factor will give an advantage, for an ECRL share in the area. Its outstanding orderbook as of 2Q19 stood at RM2.0b. Besides the huge tender bids place for projects in Sabah, ECRL is another potential for replenishment within CY19. Clinching a package worth RM500m to RM1b would increase its unbilled job by +21% and +42% respectively. Based on our checks, its bidding for ECRL will likely concentrate in the state of Selangor and Pahang. **BUY.**

## INVESTMENT STATISTICS

FYE Dec	2017	2018	2019E	2020E
Revenue (RM'm)	469.40	582.47	775.38	1162.09
Op/Inc (RM'm)	82.60	91.81	93.05	139.45
PATAMI (RM'm)	48.00	63.57	54.28	80.18
EPS (Sen)	8.70	10.81	8.94	13.21
EPS (Growth)	13.2%	24%	-17%	47.7%
PER (x)	14.0	11.3	13.6	9.2

Source: MIDFR

## DAILY PRICE CHART



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Source: Bloomberg, MIDFR

## 6MFY19 Results Summary

FYE Dec (RM'm)	2Q19	2Q18	1Q19	YoY Chg	QoQ Chg	6MFY19	6MFY18	YoY Chg
<b>Revenue</b>	<b>128.0</b>	<b>187.2</b>	<b>86.3</b>	<b>-31.6%</b>	<b>48.2%</b>	<b>214.3</b>	<b>314.7</b>	<b>-31.9%</b>
Other Income	4.0	1.1	0.6	270.3%	585.7%	4.6	3.8	22.4%
Operating Cost	(10.1)	(10.6)	(9.9)	-4.8%	2.0%	(19.9)	(22.5)	-11.4%
Finance Cost	(0.8)	(1.6)	(1.3)	-51.5%	-41.5%	(2.0)	(3.6)	-43.4%
<b>Pre-tax profit</b>	<b>16.8</b>	<b>27.0</b>	<b>12.8</b>	<b>-38.0%</b>	<b>31.3%</b>	<b>29.5</b>	<b>49.0</b>	<b>-39.8%</b>
Taxation	(5.7)	(7.8)	(1.8)	-27.9%	222.6%	(7.4)	(13.2)	-44.0%
<b>PATAMI</b>	<b>10.5</b>	<b>19.1</b>	<b>11.3</b>	<b>-44.8%</b>	<b>-6.4%</b>	<b>21.8</b>	<b>35.6</b>	<b>-38.7%</b>
Diluted EPS (sen)	1.7	3.3	1.9	-48.0%	-6.5%	3.6	6.2	-42.3%
	<b>2Q19</b>	<b>2Q18</b>	<b>1Q19</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>6MFY19</b>	<b>6MFY18</b>	<b>+/- ppts</b>
Pre-tax margin	13.1%	14.4%	14.8%	-1.4	-1.7	13.8%	15.6%	-1.8
PATAMI margin	8.2%	10.2%	13.0%	-2.0	-4.8	10.2%	11.3%	-1.1
Effective tax rate	33.7%	29.0%	13.7%	4.7	20.0	25.1%	27.0%	-1.9

### Segmental breakdown

Revenue	2Q19	2Q18	1Q19	YoY Chg	QoQ Chg	6MFY19	6MFY18	YoY Chg
Construction	123.44	165.71	70.07	-25.5%	76.2%	193.51	275.5	-29.8%
Property	2.58	18.65	13.44	-86.2%	-80.8%	16.02	33.48	-52.2%
Others	1.97	2.84	2.84	-30.6%	-30.6%	4.81	5.7	-15.3%
<b>TOTAL</b>	<b>127.99</b>	<b>187.19</b>	<b>86.3</b>	<b>-31.6%</b>	<b>48.2%</b>	<b>214.3</b>	<b>314.7</b>	<b>-31.9%</b>
PBT	2Q19	2Q18	1Q19	YoY Chg	QoQ Chg	6MFY19	6MFY18	YoY Chg
Construction	18.35	22.06	7.49	-16.8%	145.0%	25.84	45.94	-43.8%
Property	-2.62	0.58	3.96	-549.3%	-166.3%	1.33	-0.82	-262.6%
Others	0.35	2.18	1.58	-83.8%	-77.6%	1.93	10.6	-81.7%
<b>TOTAL</b>	<b>16.08</b>	<b>24.82</b>	<b>13.03</b>	<b>-35.2%</b>	<b>23.4%</b>	<b>29.1</b>	<b>55.7</b>	<b>-47.7%</b>
PBT margin	2Q19	2Q18	1Q19	+/- ppts	+/- ppts	6MFY19	6MFY18	+/- ppts
Construction	15%	13%	11%	155%	418%	13%	17%	-332%
Property	NA	3%	29%	NA	NA	8%	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 +15% 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.