

Company Name : Gabungan AQRS Berhad
Date : 10 February 2021
Source : The Star

Better Times Ahead For Gabungan AQRS



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PETALING JAYA: Gabungan AQRS Bhd is expected to see its earnings recover in the first half of this year as its orderbook remains healthy and its progress billings pick up.

With construction activities proceeding as normal throughout the movement control order (MCO 2.0), UOB Kay Hian Malaysia Research said the impact of the movement restrictions on Gabungan AQRS' productivity will be minimal and the pick-up in progress billings would continue uninterrupted.

On top of that, margin, which was previously affected by the stop-work order and slow progress billings, is also expected to normalise in the upcoming quarters.

“Our 2021 earnings forecast implies a net margin of 6% versus 9M20 net margin of 4%. This will also be supported by the company's cost rationalisation effort. We have seen the impact in 9M20 results with its opex reduced by 43% year-on-year,” it said.

UOB Kay Hian Malaysia Research noted that the company's outstanding orderbook backlog of RM1.4bil would provide its construction arm earnings visibility for the next three years.

With an adequate orderbook, Gabungan AQRS will continue to be selective and ensure that new jobs obtained comply with its internal risk evaluation and offer a good risk-reward ratio.

The company is said to be one of the frontrunners to clinch the Pan Borneo Highway civil contract given its good track record in Sabah.

Aside from that, Gabungan AQRS will also be on the lookout for any large-scale government infrastructure works and purpose-built buildings such as hospitals.

Apart from big infrastructure works across the country, the company will also pursue selective opportunities in the private space following its recent wins of RM84mil worth of building works.

Assuming a 5% profit before tax margin, UOB said this would contribute RM4mil between 2021 and 2023.

The research house highlighted that property sales look encouraging.

"Gabungan AQRS has secured RM214.8mil worth of sales between April 2020 and Jan 2021, bolstered by the Home Ownership Campaign. On top of that, RM84.6mil worth of bookings are in the process of sales conversion as at end-Jan 2021.

"Assuming a 45% loan approval rate, this could provide additional sales of RM38.1mil. The active gross development value of RM780mil (E'Island Lake Haven and The Peak) should be able to fuel Gabungan AQRS' property sales pipeline in the next two to three years," it added.

With its share price currently at an all-time low and trading at trough valuation, UOB Kay Hian Malaysia Research said the stock was too cheap to ignore.

"We believe the downside is limited. At 6.6 times 2021F price earnings, Gabungan AQRS is trading at 48% discount to its three-year mean and 47% discount to the KL Construction Index.

With the view that the MCO 2.0 impact will not be as severe as the first round, and earnings would stage a meaningful recovery starting 1H21, we believe the discount is unjustified, ” it said.

UOB Kay Hian Malaysia Research maintained its “buy” call on the stock but at a reduced target price of 80 sen from 86 sen previously.