AFFIN HWANG CAPITAL

Out think. Out perform.

Earnings surge delivered

Gabungan AQRS reported net profit of RM63.6m (-6% yoy) in 2018, which was within market and our expectations. Core net profit surged 113% yoy to RMM69.8m, driven by strong construction progress billings. Its high remaining order book of RM2.2bn and turnaround of its property division will support core EPS growth of 12% yoy in 2019E. We cut our core EPS forecasts by 24-25%, mainly to adjust for the enlarged share base from the exercise of warrants and slower construction progress billings. AQRS is one of our top small-cap sector BUYs.

Within expectations

AQRS' net profit of RM63.6m in 2018 was close to consensus forecast of RM66.2m and our estimate of RM61.6m. Revenue jumped 25% yoy to 582.5m in 2018, driven by construction revenue growth of 55% yoy while property revenue contracted 75% yoy. There was higher progress billings for ongoing construction projects such as Pusat Pentadbiran Sultan Ahmad Shah (PPSAS) and Sungai Besi-Ulu Kelang Expressway (SUKE), while works on the Light Rail Transit Line 3 (LRT3) project slowed due to the review by the government to reduce cost.

Property LAD provision

PBT declined 16% yoy to RM87.3m in 2018, mainly due to net exceptional loss of RM6.2m compared to gain of RM34.7m. AQRS charged RM14.6m for Liquidated Ascertained Damages (LAD) for its The Peak condominium project in Johor Bahru due to delays in completion and delivery of units to buyers. This was partly reduced by an RM8m reversal of impairments. A lower effective tax rate led to a lower decline in net profit of 6% yoy in 2018. Core net profit growth more than doubled to RM69.8m. As the net exceptional loss was charged in 4Q18, net profit declined 36% qoq and 68% yoy to RM11m.

Maintain BUY with lower TP of RM1.60

AQRS is targeting to secure RM1.5bn worth of new contracts in 2019 to grow its remaining order book of RM2.2bn, equivalent to 4x 2018 construction revenue. It is targeting RM0.5bn property sales in 2019 from its E'Island Lake Haven project in Puchong and relaunch of The Peak. We reduce our RNAV/share to RM2.60 from RM2.66 previously to reflect the higher net debt and dilution from new shares issued for the exercise of warrants before expiry last year. Based on the same 30% discount to RNAV, we reduce our TP to RM1.60 from RM1.64 previously. Current 2019E PER of 8x is attractive considering a 3-year EPS CAGR of 17%. Maintain our BUY call. Key risk is slower order book replenishment.

Earnings & Valuation Summary

FYE 31 Dec	2017A	2018A	2019E	2020E	2021E
Revenue (RMm)	465.8	582.5	455.6	596.0	705.9
EBITDA (RMm)	94.5	105.7	125.5	154.4	168.8
Pretax profit (RMm)	104.2	87.3	106.0	134.8	151.6
Net profit (RMm)	67.4	63.6	80.0	101.7	114.4
EPS (sen)	12.7	11.3	13.9	17.5	19.6
PER (x)	8.7	9.7	7.9	6.3	5.6
Core net profit (RMm)	32.8	69.8	80.0	101.7	114.4
Core EPS (sen)	6.6	12.4	13.9	17.5	19.6
Core EPS growth (%)	79.2	87.7	12.1	26.1	12.1
Core PER (x)	16.7	8.9	7.9	6.3	5.6
Net DPS (sen)	2.0	3.0	4.0	4.0	4.0
Dividend Yield (%)	1.8	2.7	3.6	3.6	3.6
EV/EBITDA (x)	5.6	6.3	5.4	4.5	3.5
Chg in EPS (%)			(24.5)	(25.2)	New
Affin/Consensus (x)			1.1	1.1	NA

Source: Company, Bloomberg, Affin Hwang forecasts

Results Note

Gabungan AQRS

AQRS MK
Sector: Construction & Infra

RM1.10 @ 28 February 2019

BUY (maintain)

Downside 45%

Price Target: RM1.60

Previous Target: RM1.64

Price Performance

	1M	3M	12M
Absolute	21.5%	34.1%	-41.5%
Rel to KLCI	19.8%	32.0%	-36.4%

Stock Data

Issued shares (m)	479
Mkt cap (RMm)/(US$m)	527/130
Avg daily vol - 6mth (m)	3.6
52-wk range (RM)	0.62-1.91
Est free float	55.7%
BV per share (RM)	0.99
P/BV (x)	1.1
Net cash/ (debt) (RMm) (4Q18)	(75.2)
ROE (2019E)	23.2%
Derivatives	Yes
(Warr 13/18, WP RM 026, EP RM1.12)	
Shariah Compliant	Yes

Key Shareholders

Ganjaran Gembira Sdn Bhd	11.0%
Ow Chee Cheoon	7.0%
KWAP	6.3%
Brahmal Vasudevan	6.0%

Source: Affin Hwang, Bloomberg

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Fig 1: Results comparison

FYE 31 Dec (RMm)	4Q17	3Q18	4Q18	QoQ % chg	YoY % chg	2017	2018	YoY % chg	Comment
Revenue	146.6	159.3	108.5	*(31.9)*	*(26.0)*	465.8	582.5	*25.1*	Higher construction revenue (+55% yoy) partially offset by lower property development revenue (-75% yoy) in 2018. SUKE and PPSAS projects lifted construction revenue. QoQ drop due to slower LRT3 progress.
Operating costs	(115.9)	(133.8)	(83.3)	*(37.7)*	*(28.1)*	(371.3)	(476.8)	*28.4*	
EBITDA	**30.7**	**25.5**	**25.2**	***(1.0)***	***(17.7)***	**94.5**	**105.7**	***11.8***	
EBITDA margin (%)	*20.9*	*16.0*	*23.3*	*7.3ppt*	*2.3ppt*	*20.3*	*18.1*	*-2.1ppt*	
Depreciation	(3.1)	(3.5)	(2.5)	*(26.9)*	*(17.8)*	(15.5)	(12.6)	*(18.3)*	
EBIT	**27.6**	**22.0**	**22.7**	***3.1***	***(17.7)***	**79.1**	**93.1**	***17.7***	
Interest expense	(2.3)	(1.1)	(0.7)	*(39.1)*	*(70.7)*	(12.6)	(5.4)	*(57.1)*	
Interest income	2.3	0.8	0.8	*(0.9)*	*(64.6)*	3.0	4.9	*63.1*	
Associates	(0.2)	0.4	(0.1)	*NA*	*(46.8)*	0.0	0.9	*>100*	
Exceptional gain/(loss)	25.9	0.0	(6.5)	*NA*	*n.m*	34.7	(6.2)	*NA*	Provision for LAD partly offset by reversal of impairments.
Pre-tax profit	**53.2**	**22.1**	**16.2**	***(26.8)***	***(69.6)***	**104.2**	**87.3**	***(16.2)***	Exception loss incurred reduced PBT.
Core pre-tax profit	**27.3**	**22.1**	**22.7**	***2.7***	***(16.9)***	**69.5**	**93.5**	***34.5***	Sustained construction earnings.
Taxation	(15.4)	(4.6)	(3.8)	*(17.8)*	*(75.5)*	(32.6)	(21.6)	*(33.8)*	
Tax rate (%)	*28.9*	*20.7*	*23.3*	*2.6ppt*	*-5.6ppt*	*31.3*	*24.7*	*-6.6ppt*	
Minorities	(3.2)	(0.5)	(1.5)	*191.3*	*(54.1)*	(4.2)	(2.2)	*(47.4)*	
Net profit	**34.6**	**17.0**	**11.0**	***(35.7)***	***(68.4)***	**67.4**	**63.6**	***(5.7)***	Within expectations.
EPS (sen)	8.5	2.9	2.3	*(19.3)*	*(72.3)*	16.5	13.6	*(17.7)*	
Core net profit	**8.7**	**17.0**	**17.5**	***2.7***	***99.8***	**32.8**	**69.8**	***112.8***	Exclude one-off gains.

Source: Company, Affin Hwang

Fig 2: Segmental operating profit

FYE 31 Dec (RMm)	4Q17	3Q18	4Q18	% QoQ	% YoY	FY17	FY18	% YoY
Construction	68.2	25.7	34.0	*32.3*	*(50.1)*	114.4	105.8	*(7.5)*
Property development	(7.8)	(5.2)	(18.9)	*264.4*	*142.3*	(3.8)	(24.9)	*547.8*
Others	9.1	1.3	2.1	*64.9*	*(76.6)*	10.8	14.6	*35.3*
Elimination	(16.4)	0.3	(1.1)	*(478.8)*	*(93.2)*	(17.2)	(8.2)	*(52.4)*
Total	**53.2**	**22.1**	**16.2**	**(26.8)**	***(69.6)***	**104.2**	**87.3**	**(16.2)**

Source: Company, Affin Hwang

Fig 3: Segmental operating profit margin

FYE 31 Dec (%)	4Q17	3Q18	4Q18	QoQ	YoY	FY17	FY18	% YoY
Construction	47.3	16.9	28.6	*11.7ppt*	*(18.7ppt)*	32.2	19.3	*34.2ppt*
Property development	>100	NA	140.9	*NA*	*NA*	NA	NA	*NA*
Total	**36.3**	**13.9**	**14.9**	***1.0ppt***	***21.4ppt***	**95.2**	**128.8**	***98.1ppt***

Source: Company, Affin Hwang

Fig 4: Revised RNAV and target price

Segments	Stake (%)	New RNAV (RMm)	Old RNAV (RMm)	Change (%)
Construction @ PE 12x avg earnings of RM70m	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	275	275	0
Petronas Chemical Basecamp, Sipitang @ NPV at 8.6% WACC	100	29	29	0
Net cash/(debt)		(75)	(52)	46
RNAV		**1,248**	**1,272**	**(2)**
No. of shares (m shrs)		479	478	0
RNAV/share (RM)		**2.60**	**2.66**	**(2)**
New shares from warrants conversion (m)		119	119	0
Fully-diluted no. of shares (m)		599	597	0
Fully-diluted RNAV/share (RM)		**2.31**	**2.35**	**(2)**
Target price at 30% discount to RNAV/share		**1.60**	**1.64**	**(2)**

Source: Affin Hwang estimates

Important Disclosures and Disclaimer

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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