

Property turnaround

Gabungan AQRS reported weak 1Q19 results. But, we deem the results within our expectations as we look for stronger 2H19 earnings. Net profit fell 32% yoy to RM11.3m in 1Q19 due to lower revenue. Progress billings for the Light Rail Transit Line 3 (LRT3) project slowed due to the government's review of the project to reduce costs. We lift our TP to RM1.65 from RM1.60, as we roll over the valuation basis for our RNAV to 2020E. We reaffirm our BUY call.

Within expectations

AQRS' net profit of RM11.3m in 1Q19 comprised only 13-14% of market consensus and our forecasts of RM80-86m in 2019E. Revenue fell 32% yoy and 22% qoq to RM86m in 1Q19, mainly due to lower construction revenue. Progress billings for its LRT3 project were lower due to the government's review of the project to reduce costs. Net profit fell 32% yoy and 4% qoq in 1Q19, mainly due to the lower revenue. AQRS's tight cost control mitigated the impact of the lower revenue on the bottom line.

Lower construction earnings

Construction operating profit fell 69% yoy and 78% qoq to RM7.5m, mainly due to lower revenue on slower progress billings on the LRT3 project. Its construction earnings came mainly from the SUKE expressway and Pahang administration centre projects. Its property division turned around to report an operating profit of RM4m in 1Q19 compared to losses of RM18.9m in 4Q18 and RM1.4m in 1Q18. Lower interest expense and the absence of impairment losses led to the property division returning to the black.

Good prospects to replenish the order book

Prospects to replenish the remaining order book of RM2.4bn look good as management targets to secure RM1.5bn in new contracts by bidding on East Coast Rail Link subcontracts and Pan Borneo Highway Sabah packages along with its partner Suria Capital. AQRS launched its E'Island Lake Haven development project in Puchong (24 April 2019) and relaunched The Peak in Johor Bahru (30 March 2019) to drive property earnings growth in 2019-22.

Reaffirm BUY call with a higher TP of RM1.65

We lift our RNAV/sh for AQRS to RM2.35 (from RM2.31) after rolling over our valuation basis to 2020E. Using the same 30% RNAV discount, we lift our 12-month TP to RM1.65 from RM1.60 previously. AQRS remains one of our top construction sector picks. Downside risk: 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)	10.6	11.8	9.7	7.7	6.8
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)	20.3	10.8	9.7	7.7	6.8
Net DPS (sen)	2.0	3.0	4.0	4.0	4.0
Dividend Yield (%)	1.5	2.2	3.0	3.0	3.0
EV/EBITDA (x)	6.6	7.4	6.3	5.2	4.2
Chg in EPS (%)			0.0	0.0	0.0
Affin/Consensus (x)			0.9	1.0	0.9

Source: Company, Bloomberg, Affin Hwang forecasts

Affin Hwang Investment Bank Bhd (14389-U)

Results Note

Gabungan AQRS

AQRS MK

Sector: Construction

RM1.34 @ 17 May 2019

BUY (maintain)

Upside 23%

Price Target: RM1.65

Previous Target: RM1.60



Price Performance

	1M	3M	12M
Absolute	-3.6%	34.0%	48.6%
Rel to KLCI	-2.7%	41.0%	71.7%

Stock Data

Issued shares (m)	493.2
Mkt cap (RMm)/(US\$m)	660.9/158.2
Avg daily vol - 6mth (m)	4.1
52-wk range (RM)	0.6-1.54
Est free float	52.1%
BV per share (RM)	0.97
P/BV (x)	1.4
Net cash/ (debt) (RMm) (1Q19)	(94.6)
ROE (2019E)	19.9%
Derivatives	No
(Warr 18/23, WP RM0.395, EP RM1.12)	
Shariah Compliant	Yes

Key Shareholders

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

Source: Affin Hwang, Bloomberg

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Outthink. Outperform.

Fig 1: Results comparison

FYE 31 Dec (RMm)	1Q18	4Q18	1Q19	QoQ % chg	YoY % chg	Comments
Revenue	127.5	111.3	86.3	(22.4)	(32.3)	Revenue was lower across all divisions: construction (-36% yoy) due to slower LRT3 progress billings, while property development (-10% yoy) due to lower contribution for The Peak project.
Operating costs	(103.3)	(85.3)	(69.8)	(18.2)	(32.5)	Lower cost due to cost control measures implemented.
EBITDA	24.1	26.0	16.6	(36.3)	(31.3)	
<i>EBITDA margin (%)</i>	<i>18.9</i>	<i>23.4</i>	<i>19.2</i>	<i>-4.2ppt</i>	<i>0.3ppt</i>	
Depreciation	(3.3)	(2.5)	(3.0)	20.2	(7.2)	
EBIT	20.9	23.5	13.5	(42.4)	(35.1)	
Interest expense	(2.1)	(0.7)	(1.3)	92.4	(37.3)	Lower interest expense yoy following the repayment of bank borrowings.
Interest income	2.3	0.8	0.4	(49.4)	(82.7)	
Associates	0.6	(0.1)	0.1	NA	(79.7)	
Exceptional gain/(loss)	0.3	(6.5)	0.0	(100.0)	(100.0)	Impairments in 4Q18 did not recur in 1Q19.
Pre-tax profit	22.0	17.0	12.8	(24.9)	(41.9)	
Core pre-tax profit	21.7	23.5	12.8	(45.7)	(41.2)	
Taxation	(5.4)	(3.8)	(1.8)	(53.5)	(67.5)	
<i>Tax rate (%)</i>	<i>24.5</i>	<i>22.2</i>	<i>13.7</i>	<i>-8.5ppt</i>	<i>-10.8ppt</i>	
Minorities	(0.1)	(1.5)	0.2	NA	NA	
Net profit	16.5	11.8	11.3	(4.2)	(31.7)	Weak 1Q19 but we expect stronger 2H19E earnings.
EPS (sen)	3.5	2.3	2.3	(1.3)	(34.7)	
Core net profit	16.2	18.3	11.3	(38.4)	(30.5)	Exclude one-off gains.

Source: Company, Affin Hwang

Fig 2: Segmental operating profit breakdown

FYE 31 Dec (RMm)	1Q18	2Q18	3Q18	4Q18	1Q19	% QoQ	% YoY
Construction	23.9	22.1	25.7	34.0	7.5	(78.0)	(68.6)
Property development	(1.4)	0.6	(5.2)	(18.9)	4.0	NA	NA
Others	8.4	2.8	1.3	2.1	1.6	(26.2)	(81.2)
Elimination	(8.9)	1.5	0.3	(1.1)	(0.3)	(76.4)	(97.0)
Total	22.0	27.0	22.1	16.2	12.8	(21.2)	(265.9)

Source: Company, Affin Hwang

Fig 3: Segmental operating profit margin breakdown

FYE 31 Dec (%)	1Q18	2Q18	3Q18	4Q18	1Q19	QoQ	YoY
Construction	21.7	13.3	16.9	28.6	10.7	-17.9ppt	-11.1ppt
Property development	NA	3.1	NA	NA	29.4	NA	NA
Total	17.2	14.4	13.9	14.9	14.8	-0.1ppt	-2.5ppt

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	313	275	14
Petronas Chemical Basecamp, Sipitang @ NPV at 8.6% WACC	100	37	29	28
Net cash/(debt)		(95)	(75)	26
RNAV		1,275	1,248	2
No. of shares (m shrs)		479	479	0
RNAV/share (RM)		2.66	2.60	2
New shares from warrants conversion (m)		119	119	0
Fully-diluted no. of shares (m)		599	599	0
Fully-diluted RNAV/share (RM)		2.35	2.31	2
Target price at 30% discount to RNAV/share		1.65	1.60	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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