

21 May 2019 | 1QFY19 Results Review

Gabungan AQRs Berhad

Blip in earnings

Maintain BUY

Adjusted Target Price (TP): RM1.72
(from RM1.87)

INVESTMENT HIGHLIGHTS

- **Results missed expectation, accounting 14.9% of our full year estimate.**
- **Gabungan experienced temporary blip in construction progress in 1QFY19**
- **Property's revenue contracted by -9.4%yoy in 1QFY19**
- **Earnings forecasts adjusted lower for FY19/20**
- **We maintain BUY with lower target price of RM1.72**

Results missed expectations. Gabungan AQRs ("Gabungan") reported its 1QFY19 results, with earnings deviating from our full year forecast. PATAMI was booked at RM11.3m, lower by -31.4%yoy from the same period last year. Consequently, earnings accounted only 14.9% and 13.1% of our and consensus full year estimates respectively.


Temporary blip in construction progress. Construction being one of the key business segments has seen its 1QFY19 income dropped by -36.2%yoy to RM70.1m. During the quarter, its revenue was largely recognized from the works done for SUKE Highway and Pusat Pentadbiran Sultan Alam Shah projects. It is worth pointing out that both projects accounted for approximately 17.6% of Gabungan's outstanding job. During the period, the progress of LRT3 package was slower due to the cost review done by government. Subsequently, it resulted in Gabungan reporting lower segmental PAT by -69.0% at RM6.1m. The slowdown was partly expected, given the earlier guidance on new work timeline of LRT3. We noted that the progress was already picking up, which will likely manifest in 2QFY19.

Property's revenue weakened, contracting by -9.4%yoy from corresponding period last year. This was attributable to lower work progress on the PEAK project. Positively, the division has rebounded from RM-1.4m earlier losses in 1QFY18, to book RM4.0m of PAT in 1QFY19. In subsequent quarters, we expect sales to gain support from the initiatives introduced such as a home ownership scheme and a cashback package. As of 1QFY19, Gabungan's unbilled sales stood at RM91.5m with unsold property units valued at RM532.5m. Management is targeting RM500m sales in FY19, on the back of E'Island Lake Haven project in Puchong and the relaunch of The Peak in Johor Bahru City Centre.

RETURN STATS	
Price (17 May 2019)	RM1.34
Target Price	RM1.72
Expected Share Price Return	+28.4%
Expected Dividend Yield	+0.0%
Expected Total Return	+28.4%

STOCK INFO	
KLCI	1,605.36
Bursa / Bloomberg	5226/ AQRs MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	493.23
Par Value (RM)	1.00
Market cap. (RM'm)	660.93
Price over NA	1.34
52-wk price Range	RM0.60-RM1.54
Beta (against KLCI)	1.66
3-mth Avg Daily Vol	3.18m
3-mth Avg Daily Value	RM4.11m
Major Shareholders (%)	
Ganjaran Gembira	10.87
Ow Chee Cheoon	6.89
Brahmal Vasudevan	5.89
Kenanga Unit Trust B	5.51

Introduce new earnings assumption. Gabungan is supported by RM2.4b worth of outstanding orderbook, to keep the company busy until FY21. While we remain conservative on the outlook this year, Gabungan is targeting an ambitious RM1.5b of new jobs for FY19. Given that the current tender book is largely composed of infra work, we opine the timeline on the outcome is dependent upon the government's finalisation of review and the rollout of key projects. Notwithstanding that, we remain a believer in Gabungan's growth story that is underpinned by its fundamental and strategic factors. Following the results announcement, the table below summarizes our latest core net profit estimates for the company, factoring in our assumption for work progress and property sales in FY19 and FY20.

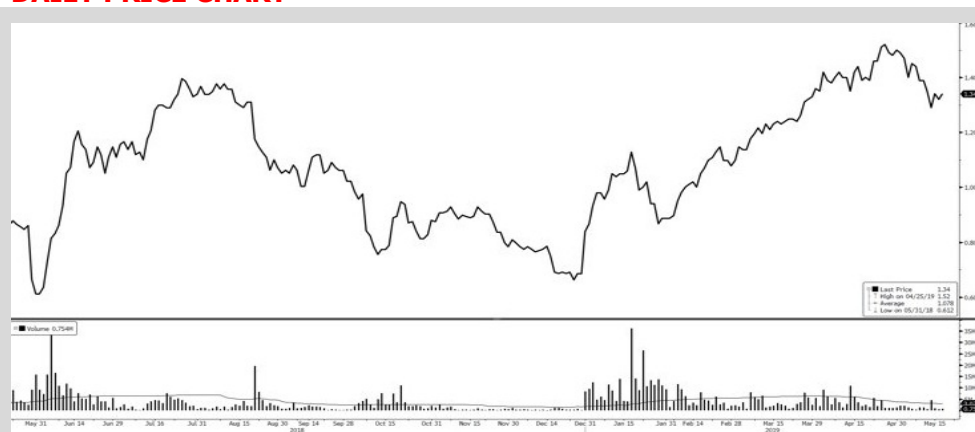
Maintain BUY with adjusted TP of RM1.72. Our TP was derived after pegging Gabungan's FY20 EPS to PE of 13x. We think the ascribed multiple of 13x is fair, which we opine will plug the gap between the construction industry and the company's 1-year average multiple of 15x and 11x respectively. The downside risks to our call are (1) slower progress rate on outstanding jobs, and (2) lower than expected job replenishment. 

INVESTMENT STATISTICS

	2016	2017	2018	2019E	2020E
Revenue (RM'm)	330.00	469.40	582.47	775.38	1162.09
Op/Inc (RM'm)	41.28	82.60	91.81	93.05	139.45
PATAMI (RM'm)	33.30	48.00	63.57	54.28	80.18
EPS (Sen)	7.69	8.70	10.81	8.94	13.21
EPS (Growth)	409.0%	13.2%	24%	-17%	47.7%
PER (x)	12.38	12.6	10.2	12.3	8.3

Source: MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

3MFY19 Results Summary

FYE Dec (RM'm)	1Q19	1Q18	4Q18	YoY Chg	QoQ Chg
Revenue	86.3	127.4	108.5	-32.2%	-20.4%
Other Income	0.6	2.6	15.6	-77.4%	-96.2%
Operating Cost	(9.9)	(11.9)	(15.1)	-17.1%	-34.8%
Finance Cost	(1.3)	(2.0)	(0.7)	-35.4%	92.4%
Pre-tax profit	12.8	21.9	16.2	-41.7%	-21.2%
Taxation	(1.8)	(5.3)	(3.8)	-66.9%	-53.5%
PATAMI	11.3	16.4	11.0	-31.4%	2.8%
EPS (sen)	1.9	2.8	1.9	-33.9%	-0.5%
	1Q19	1Q18	4Q18	+/- ppts	+/- ppts
Pre-tax margin	14.8%	17.2%	14.9%	-2.4	-0.1
PATAMI margin	13.0%	12.9%	10.1%	0.2	2.9
Effective tax rate	13.7%	24.2%	23.3%	-10.5	-9.6

Segmental breakdown					
Revenue	1Q19	1Q18	4Q18	YoY Chg	QoQ Chg
Construction	70.07	109.8	119.1	-36.2%	-41.2%
Property	13.44	14.84	-13.40	-9.4%	-200.3%
Others	2.84	2.84	2.8	0.0%	0.0%
TOTAL	86.3	127.5	108.5	-32.3%	-20.4%
PBT	1Q19	1Q18	4Q18	YoY Chg	QoQ Chg
Construction	7.49	23.88	34.04	-68.6%	-78.0%
Property	3.96	-1.40	-18.88	-381.8%	-121.0%
Others	1.58	8.38	2.1	-81.2%	-26.2%
TOTAL	13.03	30.85	17.30	-57.8%	-24.7%
PBT margin	1Q19	1Q18	4Q18	+/- ppts	+/- ppts
Construction	10.69%	21.74%	28.59%	-11.1	-17.9
Property	29.44%	-9.46%	140.92%	38.9	-111.5

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.