

25 August 2017 | 6MFY17 Results Update

Gabungan AQRS Berhad

Good Signs of Stronger Tide Coming


INVESTMENT HIGHLIGHTS

- **6MFY17 earnings close to mark**
- **Earnings supported by higher construction progress billings**
- **Maintain earnings estimates with a bias for TP revision**
- **Altogether, we maintain our BUY recommendation with a TP of RM1.62 per share**

6MFY17 earnings close to mark. AQRS's 6MFY17 earnings of RM23.3m (+133%YoY) slightly close to expectations at 45% of full year estimates. The strong results are influenced by notable improvements in segmental pre-tax margin from construction segments. Moreover, AQRS's orderbook of RM1.7bn is backed by economies of scale achieved through the large concentration of its project team in Pahang. We have predicted that Sg. Besi-Ulu Kelang Elevated Expressway (SUKE) billing will start to kick in earlier. Hence, the accretion to AQRS's bottom line is seen now, coupled with management's commitment to reduce gearing. Its revenue illustrates an improvement from RM174.9m in 6MFY16 to RM238.7m in 6MFY17 (+36%YoY) backed by construction segment revenue of RM143.2m (+42%YoY).

Earnings supported by higher construction progress billings. For this 1HFY17, construction segment contributed to 57.7% of total revenue and 68.8% of PBT, as a result of its revenue being lifted from RM101.1m in 6MFY16 to RM143.2m (+42%YoY) in 6MFY17 consequently, its marginal impact improved supported the PBT from -RM2.2m to a startling height of RM24.7m (+1223%YoY). We have previously reported (28.05.17) that the billings from Kota SAS developments and SUKE are expected to pick-up. So now, we reckon that the next best move for AQRS is to speed up the One Jesselton Waterfront project to ensure lesser risk of earnings blips through lower progress billings.

Maintain earnings estimates with a bias for TP revision. We make no changes to our forecast for FYE17/FYE18. Although, we are strongly tempted to fine-tune our valuation which will only be adjusted once we conclude the materiality of our findings in Kota SAS vis-à-vis ECRL project.

Recommendation. Maintain our BUY recommendation with a TP of RM1.62 per share based on DCF valuation (WACC of 6.2%, 40% risk adjusted cash flow assumptions and 10-year cash inflow forecasts). 

Maintain BUY
Unchanged Target Price (TP): RM1.62

RETURN STATS	
Price (24 August 2017)	RM1.70
Target Price	RM1.62
Expected Share Price Return	-5.0%
Expected Dividend Yield	+0.0%
Expected Total Return	-5.0%*

*Share Price Run-Up

STOCK INFO	
KLCI	1,775.5
Bursa / Bloomberg	5226/ AQRS MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	429
Market cap. (RM'm)	730.01
Price over NA	1.84
52-wk price Range	RM0.81-RM1.71
Beta (against KLCI)	0.633
3-mth Avg Daily Vol	1.32m
3-mth Avg Daily Value	RM1.97m
Major Shareholders (%)	
Ganjaran Gembira	13.3
Chee Cheoon Ow	7.6
KWAP	4.7
Kenanga Growth	3.2

INVESTMENT STATISTICS

	2014	2015	2016	2017	2018	2019
Revenue (RM'm)	534.16	272.51	330.00	382.80	444.05	515.10
Op/Inc (RM'm)	110.46	0.87	41.28	48.46	66.74	78.31
PATAMI (RM'm)	52.95	-9.67	33.30	38.20	44.40	51.50
EPS (Sen)	0.14	-0.02	0.08	0.08	0.09	0.10
EPS (Growth)	20%	-117%	409%	9%	11%	11%
PER (x)	7.07	-49.5	12.38	12.38	11.0	9.9

Source: Bloomberg, MIDFR

DCF VALUATION

	Base year	1	2	3	4	5	6	7	8	9	10	Terminal year
Revenue growth rate		16%	16%	16%	16%	16%	13%	11%	8%	5%	3%	3%
Revenues	RM330.00	RM512.80	RM594.85	RM690.02	RM800.43	RM928.50	RM1,052.45	RM1,165.06	RM1,258.85	RM1,326.83	RM1,363.32	RM1,400.81
EBIT (Operating) margin	13%	13%	13%	13%	13%	13%	13%	14%	14%	14%	14%	14%
EBIT (Operating income)	RM41.28	RM64.91	RM76.18	RM89.40	RM104.90	RM123.07	RM141.07	RM157.90	RM172.49	RM183.78	RM190.86	RM196.11
Tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
EBIT(1-t)	RM30.96	RM64.91	RM76.18	RM89.40	RM104.90	RM123.07	RM141.07	RM157.90	RM172.49	RM172.85	RM143.15	RM147.08
- Reinvestment		RM140.62	RM63.11	RM73.21	RM84.93	RM98.51	RM95.35	RM86.62	RM72.14	RM52.29	RM28.07	RM50.56
FCFF		-RM75.70	RM13.07	RM16.19	RM19.97	RM24.55	RM45.72	RM71.27	RM100.34	RM120.56	RM115.08	RM96.52
NOL	RM1,070.00	RM1,005.09	RM928.91	RM839.50	RM734.60	RM611.54	RM470.47	RM312.57	RM140.09	RM0.00	RM0.00	RM0.00
Cost of capital		RM0.06	RM0.06	RM0.06	RM0.06	RM0.06	RM0.06	RM0.07	RM0.07	RM0.08	RM0.08	RM0.08
Cumulated disc. factor		RM0.94	RM0.89	RM0.84	RM0.79	RM0.74	RM0.70	RM0.65	RM0.61	RM0.57	RM0.52	
PV(FCFF)		-RM71.35	RM11.61	RM13.55	RM15.76	RM18.26	RM31.93	RM46.59	RM61.16	RM68.28	RM60.35	

	(MYR'm)
Terminal cash flow	RM96.52
Terminal cost of capital	8.00%
Terminal value	RM1,838.56
PV(Terminal value)	RM964.15
PV (CF over next 10 years)	RM256.15
Sum of PV	RM1,220.29
Probability of failure =	45.00%
Proceeds if firm fails =	RM610.15
Value of operating assets =	RM945.73
- Debt	RM408.00
- Minority interests	RM3.48
+ Cash	RM100.00
+ Non-operating assets	RM0.00
Value of equity	RM634.25
- Value of options	RM0.00
Value of equity in common stock	RM634.25
Number of shares	390.4
Estimated value /share (P/Share) (sen)	RM1.62
Price (P/Share) (sen)	RM0.93
Price as % of value	74.69%

Source: Bloomberg, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

6MFY17 RESULTS

FYE Dec (RM'm)	2Q17	1Q16	2Q16	QoQ	YoY	6M17	6M16	YoY Chg
Revenue	79.8	158.9	95.3	-50%	-16%	238.7	174.9	36%
Other Income	0.5	0.3	1.2	63%	-59%	0.8	2.3	-65%
Operating Cost	-9.9	-11.1	-8.4	-11%	18%	-21.1	-17.6	20%
Finance Cost	-3.3	-3.8	-4.2	13%	21%	-7.2	-7.5	-4%
Share Results of Associates	-0.05	-0.083	-0.021	40%	-138%	-0.13	-0.07	86%
Pre-tax profit	10.1	25.8	16.7	-61%	-40%	36.1	21.9	65%
Taxation	-3.5	-7.3	-2.9	52%	-21%	-10.9	-4.7	132%
PATAMI	7.2	18.5	6.2	-61%	16%	23.3	10.0	133%
EPS (sen)	1.3	4.1	1.61	-68%	-19%	4.3	2.60	63%
	2Q17	1Q16	2Q16	+/- ppts	+/- ppts	6M17	6M16	+/- ppts
Pre-tax margin	12.7%	16.2%	17.5%	-3.6	-4.9	15.1%	12.5%	2.6
PATAMI margin	9.0%	11.6%	6.5%	-2.6	2.5	9.8%	5.7%	4.0
Effective tax rate	34.7%	28.3%	17.4%	6.4	17.3	30.2%	21.5%	8.7

Segmental Breakdown				
Revenue	6M17	6M16	YoY	Comments
Construction	143.20	101.1	42%	PPSAS, Sg. Besi-Ulu Klang Highway, PR1MA, Gambang higher progress billings.
Property	95.70	85.20	12%	On-going sales of properties slower recognition compared to last quarter, imbued by seasonality
Others	9.03	5.41	67%	Rental from Petronas Basecamp Sipitang kicks in
TOTAL	247.9	191.7	29%	
PBT	6M17	6M16	YoY	Comments
Construction	24.70	-2.20	-1223%	Strong improvement through cost cutting measures and implementation of AQRS's project planning through tender advantage at earlier stage. AQRS's MD Dato' Azizan Jaafar has indicated that all projects committed should have attractive marginal profiles exceeding construction industry average of c.9.5%.
Property	10.20	24.50	-58%	Total unbilled sales (sold & unsold) units remaining RM726.15m
Others	0.96	1.3	-24%	Better margin through in-house maintenance team for rental assets i.e. Petronas Basecamp
TOTAL	35.9	23.5	53%	
PBT margin	6M17	6M16	+/- pts	Comments
Construction	17.2%	-2.2%	19.4	Significant improvement through economies of scale from large orderbook
Property	10.7%	28.8%	-18.1	Potential improvement will kick-in during Jesselton project implementation through scale of project i.e. team and construction costs

Source: Bloomberg, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.