

09 February 2018 | 12MFY17 Results Update

Gabungan AQRS Berhad

Moving into Another Great Year

INVESTMENT HIGHLIGHTS

- **12MFY17 earnings above expectation**
- **Earnings influenced by construction progress billings**
- **Maintain earnings estimates**
- **Altogether, we maintain our BUY recommendation with a TP of RM2.30 per share**

12MFY17 earnings above expectation. AQRS's 12MFY17 earnings of RM48.0m (+112%YoY) meet expectation at 102% of our full year estimates and beating Street's expectation by registering 117% of the estimate. Its revenue improved from RM330.0m in 12MFY16 to RM469.2m in 12MFY17 (+42%YoY).

Earnings buoyed by construction progress billings. For 12MFY17, construction segment contributed to 77.0% of revenue, as a result of its higher construction activities. Moving forward, we reckon the crystallization of projects such as LRT3, Pan Borneo and One Jesselton projects will increase earnings in 1QFYE18.

Maintain earnings estimates. We make no changes to our forecast for FYE18/FYE19 on the back of sturdy orderbook of RM2.77bn. We reckon that once the One Jesselton in Kota Kinabalu project commences the PATAMI margin of 10.2% will be expanded to c.11.0% as a result of economies of scale. The start of East Coast Railway Line is also positive for AQRS as it will potentially bring flurry of civil and infrastructure packages.

Recommendation. Maintain our BUY recommendation with a TP of RM2.30 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): RM2.30

RETURN STATS	
Price (8 Feb 2018)	RM1.87
Target Price	RM2.30
Expected Share Price Return	+18.7%
Expected Dividend Yield	+0.0%
Expected Total Return	+18.7

STOCK INFO	
KLCI	1,830.44
Bursa / Bloomberg	5226/ AQRS MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	460.88
Market cap. (RM'm)	842.27
Price over NA	1.86
52-wk price Range	RM0.97-RM2.16
Beta (against KLCI)	0.76
3-mth Avg Daily Vol	1.17m
3-mth Avg Daily Value	RM2.28m
Major Shareholders (%)	
Ganjaran Gembira	11.28
Chee Cheoon Ow	7.12
Kenanga Unit Trust B	5.62
KWAP	4.4

INVESTMENT STATISTICS

	2014	2015	2016	2017E	2018E	2019E
Revenue (RM'm)	534.16	272.51	450.00	542.80	820.00	888.30
Op/Inc (RM'm)	110.46	0.87	41.28	62.96	100.00	120.00
PATAMI (RM'm)	52.95	-9.67	33.30	46.70	69.70	75.51
EPS (Sen)	0.14	-0.02	0.08	0.10	0.15	0.17
EPS (Growth)	20%	-117%	409%	34%	49%	8%
PER (x)	14.72	-84.3	27.3	20.5	13.7	12.7

Source: Bloomberg, MIDFR

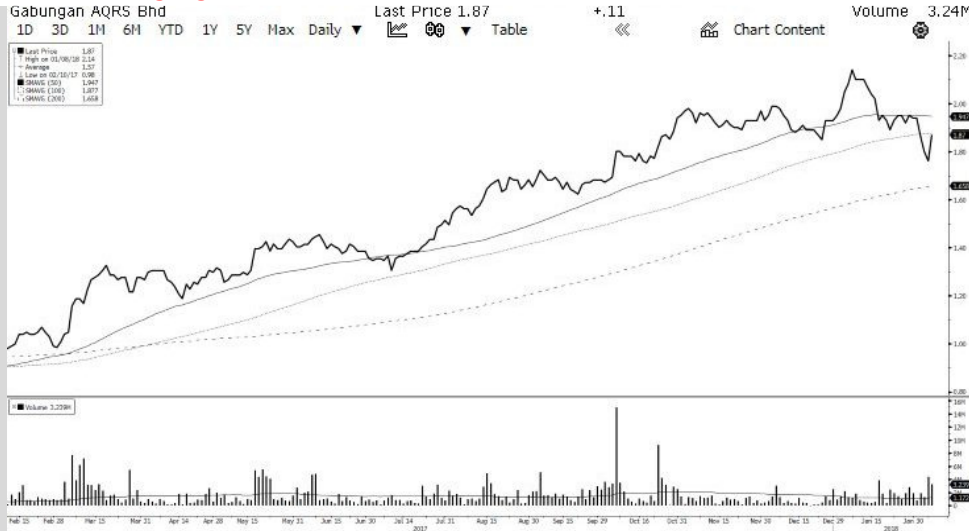
DCF VALUATION

	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	RM 450.00	RM 652.00	RM 820.00	RM 888.33	RM 1,030.46	RM 1,195.34	RM 1,354.91	RM 1,499.89	RM 1,620.63	RM 1,708.15	RM 1,755.12	RM 1,803.39
EBIT (Operating) margin	9%	10%	10%	11%	11%	12%	12%	13%	13%	14%	14%	14%
EBIT (Operating income)	RM 41.28	RM 62.96	RM 83.14	RM 94.35	RM 114.42	RM 138.50	RM 163.53	RM 188.27	RM 211.24	RM 230.90	RM 245.72	RM 252.47
Tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
EBIT(+)	RM 30.96	RM 62.96	RM 83.14	RM 94.35	RM 114.42	RM 138.50	RM 163.53	RM 188.27	RM 211.24	RM 176.57	RM 184.29	RM 189.36
- Reinvestment		RM 155.38	RM 129.23	RM 52.56	RM 109.33	RM 126.83	RM 122.75	RM 111.52	RM 92.88	RM 67.32	RM 36.13	RM 65.09
FCFF		-RM 92.43	-RM 46.09	RM 41.79	RM 5.09	RM 11.67	RM 40.78	RM 76.75	RM 118.37	RM 109.25	RM 148.15	RM 124.26
NOL	RM 1,070.00	RM 1,007.04	RM 923.91	RM 829.55	RM 715.13	RM 576.63	RM 413.10	RM 224.84	RM 13.59	RM 0.00	RM 0.00	RM 0.00
Cost of capital		RM 0.06	RM 0.06	RM 0.06	RM 0.06	RM 0.06	RM 0.06	RM 0.07	RM 0.07	RM 0.08	RM 0.08	RM 0.08
Cumulated discount factor		RM 0.94	RM 0.89	RM 0.84	RM 0.79	RM 0.74	RM 0.70	RM 0.65	RM 0.61	RM 0.57	RM 0.52	RM 0.52
PV(FCFF)		-RM 87.11	-RM 40.95	RM 34.99	RM 4.02	RM 8.68	RM 28.48	RM 50.16	RM 72.15	RM 61.88	RM 77.69	

	(MYR'm)
Terminal cash flow	RM124.26
Terminal cost of capital	8.00%
Terminal value	RM2,366.94
PV(Terminal value)	RM1,241.24
PV (CF over next 10 years)	RM209.99
Sum of PV	RM1,451.22
Proceeds if firm fails =	RM725.61
Value of operating assets =	RM1,342.38
- Debt	RM408.00
- Minority interests	RM3.48
+ Cash	RM100.00
+ Non-operating assets	RM0.00
Value of equity	RM1,030.90
- Value of options	RM0.00
Value of equity in common stock	RM1,030.90
Number of shares	451.2
Estimated value /share (P/Share) (sen)	RM2.28
Price (P/Share) (sen)	RM0.93
Price as % of value	145.68%

Source: Bloomberg, MIDFR

DAILY PRICE CHART



Fadhli Dzulkifly
 abdul.fadhli@midf.com.my
 03-2772 8462

Source: Bloomberg, MIDFR

12MFY17 RESULTS

FYE Dec (RM'm)	4Q17	3Q17	4Q16	QoQ	YoY	12M17	12M16	YoY Chg
Revenue	150.2	80.4	86.0	87%	75%	469.4	330.0	42%
Other Income	3.3	0.7	1.7	371%	94%	4.9	8.8	-44%
Operating Cost	-19.9	-12.6	-11.83	58%	363%	-53.6	-37.8	42%
Finance Cost	-1.6	-3	-4.3	-47%	#DIV/0!	-11.8	-15.1	-22%
Pre-tax profit	31.6	14.9	13.5	112%	-579%	82.6	43.6	89%
Taxation	-15.8	-6.2	-6.6	155%	-312%	-33.0	-15.3	116%
PATAMI	15.2	9.4	7.5	62%	696%	48.0	22.6	112%
EPS (sen)	3.7	1.7	1.9	123%	95%	11.7	5.80	102%
	4Q17	3Q17	4Q16	+/- ppts	+/- ppts	12M17	12M16	+/- ppts
Pre-tax margin	21.0%	18.5%	-7.7%	2.5	28.7	17.6%	13.2%	4.4
PATAMI margin	10.1%	11.7%	2.2%	-1.6	7.9	10.2%	6.8%	3.4
Effective tax rate	50.0%	41.6%	112.9%	8.4	-62.9	40.0%	35.1%	4.9

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.