

11 January 2018 | Corporate Update

## Gabungan AQRS Berhad

*Flurry of Projects Could Improve Operational Margin*

**Maintain BUY**

**Adjusted Target Price (TP): RM2.30**

**(Previously RM2.08)**


### INVESTMENT HIGHLIGHTS

- **News influx injected fresh interest**
- **Beneficiary of buoyant activities in Kuantan region**
- **Operational improvements underway**
- **Maintain BUY at an adjusted price of RM2.30**

**News influx injected fresh interest.** Flurry of news for East Coast Railway Link (ECRL) injected fresh interest for AQRS prompting the share price to surge +8.8% year-to-date (YTD). ECRL is a boon for AQRS's earnings for the FYE18/FYE19 due to its extensive involvement in the development of Kota Sultan Ahmad Shah and Pusat Pentadbiran Sultan Ahmad Shah (PPSAS). Pace is picking from the appointment of AECOM to provide site supervision services for stations, viaducts and depots by China Communication Construction Co. Ltd in 9th January, 2018. It is a good move welcoming progressive steps towards the start of ECRL's construction.

**Beneficiary of buoyant activities in Kuantan region.** In relations to that, buoyant industrial activities within Kuantan-Gambang-Kerteh region would see the need for housing and other transit oriented development (TOD). In view of the packages awarded in November, 2017 the size of projects would be around RM200m-RM250 for TOD based projects and civil works relating to construction of stations and basic infrastructure within the Kota SAS vicinity. We reckon that AQRS would be the beneficiary to fulfil this needs. If that is so, this would contribute potentially another +12.5% to our earnings projection in FYE18 Furthermore, with the LRT3 (Bandar Utama Johan Setia) project award, earnings would see a better trajectory potentially in the Q2FYE18.

**Operational improvements underway.** The influx of news couple with a strong orderbook of RM2.77bn could also spell the improvement in operations as the volume of work increases and the project teams are mostly concentrated in Pahang and Klang Valley. We increase our valuation by assigning higher certainty equivalent factor by apportioning lower failure rate of 15.0% from 40.0% for projects undertaken by AQRS and increasing our operational margin forecast by +2.0% to +3.0%. Consequently, in our valuation for value for operating assets increased from RM1.12bn to RM1.34bn (+19.6%) and value of equity grow from RM813m to RM1.03bn (+23.0%) throughout the valuation period.

**Recommendation.** Premised on that, we maintain our positive stance on AQRS with BUY recommendation with an adjusted target price of RM2.30 per share. Notably, AQRS is one of our top pick small-cap construction companies due to its orderbook replenishment abilities (Figure 1) and sturdy orderbook. 

RETURN STATS	
Price (10 January 2018)	RM2.10
Target Price	RM2.30
Expected Share Price Return	+10.0%
Expected Dividend Yield	+0.0%
<b>Expected Total Return</b>	<b>+10.0%</b>

STOCK INFO	
KLCI	1,822.92
Bursa / Bloomberg	5226/ AQRS MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	451.2
Par Value (RM)	1.00
Market cap. (RM'm)	947.55
Price over NA	2.10
52-wk price Range	RM0.88-RM2.15
Beta (against KLCI)	0.825
3-mth Avg Daily Vol	1.19m
3-mth Avg Daily Value	RM2.28m
Major Shareholders (%)	
Ganjaran Gembira S/B	11.52
Chee Cheoon Ow	7.27
Kenanga Unit Trust B	5.5
KWAP	4.5

## 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 (RM)	0.14	-0.02	0.08	0.10	0.15	0.17
EPS (Growth)	20%	-117%	409%	34%	49%	8%
PER (x)	14.72	n.a	27.3	20.5	13.7	12.7

Source: Bloomberg, MIDFR

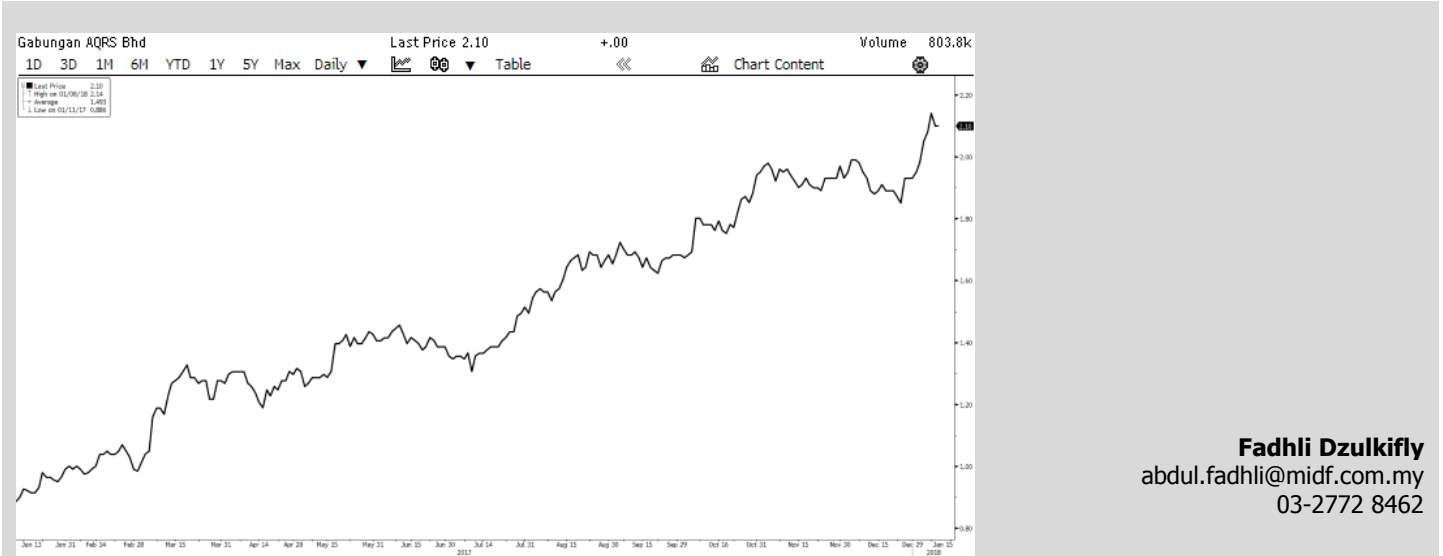
## DCF VALUATION

	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 1030.46	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%	14%	14%	14%	14%	14%	14%	13%	13%	14%	14%	14%
EBIT (Operating income)	RM 41.28	RM 88.13	RM 110.84	RM 120.08	RM 139.29	RM 161.58	RM 183.15	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 88.13	RM 110.84	RM 120.08	RM 139.29	RM 161.58	RM 183.15	RM 188.27	RM 178.10	RM 173.17	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 67.25	-RM 18.39	RM 67.52	RM 29.96	RM 34.75	RM 60.40	RM 76.75	RM 85.22	RM 105.85	RM 148.15	RM 124.26
NOL	RM 1070.00	RM 981.87	RM 871.02	RM 750.95	RM 611.66	RM 450.08	RM 266.93	RM 78.66	RM 0.00	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	
PV(FCFF)		-RM 63.39	-RM 16.33	RM 56.53	RM 23.64	RM 25.85	RM 42.19	RM 50.16	RM 51.94	RM 59.95	RM 77.69	

	(M YR 'm)
Terminal cash flow	RM 124.26
Terminal cost of capital	8.00%
Terminal value	RM 2,366.94
PV(Terminal value)	RM 1,241.24
PV (CF over next 10 years)	RM 308.23
Sum of PV	RM 1,549.47
Probability of failure =	45.00%
Proceeds if firm fails =	RM 774.73
Value of operating assets	RM 1,200.84
- Debt	RM 408.00
- Minority interests	RM 3.48
+ Cash	RM 100.00
+ Non-operating assets	RM 0.00
Value of equity	RM 889.36
- Value of options	RM 0.00
Value of equity in common	RM 889.36
Number of shares	390.4
Estimated value /share (P)	<b>RM 2.28</b>
Price (P/Share) (sen)	RM 0.93
Price as % of value	144.95%

Source: Bloomberg, MIDF

## DAILY PRICE CHART



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**FIGURE 1: OUTSTANDING ORDERBOOK REPLENISHMENT RATE IN FY17**

No	Announcement Date (FY17)	Projects	Location	Amount (RM'm)	Duration (Months)
1	4 <sup>th</sup> January	Construction and completion of all building works, mechanical and engineering works, interior design works and external and infrastructure works of the Proposed Development of Pusat Pentadbiran Sultan Ahmad Shah.	Malaysia	360.98m	24
2	5 <sup>th</sup> October	Construction and Completion of Guideway, Stations, Park and Ride, Ancillary Buildings and Other Associated Works for Package GS04 for Construction and Completion of Light Rail Transit Line 3 (LRT 3) from Bandar Utama to Johan Setia.	Malaysia	1,140m	38

3	21 <sup>st</sup> November	Contract Works – Design & Build 1,004 Units Landed House; Construction and Completion All Building Works, M&E Works and External & Infrastructure Works for Cadangan Pembangunan Perumahan Rumah Aspirasi di Kota Sultan Ahmad Shah (Kota SAS), Presint 6, Mukim Kuala Kuantan Daerah Kuantan, Pahang Darul Makmur.	Malaysia	189.22m	60
<b>Total FY17 Job Wins</b>				<b>1,690m</b>	

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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 +10% 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.