

15 May 2018 | 3MFY18 Results Review

Gabungan AQRS Berhad

Results In-line Supported By Construction

Maintain BUY
Target Price (TP): RM2.30

INVESTMENT HIGHLIGHTS

- **AQRS's Results in-line with expectations**
- **Construction segment supported total revenue**
- **Weakened by earnings blips and in-between project**
- **Reaffirm earnings assumption**
- **Maintain BUY at TP of RM2.30 per share**

Results inline. Despite the share price's sharp drop, AQRS's 3MFY18 PATAMI came in-line with our expectation with earnings accounting for RM23.4m (+8.0%YoY) amounting to 23.5% of our estimates and 22.3% of Street's. The results reflected the weaker revenue of RM127.4m (-20.0%YoY) comparably deriving from the higher recognition of project but lower contribution from property segment.


Construction segment supported total revenue. Generally, the PATAMI was positive attributable to the revenue of; (i) construction segment of RM109.8m accounting for 86.1% of total revenue while (ii) property segment contributed to RM14.8m of revenue accounting for 11.6% of total revenue on the back of a improved margin of 12.9% (+2.8ppts). Management has indicated the commitment on cost efficiency hence next quarter we can expect a better marginal profile through better revenue-stream mix. AQRS has made an admirable progress on projects such as LRT3, Sg. Besi-Ulu Kelang Highway (SUKE), Pusat Pentadbiran Sultan Ahmad Shah (PPSAS).

Weakened by earnings blips and in-between project. The property segment has posted losses amounting to RM1.4m due to the higher recognition of 2 land sales in the previous quarter located in Selangor. We are expecting a pickup in higher revenue recognition as AQRS is launching its new E'Island Residence Development in Puchong. The project is slated to sell affordable apartments between the ranges of RM290,000 to RM380,000. E'Island would potentially contribute c.RM28m/RM43m/RM42m for FYE19/FYE20/FYE21 on the back of 8.0% PBT margin based on its GDV of RM491.0m.

Reaffirm earnings assumption. AQRS FYE18's earnings trajectory remains intact supported by its strong orderbook and the management's commitment to reduce gearing and increase the operating margin. So far, its outstanding orderbook remains at RM2.7bn with an expectation of clinching another RM1.5bn worth of projects from Kota SAS development and Pan Borneo Sabah packages.

RETURN STATS	
Price (14 May 2018)	RM1.12
Target Price	RM2.30
Expected Share Price Return	+51.3%
Expected Dividend Yield	+0.0%
Expected Total Return	+51.3%

STOCK INFO	
KLCI	1850.42
Bursa / Bloomberg	5226/ AQRS MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	474.0
Par Value (RM)	1.00
Market cap. (RM'm)	530.9
Price over NA	1.08
52-wk price Range	RM1.12–RM2.16
Beta (against KLCI)	1.245x
3-mth Avg Daily Vol	1.58m
3-mth Avg Daily Value	RM2.75m
Major Shareholders (%)	
Ganjaran Gembira	10.97
Ow Chee Cheoon	6.92
EPF	6.41
KWAP	6.06

Recommendation. We reiterate our BUY recommendation with a **TP** of **RM2.30**. Our assessment of the sector has shifted from Positive to Neutral following the shifts in government's policy to review big-ticket projects. We surmised that construction stocks will be affected by negative sentiments pending announcements of project status. 

INVESTMENT STATISTICS

	2014	2015	2016	2017	2018E	2019E
Revenue (RM'm)	534.16	272.51	330.00	469.40	820.00	888.30
Op/Inc (RM'm)	110.46	0.87	41.28	82.60	100.00	120.00
PATAMI (RM'm)	52.95	-9.67	33.30	48.00	69.70	75.51
EPS (Sen)	0.14	-0.02	0.08	0.09	0.15	0.17
EPS (Growth)	20%	-117%	409%	13%	67%	13%
PER (x)	7.07	-49.5	12.38	12.9	7.5	6.6

Source: Bloomberg, MIDF

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	RM450.00	RM652.00	RM820.00	RM888.33	RM1,030.46	RM1,195.34	RM1,354.91	RM1,499.89	RM1,620.63	RM1,708.15	RM1,755.12	RM1,803.39
EBIT (Operating) margin	9%	10%	10%	11%	11%	12%	12%	13%	13%	14%	14%	14%
EBIT (Operating income)	RM412.8	RM62.96	RM83.14	RM94.35	RM114.42	RM138.50	RM163.53	RM188.27	RM211.24	RM230.90	RM245.72	RM252.47
Tax rate	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
EBIT(1-t)	RM30.96	RM62.96	RM83.14	RM94.35	RM114.42	RM138.50	RM163.53	RM188.27	RM211.24	RM176.57	RM184.29	RM189.36
- Reinvestment		RM155.38	RM129.23	RM52.56	RM109.33	RM126.83	RM122.75	RM111.52	RM92.88	RM67.32	RM36.13	RM65.09
FCFF		-RM92.43	-RM46.09	RM41.79	RM5.09	RM116.7	RM40.78	RM76.75	RM118.37	RM109.25	RM148.15	RM124.26
NOL	RM1,070.00	RM1,007.04	RM923.91	RM829.55	RM715.13	RM576.63	RM413.10	RM224.84	RM13.59	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 discount factor		RM0.94	RM0.89	RM0.84	RM0.79	RM0.74	RM0.70	RM0.65	RM0.61	RM0.57	RM0.52	
PV(FCFF)		-RM87.11	-RM40.95	RM34.99	RM4.02	RM8.68	RM28.48	RM50.16	RM72.15	RM61.88	RM77.69	

	(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, MIDF

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DAILY PRICE CHART



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3MFY18 RESULTS

FYE Dec (RM'm)	1Q18	4Q17	1Q17	YoY Chg	QoQ Chg	3M18	3M17	YoY Chg
Revenue	127.4	150.2	158.9	-15%	-20%	127.4	158.9	-20%
Other Income	2.6	3.3	0.3	-21%	767%	2.6	0.3	767%
Operating Cost	-11.9	-19.9	-11.1	-40%	7%	-11.9	-11.1	7%
Finance Cost	-2.0	-1.6	-3.8	25%	-47%	-2	-3.8	-47%
Pre-tax profit	21.9	31.6	25.8	-31%	-15%	21.9	25.8	-15%
Taxation	-5.3	-15.8	-7.3	-66%	-27%	-5.3	-7.3	-27%
PATAMI	16.4	15.2	18.5	8%	-11%	16.4	18.5	-11%
EPS (sen)	2.8	2.8	4.13	1%	-32%	2.8	4.13	-32%
	1Q18	4Q17	1Q17	+/- ppts	+/- ppts	3M18	3M17	+/- ppts
Pre-tax margin	17.2%	21.0%	16.2%	-3.8	1.0	17.2%	16.2%	1.0
PATAMI margin	12.9%	10.1%	11.6%	2.8	1.2	12.9%	11.6%	1.2
Effective tax rate	24.2%	50.0%	28.3%	-25.8	-4.1	24.2%	28.3%	-4.1

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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.