

Gabungan AQRS Berhad

(5226 | AQRS MK) Main | Construction

Dragged by LAD but Order Book Remains Sizeable

KEY INVESTMENT HIGHLIGHTS

- Core net profit reduced -29.9%yoy to RM2.7m in 2Q23; 1H23 reduced -45.2%yoy to RM6.5m, mainly due to LAD
- Quarterly construction revenue declined -9.7%yoy to RM56.0m, PAT slipped -66.9%yoy to RM0.4m as active projects were at tail end
- Property development PAT dipped -23.1%yoy to RM3.3m, mainly due to RM3.9m of LAD
- Maintain BUY with an unchanged TP of RM0.37

Below expectations. Gabungan AQRS Berhad (AQRS) recorded a core net profit of RM2.7m 2Q23, which came in -29.9%yoy weaker. For the cumulative 1HFY23, the group's core net profit dipped -45.2%yoy to RM6.5m. This was mainly due to the liquidated ascertained damages (LAD) recognised during the period, totalling RM6.8m. The results were below expectations, making up 28.7% of ours and consensus full-year estimates.

Construction segment. The group's construction business posted a decline in revenue by -9.7%yoy for the quarter to RM56.0m, contributed mainly from LRT3, E'Island Lake Haven and Bandar Enstek School projects. PAT from the segment plunged -66.9%yoy to RM0.4m as most of its active projects during the quarter were at the tail end of completion.

Property development. Revenue from the segment declined -2.6%yoy to RM28.0m for the quarter while the PAT dropped -23.1%yoy to RM3.3m, coming from the recognition of RM3.9m of LADs during the quarter.

Earnings visibility up to FY25. AQRS' current outstanding order book stands at RM908m, with earnings visibility up to 2025. About 70% of these jobs are government-related projects. It has secured RM90.3m of new jobs in 1HFY23. For its property development division, the group has a total of RM300.6m of unbilled sales as at Jun-23. The group is also planning to launch its Gambang Residensi township in Gambang in 1H24, which will consist over 1,150 units of houses with a GDV of over RM350m.

Debt to reduce further. The group's total debts have been reduced by -RM49.5m or -15.6%qoq to RM267.0m as at Jun-23, bringing its net gearing level to 0.22x from 0.34x in 1QFY23. Management's target is to reduce its borrowings by RM100.0m by the year end, driven by cash flows generated from its construction and property development segments.

Earnings estimates. We are slashing our CY23E core net profit estimate slightly by -9.3% to RM21.5m from RM23.7 previously. We keep our CY24 and CY25 estimates intact.

Target price. We maintain our TP at **RM0.37**, based on the group's FY24F diluted EPS of 4.2 sen and a PER of 8.9x, based on AQRS' five-year historical mean.

Maintain BUY. Based on the group's outstanding construction order book, unbilled property sales and upcoming launches, AQRS has about

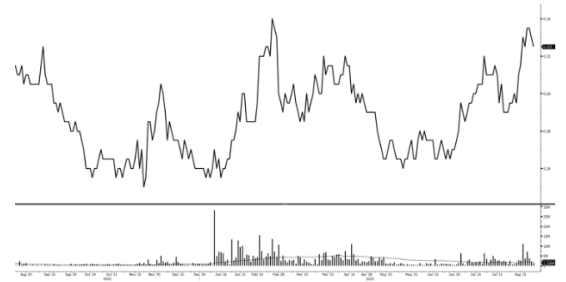
Maintain BUY

Unchanged Target Price: RM0.37

RETURN STATISTICS

Price @ 23 rd August 2023 (RM)	0.325
Expected share price return (%)	+13.85
Expected dividend yield (%)	+2.70
Expected total return (%)	+16.55

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	1.6	-0.3
3 months	20.4	20.2
12 months	3.2	6.2

INVESTMENT STATISTICS


CYE Dec	2023E	2024F	2025F
Revenue	371.70	421.93	440.92
Operating Profit	46.3	46.0	48.38
Profit Before Tax	41.5	41.2	37.05
Core net profit	21.5	27.7	28.05
Core EPS (sen)	3.25	4.18	4.24
DPS (sen)	1.0	1.0	0.0
Dividend Yield	2.7%	2.7%	2.7%

KEY STATISTICS

FBM KLCI	1,440.11
Issue shares (m)	542.77
Estimated free float (%)	50.94
Market Capitalisation (RM'm)	176.40
52-wk price range	RM0.25-RM0.35
3-mth average daily volume (m)	1.92
3-mth average daily value (RM'm)	0.58
Top Shareholders (%)	
Ganjaran Gembira Sdn Bhd	9.88
Johan Kamisah Binti	9.67
Ow Chee Cheoon	6.26

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RM1.5b in future gross revenue that can be recognised up to CY25F. With the recently concluded state elections, we can expect the government to focus more on rolling out necessary development and infrastructure projects, including the construction and rehabilitation of government buildings and schools, which are within AQRs' scope of expertise. All factors considered, we maintain our **BUY** recommendation on **AQRs**. 

GABUNGAN AQRs: 2Q23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
	2QFY23	1QFY23	2QFY22	QoQ	YoY	1HFY23	1HFY22	YoY
Income Statement								
Revenue	71.0	85.2	79.1	-16.7%	-10.2%	156.2	150.8	3.6%
Gross Profit	11.2	13.5	15.1	-17.0%	-26.0%	24.7	28.4	-13.2%
Net Operating Expenses	(5.0)	(6.6)	(6.9)	24.3%	27.3%	(11.6)	(12.1)	4.1%
Operating Profit/ (loss)	6.2	6.9	8.2	-10.1%	-24.9%	13.1	16.3	-19.9%
Finance Costs	(2.9)	(2.7)	(1.9)	-6.7%	-53.5%	(5.6)	(3.6)	-54.8%
Assoc. and JV	0.3	0.8	0.1	-69.9%	151.5%	1.1	0.4	195.4%
Profit Before Tax	3.5	5.0	6.5	-29.3%	-45.0%	8.6	13.1	-34.5%
Tax Expense	(0.3)	(1.5)	(0.9)	82.6%	72.0%	(1.8)	(2.0)	12.9%
Minority Interest	(0.0)	(0.0)	(0.0)	41.7%	58.8%	(0.0)	0.0	-179.2%
Reported Net Profit	3.3	3.5	5.5	-6.4%	-40.5%	6.8	11.0	-37.9%
Core Net Profit	2.7	3.8	5.4	-29.9%	-50.9%	6.5	11.8	-45.2%

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	326.1	337.95	371.70	421.93	440.92
Net operating expenses	(21.5)	(27.3)	(22.5)	(26.3)	(26.93)
Operating profit	31.5	32.3	46.3	46.0	48.38
Profit before tax	26.5	23.7	41.5	41.2	37.05
Net profit	16.5	20.8	21.5	27.7	28.05
Core net profit	12.5	23.6	21.5	27.7	28.05
Core EPS (sen)	2.50	3.14	3.25	4.18	4.24
DPS (sen)	0.0	0.0	1.0	1.0	0.0

Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	27.8	25.9	24.2	22.5	21.0
Other investments and assets	67.1	66.5	67.8	69.2	70.6
Non-current assets	94.9	92.4	92.0	91.7	91.6
Cash	155.9	150.2	144.2	148.5	151.5
Trade debtors	187.0	142.4	252.8	286.3	299.0
Current assets	1249.0	1288.1	1398.5	1432.0	1444.7
Trade creditors	572.6	533.5	1121.6	1193.8	1277.4
Short-term debt	273.3	264.0	161.6	197.5	197.6
Current liabilities	854.3	871.9	962.2	967.7	892.3
Long-term debt	0.4	0.6	0.5	0.5	0.5
Non-current liabilities	4.5	2.5	5.0	5.5	6.0
Share capital	355.6	355.6	355.6	355.6	355.6
Retained earnings	128.8	149.9	172.7	200.4	288.5
Equity	485.1	506.0	528.3	556.0	644.1

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	26.5	23.7	24.2	22.5	21.0
Depreciation & amortisation	7.1	7.2	6.5	6.1	5.7
Changes in working capital	-60.9	-25.3	-43.1	5.0	-14.5
Operating cash flow	7.6	-28.8	85.3	89.6	94.9
Capital expenditure	-6.0	-4.0	-25.0	-25.0	-25.0
Investing cash flow	-46.1	4.6	-9.6	5.0	5.3
Debt raised/(repaid)	-26.6	-73.6	-84.2	-75.8	-68.5
Dividends paid	-4.8	-0.1	-5.4	-5.4	-5.4
Financing cash flow	77.5	13.5	8.1	16.5	23.8
Net cash flow	39.0	-10.7	83.8	111.1	124.0
Beginning cash flow	-200.8	-161.9	-172.5	-88.7	22.4
Ending cash flow	-161.9	-172.5	-88.7	22.4	146.4

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	9.67%	9.56%	12.46%	10.90%	10.97%
PBT margin	8.13%	7.01%	11.16%	9.76%	8.40%
PAT margin	5.07%	6.16%	5.78%	6.57%	6.36%
Core PAT margin	3.84%	6.97%	5.78%	6.57%	6.36%

Source: Bloomberg, 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 +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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology