

1Q17 results: Boost from land-sale gains

Gabungan AQRS's net profit of RM16.1m (+330% yoy) in 1Q17 was above our expectations. Gains (after tax) of about RM11.8m from the disposal of land in Dengkil and Kinrara Uptown lifted earnings in 1Q17. We expect the sale of land in Kota Damansara to contribute gains of RM11.7m in 2H17. We raise our FY17 EPS forecast by 53% to reflect the land-sale gains. Maintain BUY with higher RM1.62 target.

Land-sale gains recognised

Revenue rose strongly by 100% yoy and 85% qoq to RM159m in 1Q17, mainly on higher property-development revenue from the sale of two land parcels. PBT rose 91% qoq and 4x yoy to RM26m on land-sale gains. The earnings contribution from new contracts worth RM1.5bn secured last year led to a construction PBT of RM8.6m in 1Q17 compared to a loss of RM2.1m in 1Q16. The property development PBT increased 139% yoy to RM16.7m in 1Q17 with the sale of The Contours Courtyard Villas and land in Dengkil to PR1MA and Kinrara Uptown to Ara Indah Development.

High construction orderbook

We expect AQRS's construction orderbook of RM1.7bn and unbilled sales of RM145m to contribute to earnings in FY17-19. It is also pushing to sell RM591m of unsold units, mostly for The Peak condominium in Johor Bahru. Orderbook growth prospects look good, as AQRS is pre-qualified to bid for LRT Line 3 packages and plans to tender for the Pan Borneo Highway (PBH) Sabah and East Coast Rail Link packages. It aims to secure RM0.7-1.0bn of new contracts in 2017. Its One Jesselton project with a gross development value of RM1.8bn is due to launch in late 2017.

Raising earnings forecasts

We increase our FY17E EPS by 53% to reflect the land-sale gains. We also raise our FY18-19E EPS by 5-6% to factor in interest savings from debt repayment with land-sale proceeds and potential earnings from its 49%-owned pre-cast concrete manufacturing operation in Sabah, assuming it secures a supply contract worth RM800m for the PBH Sabah project which could contribute a PBT margin of 12% over 7 years.

Share-price correction a buying opportunity, in our view

We lift our fully diluted end-2017E RNAV/share to RM1.80 from RM1.37 on lower net debt, higher construction-arm valuation and a new valuation for the pre-cast concrete division. Based on the same 10% discount to RNAV, we raise our 12M target price to RM1.62 from RM1.24. Maintain BUY.

Earnings & Valuation Summary

| FYE 31 Dec | 2015 | 2016 | 2017E | 2018E | 2019E |
|-----------------------|---------|-------|-------|-------|-------|
| Revenue (RMm) | 272.5 | 356.7 | 512.8 | 521.7 | 772.6 |
| EBITDA (RMm) | 16.1 | 69.4 | 79.0 | 109.3 | 157.7 |
| Pretax profit (RMm) | (7.9) | 43.6 | 72.5 | 80.8 | 127.2 |
| Net profit (RMm) | (9.7) | 22.6 | 61.7 | 63.0 | 99.2 |
| EPS (sen) | (0.9) | 5.0 | 12.1 | 12.3 | 18.9 |
| PER (x) | (159.1) | 29.0 | 11.9 | 11.7 | 7.6 |
| Core net profit (RMm) | (9.7) | 22.0 | 38.2 | 63.0 | 99.2 |
| Core EPS (sen) | (0.9) | 4.8 | 7.8 | 12.3 | 18.9 |
| Core EPS growth (%) | NA | NA | 60.9 | 57.6 | 53.4 |
| Core PER (x) | (159.1) | 29.7 | 18.5 | 11.7 | 7.6 |
| Net DPS (sen) | 0.0 | 0.0 | 2.0 | 3.0 | 4.0 |
| Dividend Yield (%) | 0.0 | 0.0 | 1.4 | 2.1 | 2.8 |
| EV/EBITDA (x) | 50.4 | 10.6 | 9.6 | 6.3 | 5.3 |
| Chg in EPS (%) | | | 52.9 | 6.0 | 5.1 |
| Affin/Consensus (x) | | | NA | NA | NA |

Source: Company, Affin Hwang estimates, Bloomberg

Results Note

Gabungan AQRS

AQRS MK

Sector: Construction & Infra

RM1.44 @ 22 May 2017

BUY (maintain)

Upside: 12%

Price Target: RM1.62

Previous Target: RM1.24



Price Performance

| | 1M | 3M | 12M |
|-------------|--------|--------|--------|
| Absolute | +14.3% | +35.8% | +63.6% |
| Rel to KLCI | +13.1% | +30.7% | +50.2% |

Stock Data

| | |
|------------------------------------|-------------|
| Issued shares (m) | 390.4 |
| Mkt cap (RMm)/(US\$m) | 562.2/130.4 |
| Avg daily vol - 6mth (m) | 1.2 |
| 52-wk range (RM) | 0.82-1.48 |
| Est free float (%) | 51.4% |
| BV per share (RM) | 0.88 |
| P/BV (x) | 1.63 |
| Net cash/(debt) (RMm) (1Q17) | (263.7) |
| ROE (%) (2017E) | 16.6 |
| Derivatives | Yes |
| (Warr 13/18, WP RM0.43, EP RM1.30) | |
| Shariah Compliant | Yes |

Top 3 Key Shareholders

| | |
|------------------|-------|
| Ganjaran Gembira | 13.3% |
| Chee Cheoon Ow | 8.4% |
| Ng Kee Leen | 5.7% |

Source: Affin Hwang, Bloomberg

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Securities



Outthink. Outperform.

Fig 1: Results comparison

| FYE 31 Dec (RMm) | 1Q16 | 4Q16 | 1Q17 | % QoQ | % YoY | 1Q17 Comments |
|----------------------------|-------------|-------------|-------------|-----------------|-----------------|--|
| Revenue | 79.6 | 86.1 | 158.9 | 84.7 | 99.6 | Higher construction and property revenue YoY and QoQ. SUKE, PR1MA homes, and KotaSAS projects lifted construction revenue. Land sales lifted property revenue. |
| Operating costs | (68.2) | (65.1) | (124.9) | 92.0 | 83.3 | Higher costs due to increased construction activities while land sale costs were charged off. |
| EBITDA | 11.5 | 21.0 | 34.0 | 62.0 | >100 | Higher construction and property earnings YoY. |
| <i>EBITDA margin (%)</i> | <i>14.4</i> | <i>24.4</i> | <i>21.4</i> | <i>-3.0ppt</i> | <i>7.0ppt</i> | Construction profit margin normalised on QoQ basis. High property profit margin due to land-sale gains. |
| Depreciation | (3.1) | (3.9) | (4.3) | 9.7 | 39.0 | |
| EBIT | 8.4 | 17.1 | 29.7 | 73.9 | >100 | |
| Interest expense | (3.3) | (4.4) | (3.9) | (11.1) | 17.1 | |
| Interest income | 0.1 | 0.4 | 0.1 | (64.6) | 16.7 | |
| Associates | (0.1) | (0.0) | (0.1) | >100 | 127.8 | |
| Exceptional gain/(loss) | 0.0 | 0.4 | 0.0 | NA | NA | |
| Pre-tax profit | 5.2 | 13.5 | 25.9 | 91.4 | >100 | Above expectations due to land-sale gains. |
| Core pre-tax profit | 5.2 | 13.1 | 25.9 | 97.9 | >100 | |
| Taxation | (1.8) | (6.6) | (7.3) | 10.6 | >100 | |
| <i>Tax rate (%)</i> | <i>35.3</i> | <i>49.0</i> | <i>28.4</i> | <i>-20.7ppt</i> | <i>-19.6ppt</i> | Normalized tax rate. |
| Minorities | 0.4 | 0.5 | (2.4) | NA | NA | |
| Net profit | 3.8 | 7.4 | 16.1 | >100 | >100 | Above expectations due to land-sale gains. |
| EPS (sen) | 1.0 | 1.9 | 4.1 | >100 | >100 | |
| Core net profit | 3.8 | 6.9 | 16.1 | >100 | >100 | |

Source: Company, Affin Hwang estimates

Fig 2: Segmental operating profit

| FYE 31 Dec (RMm) | 2Q15 | 3Q15 | 4Q15 | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 1Q17 | % QoQ | % YoY |
|----------------------|------------|---------------|------------|------------|-------------|------------|-------------|-------------|-------------|----------------|
| Construction | 0.8 | (14.6) | 6.8 | (2.1) | (0.1) | 8.3 | 20.6 | 8.6 | (58.1) | NA |
| Property development | 9.7 | (7.6) | (2.0) | 7.0 | 17.5 | (1.4) | (5.5) | 16.7 | NA | >100 |
| Others | (1.1) | (1.3) | (0.7) | (0.5) | 1.7 | 0.3 | (2.3) | 1.5 | NA | NA |
| Elimination | (1.8) | (0.5) | (3.5) | 0.8 | (2.4) | 1.0 | 0.7 | (0.9) | NA | NA |
| Total | 7.7 | (24.0) | 0.6 | 5.2 | 16.7 | 8.2 | 13.5 | 25.9 | 91.4 | >100 |

Source: Company, Affin Hwang estimates

Fig 3: Segmental operating profit margin

| FYE 31 Dec (%) | 2Q15 | 3Q15 | 4Q15 | 1Q16 | 2Q16 | 3Q16 | 4Q16 | 1Q17 | QoQ | YoY |
|----------------------|------------|-----------|------------|------------|-------------|-------------|-------------|-------------|---------------|---------------|
| Construction | 1.4 | NA | 13.8 | NA | NA | 14.2 | 27.8 | 14.3 | -13.5ppt | NA |
| Property development | 33.4 | NA | NA | 23.3 | 31.7 | NA | NA | 17.4 | NA | -5.9ppt |
| Total | 8.9 | NA | 1.4 | 6.5 | 18.1 | 12.4 | 16.2 | 16.3 | 0.0ppt | 9.8ppt |

Source: Company, Affin Hwang estimates



Outthink. Outperform.

Fig 4: Construction orderbook

| Project | Remaining value (RMm) |
|--|-----------------------|
| Current projects | |
| Ongoing projects (The PEAK, Tropicana Metropark) | 203 |
| PR1MA homes, Bukit Gambang, Kuantan, Pahang | 424 |
| Sungai Besi-Ulu Kelang Elevated Expressway (SUKE) | 628 |
| Pusat Pentadbiran Sultan Ahmad Shah, Kuantan, Pahang | 361 |
| Plot G - PR1MA homes, Sepang, Selangor | 196 |
| Total | 1,812 |

Source: Company

Fig 5: Revised RNAV and target price

| Segments | Stake (%) | New RNAV (RMm) | Old RNAV (RMm) | Change (%) |
|---|-----------|----------------|----------------|------------|
| Construction @ PER 14x avg earnings of RM35m | 100 | 490 | 392 | 25 |
| Pre-cast concrete @ PER 14x avg earnings of RM5m | 49 | 70 | 0 | 100 |
| Property development @ 2017E NPV at 7.7% WACC | 100 | 344 | 407 | (15) |
| Net cash/(debt) | | (123) | (251) | (51) |
| End-2017E RNAV | | 782 | 548 | 43 |
| No. of shares (m) | | 391 | 391 | 0 |
| RNAV/share (RM) | | 2.00 | 1.40 | 43 |
| New shares from warrants conversion (m) | | 160 | 160 | 0 |
| Fully diluted no. of shares (m) | | 551 | 551 | 0 |
| Fully diluted end-2017E RNAV/share (RM) | | 1.80 | 1.37 | 31 |
| Target price at 10% discount to RNAV/share | | 1.62 | 1.24 | 31 |

Source: Affin Hwang estimates

Equity Rating Structure and Definitions

| | |
|------------------|--|
| BUY | Total return is expected to exceed +10% over a 12-month period |
| HOLD | Total return is expected to be between -5% and +10% over a 12-month period |
| SELL | Total return is expected to be below -5% over a 12-month period |
| NOT RATED | Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation |

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

| | |
|--------------------|--|
| OVERWEIGHT | Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months |
| NEUTRAL | Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months |
| UNDERWEIGHT | Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months |

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