

Gabungan AQRS Berhad

(5226 | AQRS MK) Main | Construction

FY20 started on a weak note

KEY INVESTMENT HIGHLIGHTS

- **Earnings fell short of our and consensus expectations**
- **AQRS construction division revenue increased +15.6%yoy in 1QFY20**
- **Property segment revenue plunged by -94.5%yoy in 1QFY20**
- **Earnings forecasts revised lower**
- **Reaffirm BUY on Gabungan AQRS at adjusted TP of RM1.01 (from RM1.42)**

Earnings fell short of our and consensus expectations. AQRS reported earnings of RM3.9m (-65.2%yoy) in 1QFY20 which lagged expectations as it accounted for only 6% and 8.1% of our and consensus full year estimates.

AQRS construction division registered an increase in revenue to RM95.2m (+15.6%yoy) in 1QFY20 compared to RM82.4m in 1QFY19. Higher figure in revenue in the current quarter was on the back of the work progress of in-house projects, The Peak and E'Island Lake Haven. While the Group reported better improvement in topline of construction division, it posted lower profit before tax (PBT) of RM5.9m in the current quarter, lower by -21.1%yoy compared to RM7.5m in the previous year. The contraction was due to lower profit margin for the in-house projects as compared to external projects. Moreover, the work progress for external projects during the current quarter was lower compared to the preceding year quarter. Additionally, it is worth noting that AQRS current outstanding order book stood at RM1.84b, which will provide earnings visibility until 2023 - including the latest job award, i.e. RM36.7m drainage works for the East Coast Rail Link (ECRL) project in Pahang which commencing end of June FY20.

Property segment revenue plunged by -94.5%yoy to RM0.7m (from RM13.4m) in 1QFY20, steered by lower work progress on The Peak project compared to the year before. On a positive note, the reintroduction of the new Home Ownership Campaign by the Government under the Penjana Short-term Economic Recovery Plan would impact positively on AQRS's property development segment as the campaign bodes well for the Group's ongoing property developments, namely E'Island Lake Haven, The Peak and Contours Melawati Height.

MaintainBUY

Adjusted Target Price: RM1.01
(previously RM1.42)

RETURN STATISTICS

Price@ 26 th June 2020 (RM)	0.86
Expected share price return (%)	+16.91
Expected dividend yield (%)	+4.65
Expected total return (%)	+21.56

SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-8.5	-9.4
3 months	+8.9	+1.5
12 months	-36.8	-28.9

KEY STATISTICS

FBM KLCI	1,488.14
Syariah compliant	Yes
Issue shares (m)	3639.29
Estimated free float (%)	57.42
Market Capitalisation (RM'm)	6,569.31
52-wk price range	RM1.15 - RM2.51
Beta vs FBM KLCI (x)	1.43
Monthly velocity (%)	0.00
Monthly volatility (%)	21.54
3-mth average daily volume (m)	4.30
3-mth average daily value (RM'm)	7.71
Top Shareholders (%)	
Employees Provident Fund Board	16.12
Amanah Saham Nasional Bhd	14.48
KWAP	8.85

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Earnings forecasts revised lower. We slashed our FY20 and FY21 earnings forecasts by -53.3% and -29.2% due to earnings underperformance in the review quarter. The table below summarizes our latest core net profit estimates for Gabungan AQRS.

Reaffirm BUY on Gabungan AQRS at adjusted TP of RM1.01 (from RM1.42). We ascribe a PE multiple of 10x to its FY21EPS. Going ahead, the Group is expected to focus and leveraging on their current portfolio. On top of that, moving forward, we believe its financial position will improve as the Group have submitted claims totalling RM45.0m for completed past projects which accounts have been finalised but AQRS has yet to be paid by their clients. Downside risks to our call include (1) delay in the commencement of the latest job clinched due to ongoing coronavirus pandemic, and (2) lower-than-expected property sales. 

INVESTMENT STATISTICS

FYE December	FY17	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	469.4	582.5	413.0	559.7	664.8	731.2
Op/Inc (RM'm)	82.6	91.8	83.8	70.3	89.3	112.8
PATAMI (RM'm)	48.0	63.6	38.5	30.6	49.6	54.2
EPS (Sen)	8.7	10.8	7.8	6.2	10.1	11.0
EPS Growth (%)	13.1	24.3	-27.8	-20.6	62.2	9.3
PER (x)	14.0	11.3	12.9	13.9	8.6	7.8
Dividend (sen)	0.0	4.0	3.0	4.0	4.0	5.0
Dividend yield (%)	0.0	4.7	3.5	4.7	4.7	5.8

Source: Company, MIDFR

1QFY20 Results Review

FYE Dec (RM'm)	1QFY20	1QFY19	4QFY19	YoY Chg	QoQ Chg	3MFY20	3MFY19	YoY Chg
Revenue	76.9	86.3	79.8	-11.0%	-3.8%	76.9	86.3	-11.0%
Other Income	1.0	0.6	12.2	69.5%	-91.8%	1.0	0.6	69.5%
Operating Cost	(5.4)	(9.9)	(14.9)	-45.6%	-64.1%	(5.4)	(9.9)	-45.6%
Finance Cost	(1.0)	(1.3)	(1.1)	-20.1%	-9.6%	(1.0)	(1.3)	-20.1%
Pre-tax profit	6.0	12.8	4.5	-53.3%	31.6%	6.0	12.8	-53.3%
Taxation	(1.8)	(1.8)	1.1	4.7%	-262.7%	(1.8)	(1.8)	4.7%
PATAMI	3.9	11.3	5.4	-65.2%	-27.4%	3.9	11.3	-65.2%
Diluted EPS (sen)	0.6	1.9	0.9	-65.4%	-28.1%	0.6	1.9	-65.4%
	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
Pre-tax margin	7.8%	14.8%	5.7%	-7.0	2.1	7.8%	14.8%	-7.0
PATAMI margin	5.1%	13.0%	6.8%	-7.9	-1.7	5.1%	13.0%	-7.9
Effective tax rate	30.8%	13.7%	-24.9%	17.1	55.7	30.8%	13.7%	17.1

Segmental breakdown								
Revenue	1QFY20	1QFY19	4QFY19	YoY Chg	QoQ Chg	3MFY20	3MFY19	YoY Chg
Construction	95.2	82.4	84.0	15.6%	13.3%	73.3	70.1	871.7%
Property	0.7	13.4	5.4	-94.5%	-86.3%	0.7	13.4	-81.3%
Others	4.4	4.7	12.8	-6.1%	-65.2%	2.8	2.8	72.9%
TOTAL	100.4	86.3	102.2	16.2%	-1.8%	76.9	86.3	-11.0%
PBT	1QFY20	1Q19	4Q19	YoY Chg	QoQ Chg	3MFY20	1Q19	YoY Chg
Construction	6.0	7.5	63.1	-21.1%	-90.6%	6.0	7.5	5429.4%
Property	-0.8	4.0	-5.1	-120.3%	-84.3%	-0.8	4.0	-120.3%
Others	1.4	1.6	8.6	-12.2%	-83.3%	1.4	1.6	-12.2%
TOTAL	6.6	13.1	66.6	-49.9%	-90.1%	6.6	13.1	-49.9%
PBT margin	1QFY20	1QFY19	3Q19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
Construction	6%	9%	75%	-2.9	-68.9	8%	11%	-2.6
Property	-109%	29%	-94%	-138.0	-14.1	-109%	29%	-138.0

Source: Company, 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.