

## Gabungan AQRS Berhad

(5226 | AQRS MK) Main | Construction

**Expect better contribution from LRT3**

### KEY INVESTMENT HIGHLIGHTS

- **AQRS posted lower revenue in FY19 at RM413.0 (-29.4%yoy)**
- **AQRS construction division reported a massive contraction in revenue to RM84.0m (-40.3%yoy) in 4QFY19**
- **Property division improved**
- **AQRS outstanding construction order book stood at RM1.8 billion, which will provide earning visibility until 2022**
- **Reaffirm BUY on Gabungan AQRS with adjusted TP of RM1.42 (from RM1.65)**

**AQRS posted lower revenue in FY19 at RM413.0 (-29.4%yoy)**, dragged by the (1) recognition of liquidated ascertained damages (LAD) for The Peak in Johor Bahru amounting to RM6.7m, as well as (2) lower work progress achieved in the current quarter for construction segment. As for the Group's PATAMI, it registered cumulative earnings of RM38.5m (-37.1%yoy) in FY19 which lagged expectations as it accounted for only 73.3% and 76.5% of our and consensus full year estimates.

**AQRS construction division reported a massive contraction in revenue to RM84.0m (-40.3%yoy) in 4QFY19 compared to RM140.6m in 4QFY18.** The decline was due to (1) the extension of completion date resulting from changes in interior design plan by the client for Pusat Pentadbiran Sultan Ahmad Shah project, and (2) the new work program for LRT3 package – which led to lower work progress for construction segment. At the profit before tax (PBT) level, this division reported PBT of RM63.1m in 4QFY19, a 276% increase compared to the previous year. The increase was underpinned by one-off accounting adjustment (MFRS 9 – re-measurement of expected credit loss rate) which resulted in a non-cash gain of RM56m. However excluding this, the Group's construction division booked PBT of RM6.8m in 4QFY19 (-79%yoy) as a result of slowdown in LRT3 works.

**Property division improved.** The Group's property development segment revenue was higher at RM5.4m in 4QFY19. We note that this division posted revenue of RM4.3m from its project E'Island Lake Haven while recognizing a negative RM6.7m LAD for The Peak. Moreover, the property development division reported a lower loss before tax (LBT) of -RM5.1m in 4Q19 compared to -RM11.4 million in 4QFY18 attributed to positive contributions from E'Island Lake Haven.

**Maintain BUY**
**Adjusted Target Price : RM1.42**
*(from RM1.65)*

#### RETURN STATISTICS

Price @ 28 <sup>th</sup> Feb 2020 (RM)	RM 1.01
Expected share price return (%)	+40.60
Expected dividend yield (%)	+1.20
<b>Expected total return (%)</b>	<b>+41.80</b>

#### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.48	-2.13
3 months	-14.41	-10.84
12 months	-6.35	7.87


#### KEY STATISTICS

FBM KLCI	1482.64
Syariah compliant	Yes
Issue shares (m)	487.1
Estimated free float (%)	53.4
Market Capitalisation (RM'm)	498.36
52-wk price range	RM0.99 - RM1.54
Beta vs FBM KLCI (x)	1.5
Monthly velocity (%)	11.0
Monthly volatility (%)	33.6
3-mth average daily volume (m)	0.98
3-mth average daily value (RM'm)	1.11
Top Shareholders (%)	
Ganjaran Gembira Sdn Bhd	10.86
Employees Provident Fund Board	7.31
Ow Chee Cheoon	6.88

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**As of 31 December 2019, AQRS outstanding construction order book stood at RM1.8 billion, which will provide earning visibility until 2022.** It is also worth noting that, AQRS have finalized and submitted proposal to MRCB-George Kent (MRCBGK) which includes global variation to arrive at a final contract value and a new work program for LRT3 package. Moving forward, we anticipated a better contribution from LRT 3 works on the back of better work progress.

**Revised earnings.** We have revised our FY20 earnings lower due to (1) underperformance of construction segment, and (2) lower work progress of LRT3. The table below summarizes our latest core net profit estimates for Gabungan AQRS.

**Reaffirm BUY on Gabungan AQRS at adjusted TP of RM1.42 (from RM1.65).** We ascribe a PE multiple of 10x to its FY21EPS. Going ahead, the Group is expected to focus and leveraging their current portfolio in order to generate more income and achieve better margin despite local economy and construction sector headwinds. 

## INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	469.40	582.47	412.98	743.36	817.70
Op/Inc (RM'm)	82.60	91.81	83.80	100.56	120.67
PATAMI (RM'm)	48.00	63.57	38.52	65.49	70.07
EPS (Sen)	8.70	10.81	7.81	13.27	14.20
EPS Growth (%)	13.13	24.25	-27.78	70.00	7.00
PER (x)	14.00	11.30	12.94	7.61	7.11

Source: Company, MIDFR

## 4QFY19 RESULTS REVIEW

FYE Dec (RM'm)	4Q19	4Q18	3Q19	YoY Chg	QoQ Chg	12MFY19	12MFY18	YoY Chg
<b>Revenue</b>	<b>79.8</b>	<b>111.4</b>	<b>118.8</b>	<b>-28.3%</b>	<b>-32.8%</b>	<b>413.0</b>	<b>585.3</b>	<b>-29.4%</b>
Other Income	12.2	14.9	1.9	-18.2%	527.6%	18.7	19.6	-4.5%
Operating Cost	(14.9)	(14.8)	(12.8)	1.0%	16.5%	(47.7)	(51.4)	-7.2%
Finance Cost	(1.1)	(0.7)	(1.1)	70.1%	8.8%	(4.2)	(5.4)	-21.4%
<b>Pre-tax profit</b>	<b>4.5</b>	<b>15.8</b>	<b>16.5</b>	<b>-71.4%</b>	<b>-72.5%</b>	<b>50.5</b>	<b>87.0</b>	<b>-41.9%</b>
Taxation	1.1	(4.0)	(5.1)	-128.0%	-122.0%	(11.4)	(21.9)	-47.8%
<b>PATAMI</b>	<b>5.4</b>	<b>8.6</b>	<b>11.3</b>	<b>-37.1%</b>	<b>-52.3%</b>	<b>38.5</b>	<b>61.2</b>	<b>-37.1%</b>
Diluted EPS (sen)	0.9	1.5	1.9	-39.0%	-52.2%	6.2	10.4	-40.6%
	<b>4Q19</b>	<b>4Q18</b>	<b>3Q19</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>12MFY19</b>	<b>12MFY18</b>	<b>+/- ppts</b>
Pre-tax margin	5.7%	14.2%	13.9%	-8.5	-8.2	12.2%	14.9%	-2.6
PATAMI margin	6.8%	7.7%	9.5%	-0.9	-2.8	9.3%	10.5%	-1.1
Effective tax rate	-24.9%	25.5%	31.1%	-50.4	-56.0	22.6%	25.1%	-2.6

### Segmental breakdown

Revenue	4Q19	4Q18	3Q19	YoY Chg	QoQ Chg	12MFY19	12MFY18	YoY Chg
Construction	84.00	140.60	115.95	-40.3%	1.7%	427.40	621.54	612.1%
Property	5.40	-13.40	-0.87	-140.3%	-810.9%	21.32	24.51	-60.3%
Others	12.78	75.44	3.71	-83.1%	244.6%	21.30	83.96	-44.8%
<b>TOTAL</b>	<b>102.18</b>	<b>202.64</b>	<b>118.79</b>	<b>-49.6%</b>	<b>15.2%</b>	<b>470.0</b>	<b>730.0</b>	<b>-35.6%</b>
PBT	4Q19	4Q18	3Q19	YoY Chg	QoQ Chg	12MFY19	12MFY18	YoY Chg
Construction	63.10	16.780	19.31	276.0%	226.8%	108.24	60.0	111979.1%
Property	5.10	11.40	-1.97	-55.3%	163.9%	-5.82	53.69	-110.8%
Others	8.62	26.13	-0.24	-67.0%	-3751.7%	10.31	38.6	-73.3%
<b>TOTAL</b>	<b>76.82</b>	<b>54.31</b>	<b>17.11</b>	<b>41.4%</b>	<b>288.9%</b>	<b>112.7</b>	<b>152.3</b>	<b>-26.0%</b>
PBT margin	4Q19	4Q18	3Q19	+/- ppts	+/- ppts	12MFY19	12MFY18	+/- ppts
Construction	75%	12%	17%	63.2	36.8	25%	10%	15.7
Property	94%	-85%	17%	179.5	-100.7	-27%	219%	-246.3

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.