

Gabungan AQRS Berhad

(1651 | AQRS MK) Main | Construction

Maintain Buy

Leveraging on Current Portfolio

KEY INVESTMENT HIGHLIGHTS

- **To recap, the group's headline 3QFY19 PATAMI was at RM33.1m (-37.1%yoy)**
- **The planned One Jesselton Waterfront is expected to be a key driver for the group's long-term earnings and cash flow**
- **Better LRT3 work progress**
- **Property division contribution still subdued**
- **Maintain BUY with an unchanged TP of RM1.65**

To recap, the group's headline 3QFY19 PATAMI was at RM33.1m (-37.1%yoy). The construction division was the key income driver in 3QFY19, with a revenue share of 89.2%. We note that the 3QFY19 income was largely contributed by the work progress for the Sungai Besi – Ulu Kelang (SUKE) Highway and Pusat Pentadbiran Sultan Ahmad Shah, Pahang.

Further details on the group's plan were shared during a meeting yesterday at Gabungan AQRS. Below are some of the key takeaways:

The planned One Jesselton Waterfront is expected to be a key driver for the group's long-term earnings and cash flow. The planned mixed waterfront development is underpinned by its strategic features which are (1) strategic location, (2) absence of comparable competitors, and (3) high number of tourists to Kota Kinabalu. It is notable that Kota Kinabalu International Airport serves the second highest number of tourists after KLIA. Plus, the waterfront is sandwiched between two important marine hubs which are Kota Kinabalu Ferry Terminal and Terminal Ferry Pasar Besar Kota Kinabalu. Upon its completion, the development is expected to generate NSV of more than 1.8 billion and potential recurring annual income of RM70 million.

Better LRT3 work progress. To recap, the group's earnings shrank 33.6%yoy in 3QFY2019 due to lower work progress of LRT3. Moving forward, we anticipated better contribution from LRT3 due to (1) better work progress in 4QFY19, and (2) more efficient cost management. The work progress of LRT3 is expected to peak in 2HFY20. As of 30 September 2019, AQRS outstanding construction order book stood at RM1.8 billion, which will provide earning visibility until 2022.

Unchanged Target Price: RM1.65

RETURN STATISTICS

Price @ 13 st Dec 2019 (RM)	RM1.20
Expected share price return (%)	+37.5
Expected dividend yield (%)	+1.2
Expected total return (%)	+38.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.44	-3.11
3 months	1.69	-8.47
12 months	6.43	12.81

KEY STATISTICS

FBM KLCI	1587.88
Syariah compliant	Yes
Issue shares (m)	487.1
Estimated free float (%)	53.5
Market Capitalisation (RM'm)	592.1
52-wk price range	RM0.85 - RM1.54
Beta vs FBM KLCI (x)	1.5
Monthly velocity (%)	11.0
Monthly volatility (%)	33.6
3-mth average daily volume (m)	0.6
3-mth average daily value (RM'm)	0.8
Top Shareholders (%)	
Ganjaran Gembira Sdn Bhd	10.9
Employees Provident Fund Board	7.1
Ow Chee Cheoon	6.9

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Property division contribution still subdued. Gabungan AQRs has seen 30% of its luxury residence project, The Peak, in Johor Bharu sold. Apart from that, PRIMA Gambang is expected to complete in 2HFY20 and PPSAS is expected to complete later this year. Property segment will continue to contribute to AQRs's earnings despite the stagnant growth in revenue.

Impact to earnings. We leave our earnings forecasts unchanged as the visit yielded no +/- surprises.

Maintain BUY. We maintain our **TP** at **RM1.65** ascribed to 13x PE multiple of FY20EPS. In view of the prevailing construction sector headwinds, AQRs is expected to focus and leveraging on their current portfolio in order to generate more income and achieve better margins. 

INVESTMENT STATISTICS

FYE July	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	330.00	469.40	582.47	750.31	966.50
Op/Inc (RM'm)	41.28	82.60	91.81	90.04	115.98
PATAMI (RM'm)	33.30	48.00	63.57	52.52	77.32
EPS (Sen)	7.69	8.70	10.81	8.65	12.74
EPS Growth (%)	409.00	13.13	24.25	-19.98	47.28
PER (x)	12.38	14.00	11.30	14.00	9.50

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.