Gabungan AQRS Berhad

(5226 | AQRS MK) Main | Construction

Maintain BUY

AQRS secures school classroom project

***Unchanged* Target Price: RM0.56**

KEY INVESTMENT HIGHLIGHTS

- **Secured a RM67m school classroom project from JKR**
- **New win brings outstanding order book to RM1.2b, though still behind RM500m replenishment target**
- **Project to commence next week, expected to take 3 years to complete**
- **Raw material price headwinds expected to be minimal with VOP in place**
- **Maintain BUY with an unchanged target price of RM0.56**

RM67m school project. Gabungan AQRS, through its wholly-owned subsidiary Gabungan Strategik Sdn Bhd, has secured a RM66.6m job from the Public Works Department (JKR), beating two other tenders to build 24 classrooms for a school in Negri Sembilan. This raises its unbilled construction order book to around RM1.2b.

Project description. The 24 classrooms will be built at Sekolah Menengah Kebangsaan Pendidikan Khas Bandar Enstek. Works will commence next week on 2 August 2022 with an expected completion date on July 28, 2025. Considering a profit margin estimate of 5%, the project is expected to deliver RM3.3m in earnings.

Risk of higher costs. While the fluctuation in raw material prices remains a concern for the construction industry, we do not expect this to be much of a problem for AQRS, due to the variation of price (VOP) clause. This is especially after the recent addition of 11 building materials into the VOP, as announced by YAB PM Datuk Seri Ismail Sabri Yaakob on 14 July 2022. The Group recently inked a supplemental agreement for the Sultan Ahmad Shah Administrative Centre (PPSAS) in Pahang, which will enable it to pass on RM8m of additional cost. Recall that the PPSAS is a RM410m project that AQRS secured in Dec-16, scheduled to be completed this year. The Group is also in the midst of submitting a VOP application for the LRT3 project, where it is involved in a series of works from Bandar Utama to Johan Setia.

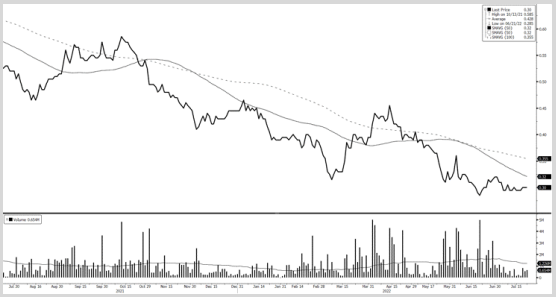
Behind on order book replenishment. While AQRS has a healthy unbilled order book of RM1.2b with earnings visibility up to FY23, we reiterate that it is still behind on its replenishment target of RM500m for FY22. Together with the RM31.9m sub-contract for sewer pipe relaying works in Kuala Langat that it won in June, the total job wins year-to-date is RM98.5m, or 19.7% of its full year target.

Earnings estimates. We are making no changes to our FY22-FY24 estimates.

Target price. We are retaining our **TP** at **RM0.56**, which is derived by pegging a PER of 7.5x, which is about -0.25 standard deviation below

RETURN STATISTICS	
Price @ 22nd July 2022 (RM)	**0.30**
Expected share price return (%)	**+86.67**
Expected dividend yield (%)	**+1.70**
Expected total return (%)	**+88.37**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	-2.0
3 months	-6.2	-21.6
12 months	-42.9	-40.6

KEY STATISTICS	
FBM KLCI	1,465.80
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	☆
Issue shares (m)	542.77
Estimated free float (%)	47.01
Market Capitalisation (RM'm)	162.83
52-wk price range	RM0.28 - RM0.59
Beta vs FBM KLCI (x)	0.93
Monthly velocity (%)	31.18
Monthly volatility (%)	24.49
3-mth average daily volume (m)	1.23
3-mth average daily value (RM'm)	0.40
Top Shareholders (%)	
Ganjaran Gembira Sdn Bhd	9.88
Kamisah Binti Johan	9.67
Ow Chee Cheoon	6.26

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its five-year historical average, to the group's FY23F Diluted EPS of 7.5sen.

Maintain BUY. We remain positive on the group's earnings prospects, backed by its margin protection measures for its construction division and strong property sales for its property development segment. We are also of the view that AQRS could be among the beneficiaries, be it direct winners or through sub-contracts of projects such as MRT3 and future mega projects to be introduced by the Government, predicated on the Group's extensive experience and involvement in projects such as MRT1, LRT3, SUKE and upgrading works for several highways. All in, we are maintaining our **BUY** recommendation on AQRS.

INVESTMENT STATISTICS

Annual Standardized	2020A	2021A	2022F	2023F	2024F
Revenue	202.3	330.77	383.01	420.80	462.31
Gross Profit	(30.0)	50.2	83.3	100.9	91.3
Net Operating Expenses	(25.0)	(21.0)	(23.1)	(25.4)	(28.8)
Operating Profit	(55.0)	29.2	60.1	75.5	65.4
Finance Costs	(5.0)	(6.0)	(5.9)	(6.5)	(6.9)
Assoc. and JV	0.5	1.1	0.4	0.5	0.5
Profit Before Tax	(59.5)	24.3	54.6	69.4	58.7
Tax Expense	5.9	(7.7)	(18.0)	(19.8)	(16.8)
Reported Net Profit	(54.3)	16.3	36.6	49.7	40.5
Core Net Profit	(54.3)	8.5	36.6	49.7	40.5
EPS	-11.45	3.09	6.78	9.20	7.50
Diluted EPS	-9.22	2.52	5.55	7.53	6.14
DPS	1.0	0.0	1.0	1.0	2.0
Dividend Yield	1.7%	0.0%	1.7%	1.7%	3.3%

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 *rise* 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 *fall* 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