# Gabungan AQRS Berhad

(5226 | AQRS MK) Main | Construction

***Maintain BUY***

## Stronger margins but below expectations

***Revised* Target Price: RM0.52**
(previously RM0.56)

## KEY INVESTMENT HIGHLIGHTS

- **2QFY22 core earnings more than doubled to RM5.4m**
- **Results were below house and consensus estimates**
- **Construction PBT margin of 3.72% higher than 2QFY21 at 1.68% but lower than 1QFY22 at 8.48%**
- **Orderbook remains healthy at RM1.07b but behind on RM500m replenishment target**
- **Strong contender for MRT3 subcontract jobs**
- **Maintain BUY with revised TP of RM0.52**

**Improved earnings.** Gabungan AQRS Berhad (AQRS)'s 2QFY22 normalised earnings more than doubled on-year to RM5.2m, due to lower base effect from 2QFY21 and stronger margins despite a weaker revenue of RM79.1m, which was -19.9%yoy lower. For the cumulative 1HFY22, core earnings stood at RM10.6m, which was below ours and consensus expectations, making up only 29% and 26% of respective full-year estimates.

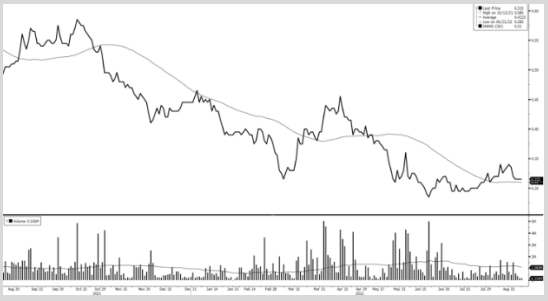
**Weaker construction margins.** The Group's construction segment posted a revenue of RM62.1m, which was lower by -11.9%yoy as compared to RM70.5m in 2QFY21 due to a seasonally slower period in conjunction with Ramadhan and the Hari Raya festivities, on top of the labour shortage. Revenue generated was attributable to the AQRS' LRT3 construction job and the E'Island Lake Haven and The Peak construction projects. Profit before tax (PBT) for the segment however, saw an improvement by +49.1%yoy to RM1.3m. PBT margin was 3.72% for the quarter, though higher than 1.68% in 2QFY21, it was lower than 1QFY22 at 8.48%.

**Strengthening property development.** Revenue from the property development segment also declined by -36.1%yoy to RM28.8m, while its PBT came in higher by +45.3%yoy to RM4.7m. PBT margin is on a rising trend, recording 16.4% in the latest quarter, an improvement over 7.2% in 2QFY21 and 11.4% in 1QFY22. AQRS achieved RM25m in property sales comprising 56 units of E'Island Lake Haven, bringing its year-to-date property sales to RM57.4m for 129 units. It currently has RM364.1m of sold and unbilled sales, which will be recognized up to 1HFY24.

**Behind on replenishment.** The Group has a healthy outstanding order book of RM1.07b, providing earnings visibility up to FY25 but it is still behind on its RM500m replenishment target this year. Year-to-date, AQRS has only secured RM98.6m of new construction jobs, or only 19.7% of its target. We expect the upcoming MRT3 project to be a boost for AQRS when the main contractors roll out subcontract jobs. The Group's experience in LRT3 and MRT1 gives it an edge to vie for MRT3 related jobs.

| RETURN STATISTICS | |
|---|---|
| Price @ 23rd August 2022 (RM) | **0.315** |
| Expected share price return (%) | **+65.08** |
| Expected dividend yield (%) | **+1.92** |
| **Expected total return (%)** | **+67.32** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 5.0 | 3.8 |
| 3 months | -1.6 | -10.2 |
| 12 months | -36.4 | -34.7 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1,482.57 |
| Syariah compliant | Yes |
| F4BGM Index | No |
| ESH Grading Band (Star rating) | ☆ |
| Issue shares (m) | 542.77 |
| Estimated free float (%) | 47.01 |
| Market Capitalisation (RM'm) | 170.97 |
| 52-wk price range | RM0.28 - RM0.59 |
| Beta vs FBM KLCI (x) | 0.99 |
| Monthly velocity (%) | 0.00 |
| Monthly volatility (%) | 33.59 |
| 3-mth average daily volume (m) | 1.17 |
| 3-mth average daily value (RM'm) | 0.37 |
| Top Shareholders (%) | |
| Ganjaran Gembira Sdn Bhd | 9.88 |
| Kamisah Binti Johan | 9.67 |
| Ow Chee Cheoon | 6.26 |

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**Earnings estimates.** We are revising our FY22 revenue estimate from RM383m to RM348.7m and the core earnings from RM36.6m to RM32.9m to reflect our latest view on AQRS' earnings, which is still below expectation. We also adjust our FY23F-FY24F revenue from RM420.8m-RM462.31m to RM383.6m-RM421.9m and core earnings from RM49.7m-RM40.5m to RM45.3m-RM37.9m.

**Target price.** In view of the new projected earnings, we revise our TP to **RM0.52,** which is derived by pegging a PER of 7.5x, which is about -0.25 standard deviation below its five-year historical average, to the group's FY23 Diluted EPS of 6.9sen.

**Maintain BUY.** We remain positive on the group's earnings prospects, backed by its healthy order book of RM1.07b, the improving prospects of the construction sector as well as its plans to expand its property development segment. We are of the view that AQRS could be among the beneficiaries of mega infrastructure 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. We maintain our **BUY** recommendation on AQRS.

## INVESTMENT STATISTICS

| Annual Standardized | 2020A | 2021A | 2022E | 2023F | 2024F |
|---|---|---|---|---|---|
| Revenue | 202.3 | 330.77 | 348.7 | 383.6 | 421.9 |
| Gross Profit | (30.0) | 50.2 | 75.8 | 92.0 | 83.3 |
| Net Operating Expenses | (25.0) | (21.0) | (21.1) | (23.2) | (26.3) |
| Operating Profit | (55.0) | 29.2 | 54.7 | 68.8 | 59.7 |
| Finance Costs | (5.0) | (6.0) | (3.0) | (5.9) | (6.3) |
| Assoc. and JV | 0.5 | 1.1 | 0.4 | 0.4 | 0.5 |
| Profit Before Tax | (59.5) | 24.3 | 52.1 | 63.3 | 54.6 |
| Tax Expense | 5.9 | (7.7) | (16.4) | (18.0) | (15.3) |
| Reported Net Profit | (54.3) | 16.3 | 32.9 | 45.3 | 37.9 |
| Core Net Profit | (54.3) | 8.5 | 32.9 | 45.3 | 37.9 |
| EPS | -11.45 | 3.09 | 6.06 | 8.4 | 7.0 |
| Diluted EPS | -9.22 | 2.52 | 4.99 | 6.9 | 5.8 |
| DPS | 1.0 | 0.0 | 1.0 | 1.0 | 2.0 |
| Dividend Yield | 1.7% | 0.0% | 1.7% | 1.9% | 3.1% |

*Source: Company, MIDFR*

## GABUNGAN AQRS BHD: 2QFY22 RESULTS SUMMARY

| All in RM'm unless stated otherwise | Quarterly Results | | | | | Cumulative | | |
|---|---|---|---|---|---|---|---|---|
| **Income Statement** | **Q222** | **Q122** | **Q221** | **QoQ** | **YoY** | **1H22** | **1H21** | **YoY** |
| Revenue | 79.1 | 71.7 | 98.7 | **10%** | **-20%** | 150.8 | 185.2 | **-19%** |
| Gross Profit | 15.1 | 13.3 | 10.2 | **14%** | **49%** | 28.4 | 22.0 | **29%** |
| Net Operating Expenses | (6.9) | (5.2) | (6.0) | **-32%** | **-15%** | (12.1) | (11.2) | **-8%** |
| Operating Profit/ (loss) | 8.2 | 8.1 | 4.2 | **2%** | **96%** | 16.3 | 10.8 | **51%** |
| Finance Costs | (1.9) | (1.7) | (1.0) | **-9%** | **-89%** | (3.6) | (1.7) | **<-100%** |
| Assoc. and JV | 0.1 | 0.3 | 0.4 | **-63%** | **-72%** | 0.4 | 0.5 | **-28%** |
| Profit Before Tax | 6.5 | 6.6 | 3.6 | **-3%** | **81%** | 13.1 | 9.6 | **36%** |
| Tax Expense | (0.9) | (1.1) | 0.1 | **15%** | **<-100%** | (2.0) | (1.2) | **-76%** |
| Minority Interest | (0.0) | 0.1 | (0.0) | **<-100%** | **<-100%** | 0.0 | 0.3 | **-84%** |
| Reported Net Profit | 5.5 | 5.4 | 3.6 | **2%** | **53%** | 11.0 | 8.2 | **34%** |
| Core Net Profit | 5.2 | 5.4 | 2.4 | **-4%** | **>+100%** | 10.6 | 6.6 | **61%** |

*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