Gabungan AQRS Berhad

(5226 | AQRS MK) Main | Construction

Maintain BUY

Preference for stronger margin jobs

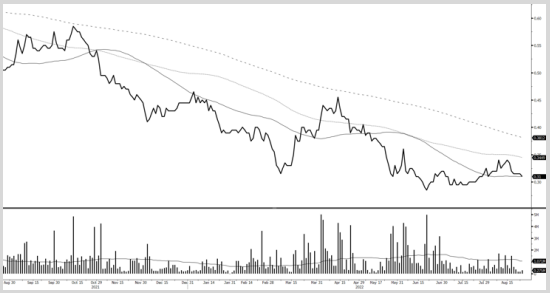
***Unchanged* Target Price: RM0.52**

KEY INVESTMENT HIGHLIGHTS

- **RM500m order book replenishment target remains intact with larger jobs expected to be secured**
- **Selective on projects undertaken with focus on smaller jobs with stronger margins**
- **Additional costs for both government and private projects are able to be passed down to clients**
- **Management aiming for second-tier involvement in MRT3**
- **Maintain BUY with an unchanged target price of RM0.52**

RETURN STATISTICS	
Price @ 24th August 2022 (RM)	**0.31**
Expected share price return (%)	**+67.74**
Expected dividend yield (%)	**+1.92**
Expected total return (%)	**+69.66**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.3	3.5
3 months	-3.1	-1.7
12 months	-38.36	-34.3

Replenishment target maintained. Gabungan AQRS is maintaining its construction order book replenishment target of RM500m, with the hope of securing several government and private jobs it is currently tendering for. Management guided that these would be larger jobs than what it secured recently. Recall that AQRS won a RM31.9m sub-contract in June for sewer pipe relaying works in Kuala Langat and a RM67m school building project in Bandar Enstek just last month.

Small projects, strong margins. The group's strategy is to tender for smaller jobs with better margins and healthy cash flows so management is quite selective on the projects it undertakes, so as not to expose the group with higher risks by undertaking large projects. Management said its two recent job wins are able to generate double digit margins, higher than typical building and infrastructure projects.

Low risks of cost headwinds. AQRS' order book currently stands at RM1.07b, with earnings visibility up to FY24. About 73% of these projects are government-related, therefore risks of lower margins are avoidable as government jobs usually come with variation of price (VOP). The Group recently inked a supplemental agreement for the RM410m Sultan Ahmad Shah Administrative Centre (PPSAS) in Pahang, which will enable it to pass on RM8m of additional cost. Even for private projects, management is confident that it will be able to pass on the higher raw material cost to its clients. It is currently in the midst of renegotiating its contracts for the Teringin Sentral and Solitaire Suites projects upwards by 20% and 15% respectively.

MRT3 hopefuls. AQRS is aiming to participate in some portions of the elevated works of CMC301 and CMC302. This will be through a second-tier exposure or subcontract jobs that will be rolled out by the main contractors.

Declining debts. The group's gross debt stands at RM277.1m as of 2QFY22, a reduction of -7% from RM297.8m in 1QFY22. These are made up of RM276.1m in short-term borrowings and RM400,000 of long-term borrowings. RM177.8m or 66.4% of its short-term borrowings

KEY STATISTICS	
FBM KLCI	1,467.26
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)	168.26
52-wk price range	RM0.28 - RM0.59
Beta vs FBM KLCI (x)	0.99
Monthly velocity (%)	0.00
Monthly volatility (%)	0.00
3-mth average daily volume (m)	1.16
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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are related to project financing and these are ring-fenced against cash flows. Management expects short-term borrowings to trend down in subsequent quarters to a level of RM130m-RM140m by FY23 as payments are progressively received from clients, on top of progress billing collections from its property development division. Earlier this month, AQRS proposed to establish an Islamic commercial paper (ICP) and Islamic medium-term note (IMTN) programme of RM200m in nominal value. This is intended to optimise the group's total financing cost, which is now above 6% to lower than 5%.

Target price. We are retaining our target price, 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 and sound margin protection measures for its construction division and strong property sales for 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

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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