Gabungan AQRS Berhad

(5226 | AQRS MK) Main | Construction

Maintain BUY

Construction margins improved further

***Revised* Target Price: RM0.49**

(previously RM0.52)

KEY INVESTMENT HIGHLIGHTS

- **3QFY22 core earnings grew +36.5%yoy to RM4.5m**
- **9MFY22 results were below house and consensus estimates**
- **Construction PBT margin improved from 4.4% to 9.8%**
- **Orderbook remains healthy at RM1.02b but behind on RM500m replenishment target**
- **Strong contender for MRT3 subcontracts and civil projects**
- **Maintain BUY with revised TP of RM0.49**

Stronger earnings. Gabungan AQRS Berhad (AQRS)'s 3QFY22 core earnings grew +36.5%yoy to RM4.5m on the back of a +2.9%yoy higher revenue at RM81.7m. For the cumulative 9MFY22, core earnings surged +53%yoy to RM15.1m, but this was below ours and consensus expectations, making up 45.9% and 42.8% of full year estimates.

Improving construction margins. The Group's construction segment posted a revenue of RM75.3m for the quarter, which was -11.3%yoy lower, though PBT doubled to RM7.4m, which saw an improvement in margins from 4.4% to 9.8%. This was mainly contributed by the LRT3, SUKE Highway, E'Island Lake Haven and Teringin Sentral construction projects that the group is undertaking. We believe the better performance was due to AQRS' ability to pass on its higher building material costs and renegotiate its contracts to account for such spikes in prices.

Strengthening property development. Revenue from the property development segment spiked 2.2 times for the quarter to RM22.1m but PBT declined -12.7%yoy to RM1.0m due to liquidated ascertained damages (LADs) of RM2.7m. Otherwise, PBT for the segment would have been RM3.7m, driven by higher work progress and property sales. Total sold and unbilled sales stood at RM361.1m, which will be recognised up to 1HFY24.

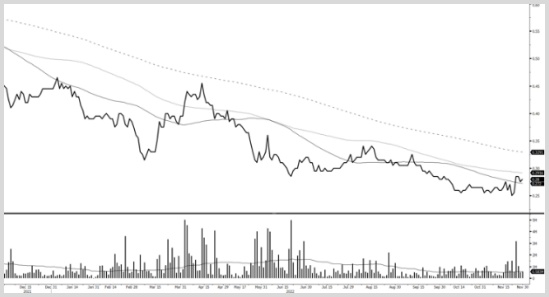
Behind on replenishment. The Group has a healthy outstanding order book of RM1.02b, with strong earnings visibility until FY23. We note that it is way behind its order book replenishment target of RM500m as it only secured RM98.6m of new jobs so far in FY22. AQRS will be a good contender for MRT3 subcontracts after the main packages are awarded, based on its experience in LRT3 and MRT1 related jobs.

Earnings estimates. We are revising our FY22 core earnings estimates lower by -20% to RM26.3m, reflecting the lower than expected earnings. We also adjust our FY23F core earnings lower by -35.1%yoy to RM29.4m.

Target price. In view of our downward revision of its earnings, we revise our TP to **RM0.49** (from RM0.52)**,** which is derived by pegging a five-year historical mean PER of 11x to the group's FY23 diluted EPS of 4.5 sen.

RETURN STATISTICS	
Price @ 30th Nov 2022 (RM)	**0.28**
Expected share price return (%)	**+75.00**
Expected dividend yield (%)	**+2.04**
Expected total return (%)	**+77.04**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	5.7	3.6
3 months	0.0	-8.3
12 months	-37.8	-36.7

KEY STATISTICS	
FBM KLCI	1,488.80
Syariah compliant	Yes
F4BGM Index	No
ESH Grading Band (Star rating)	☆
Issue shares (m)	542.77
Estimated free float (%)	46.96
Market Capitalisation (RM'm)	151.98
52-wk price range	RM0.25 - RM0.46
Beta vs FBM KLCI (x)	1.12
3-mth average daily volume (m)	0.58
3-mth average daily value (RM'm)	0.16
Top Shareholders (%)	
Ganjaran Gembira Sdn Bhd	9.88
Kamisah Binti Johan	9.67
Ow Chee Cheoon	6.26

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Maintain BUY. We remain positive on the group's earnings prospects, which should remain strong in FY23. There is a need for AQRS to seal more project wins for better earnings visibility in future years. We understand that the group is rather selective on jobs it undertakes, with a preference for smaller contracts with better margins. As most of the group's jobs are government-related, we opine that it will benefit from a steady flow of jobs by the government, which will likely be focused on schools, hospitals and basic infrastructures such as roads, on top of the upcoming MRT3. We are maintaining 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	58.0	71.0	66.1
Net Operating Expenses	(25.0)	(21.0)	(21.1)	(23.2)	(26.3)
Operating Profit	(55.0)	29.2	36.9	47.8	44.8
Finance Costs	(5.0)	(6.0)	(3.0)	(5.0)	(6.0)
Assoc. and JV	0.5	1.1	1.1	0.0	0.0
Profit Before Tax	(59.5)	24.3	35.0	42.8	40.1
Tax Expense	5.9	(7.7)	(8.7)	(13.4)	(10.5)
Reported Net Profit	(54.3)	16.3	26.3	29.4	28.3
Core Net Profit	(54.3)	8.5	26.3	29.4	28.3
EPS	-11.45	3.09	4.9	5.4	5.2
Diluted EPS	-9.22	2.52	4.0	4.5	4.3
DPS	1.0	0.0	1.0	1.0	2.0
Dividend Yield	1.7%	0.0%	2.0%	2.0%	2.0%

Source: Company, MIDFR

GABUNGAN AQRS BHD: 3QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q322**	**Q222**	**Q321**	**QoQ**	**YoY**	**9M22**	**9M21**	**YoY**
Revenue	81.7	79.1	79.4	**3%**	**3%**	232.5	264.6	**-12%**
Gross Profit	15.1	15.1	12.6	**0%**	**19%**	43.5	34.7	**25%**
Net Operating Expenses	(7.3)	(6.9)	(6.9)	**-6%**	**-6%**	(19.4)	(18.1)	**-7%**
Operating Profit/ (loss)	7.7	8.2	5.7	**-6%**	**36%**	24.1	16.5	**46%**
Finance Costs	(2.1)	(1.9)	(2.1)	**-10%**	**2%**	(5.7)	(3.8)	**-49%**
Assoc. and JV	0.4	0.1	0.3	**255%**	**8%**	0.7	0.8	**-13%**
Profit Before Tax	6.0	6.5	3.9	**-7%**	**54%**	19.1	13.5	**41%**
Tax Expense	(1.8)	(0.9)	(0.8)	**-96%**	**-117%**	(3.9)	(2.0)	**-93%**
Minority Interest	(0.0)	(0.0)	0.0	**88%**	**-111%**	0.0	0.3	**-87%**
Reported Net Profit	4.2	5.5	3.0	**-24%**	**39%**	15.2	11.2	**35%**
Core Net Profit	4.5	5.2	3.3	**-14%**	**37%**	15.1	9.8	**53%**

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