Gabungan AQRS Berhad

(5226 | AQRS MK) Main | Construction

Maintain BUY

Construction results disappoint

***Revised* Target Price: RM0.44**

(previously RM0.49)

KEY INVESTMENT HIGHLIGHTS

- **FY22 core earnings grew +87.9% to RM23.6m, below house and consensus estimates**
- **Construction PBT margin plunged -84.4% to RM6.4m**
- **Orderbook sufficient at RM1b but missed FY22's RM500m replenishment target, achieving only RM98.6m new jobs**
- **Maintain BUY with lower revised TP of RM0.44**

Stronger earnings. Gabungan AQRS Berhad (AQRS)'s 4QFY22 core earnings grew 2.9 times to RM7.7m on the back of a +71.4%yoy higher revenue at RM105.5m. For the cumulative FY22, the group's core earnings jumped +87.9% to RM23.6m on the back of normalising operations. This was slightly below our estimates by 10.3% and below consensus expectations by 22.3%.

Weak construction performance. The Group's construction segment performance disappointed this year, with a -22.1% reduction in FY22 revenue to RM206.5m while its PBT plunged -84.4% to RM6.4m. This could be due to the group's lack of job wins this year, on top of certain ongoing projects that have peaked in FY21 in terms of progress. In 4QFY22 itself, the segment posted a quarterly loss after tax of -RM6.35m, which the group attributed to higher operating costs resulting from impairment losses for trade receivables.

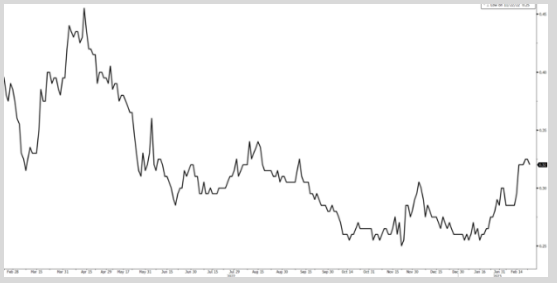
Strengthening property development. The property development segment cushioned the blows on the construction segment, recording a +127.2% increase in revenue to RM130.3m, generating a PBT of RM16.8m, an improvement over a loss of -RM11.2m in FY21. The better performance is on the back of higher work progress and higher sales from the group's E'Island Lake Haven development. AQRS registered RM88.6m of property sales from 200 units.

Behind on replenishment. AQRS' outstanding construction order book remains sufficient at RM1b that provides it earnings visibility up to FY25. The group however, only won RM98.6m of new jobs in FY22, which was way below its RM500m target. While the group is rather selective on jobs with a preference for smaller jobs with stronger margins, we opine that there is a need to re-strategise its replenishment efforts if it continues to fall short on its target.

New township launch in 2024. For the property development segment, AQRS has secured RM5.1m in property sales from 12 units of properties. The group is planning to launch its Gambang Residensi township in Kuantan by 1H24, which will comprise 1,065 units of houses with a total GDV of about RM336m.

RETURN STATISTICS	
Price @ 22nd Feb 202 (RM)	**0.32**
Expected share price return (%)	**+37.5**
Expected dividend yield (%)	**+2.3**
Expected total return (%)	**+39.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	20.8	23.8
3 months	23.1	26.2
12 months	-19.0	-12.2

KEY STATISTICS	
FBM KLCI	1,464.00
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star rating)	☆
Issue shares (m)	542.77
Estimated free float (%)	47.47
Market Capitalisation (RM'm)	173.69
52-wk price range	RM0.25 - RM0.46
Beta vs FBM KLCI (x)	1.22
3-mth average daily volume (m)	3.74
3-mth average daily value (RM'm)	1.06
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 FY23 revenue estimates slightly lower by -3.1% to RM371.7m and the core earnings by -10.3% to RM26.4m, reflecting the poorer construction margins and the lack of new jobs.

Target price. In view of the new projected earnings, we revise our **TP** to **RM0.44,** which is derived by pegging a five-year historical mean PER of 10.9x to the group's FY23 diluted EPS of 4.0 sen.

Maintain BUY. There is a need for AQRS to replenish its order book for better earnings visibility in future years. The lack of job rollouts has undoubtedly affected smaller players such as AQRS in terms of new projects and they lack the capacity as compared to their larger counterparts to take on overseas jobs. Most of AQRS' projects are government-related, so the rollout of jobs such as schools, hospitals, government buildings and basic infrastructures would augur well for AQRS. We expect the upcoming Budget announcement to set the tune for the sector All factors considered, we maintain our **BUY** recommendation on AQRS.

INVESTMENT STATISTICS

Annual Standardized	2020A	2021A	2022A	2023E	2024F
Revenue	202.3	326.1	337.95	371.70	421.93
Gross Profit	(30.0)	53.0	59.6	68.8	66.1
Net Operating Expenses	(25.0)	(21.5)	(27.3)	(22.5)	(26.3)
Operating Profit	(55.0)	31.5	32.3	46.3	46.0
Finance Costs	(5.0)	(5.9)	(9.0)	(4.8)	(6.0)
Assoc. and JV	0.5	0.9	0.4	0.0	0.0
Profit Before Tax	(59.5)	26.5	14.5	41.5	41.2
Tax Expense	5.9	(9.7)	(2.9)	(13.0)	(10.5)
Reported Net Profit	(54.3)	16.5	20.8	26.4	27.7
Core Net Profit	(54.3)	12.5	23.6	26.4	27.7
EPS	-11.45	3.05	3.83	4.86	5.11
Diluted EPS	-9.22	2.50	3.14	3.99	4.19
DPS	1.0	0.0	0.0	1.0	1.0
Dividend Yield	1.7%	0.0%	0.0%	2.3%	2.3%

Source: Company, MIDFR

GABUNGAN AQRS BHD: 4QFY22 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
Income Statement	**Q422**	**Q322**	**Q421**	**QoQ**	**YoY**	**FY22**	**FY21**	**YoY**
Revenue	105.5	81.7	61.5	**29%**	**71.4%**	338.0	326.1	**3.6%**
Gross Profit	16.1	15.1	18.4	**7%**	**-12.4%**	59.6	53.0	**12.4%**
Net Operating Expenses	(7.9)	(7.3)	(3.4)	**-7%**	**<-100%**	(27.3)	(21.5)	**-26.9%**
Operating Profit/ (loss)	8.2	7.7	15.0	**6%**	**-45.1%**	32.3	31.5	**2.4%**
Finance Costs	(3.3)	(2.1)	(2.1)	**-58%**	**-56.4%**	(9.0)	(5.9)	**-51.4%**
Assoc. and JV	(0.3)	0.4	0.1	**<-100%**	**<-100%**	0.4	0.9	**-58.0%**
Profit Before Tax	(4.6)	6.0	13.0	**<-100%**	**<-100%**	14.5	26.5	**-45.3%**
Tax Expense	1.0	(1.8)	(7.6)	**>+100%**	**>+100%**	(2.9)	(9.7)	**70.3%**
Minority Interest	(0.0)	(0.0)	(0.0)	**<-100%**	**-76.9%**	0.0	0.3	**-93.4%**
Reported Net Profit	5.6	4.2	5.3	**35%**	**5.7%**	20.8	16.5	**25.8%**
Core Net Profit	7.7	4.0	2.7	**95%**	**>+100%**	23.6	12.5	**87.9%**

Source: Company, MIDFR

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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