Gabungan AQRS Berhad

(5226 | AQRS MK) Main | Construction

Opportunities Await

Maintain **BUY**

Revised **Target Price: RM0.37**

(previously RM0.44)

KEY INVESTMENT HIGHLIGHTS

- **Core net profit of RM3.8m for 1QCY23, a reduction of -23.6%yoy**
- **Construction PBT grew -75.4%yoy to RM6.3m, improvement of margins from 8.5% to 11.3%**
- **Property development PBT declined -0.6%yoy to RM2.8m due to LAD**
- **In need for jobs replenishment**
- **Maintain BUY with a reduced TP of RM0.37**

Below expectations. Gabungan AQRS Berhad (AQRS) recorded a core net profit of RM3.8m for 1QCY23, which came in -23.6%yoy despite stronger construction progress, mainly due to a recognition of RM2.9m of liquidated ascertained damages (LADs) and higher operating costs. The results came in below ours and consensus estimates, making up only 14.4% and 9.7% of full-year projections.

Construction segment. The group's construction division delivered a PBT of RM6.29m, which was a +75.4%yoy growth, on the back of a stronger revenue by +31.5%yoy to RM55.6m. This was driven by higher work progress on its projects such as LRT3, E'Island Lake Haven and the Pusat Pentadbiran Sultan Ahmad Shah (PPSAS). There was an improvement in PBT margins from 8.5% to 11.3%.

Property development. While the division's revenue improved by +15.6%yoy to RM29.0m from higher progress billings, the PBT saw a -0.6%yoy decline to RM2.84m due to the LAD. As of 1QCY23, AQRS has RM338.4m of total sold and unbilled sales, most of which will be recognised in 1HCY24.

No new jobs to date. The group's outstanding construction order book stands at RM900m. While this remains sufficient to see it through CY25, there is a need for new jobs for a longer-term earnings continuity. AQRS has yet to win any new job since Jul-22. In FY22, the group only achieved RM98.6m of job replenishments out of its RM500m target. We believe opportunities are out there with the expected improvement in job flows, anchored by various civil projects as announced in Budget 2023.

Earnings estimates. We are cutting our CY23 core net profit estimate slightly by -10.2% to RM23.7m from RM26.4m previously.

Target price. We are revising our **TP** to **RM0.37** as we rollover our valuation base year to CY24. The new TP is derived from the group's CY24F diluted EPS of 4.2 sen pegged to a PER of 8.9x, based on its five-year historical mean.

Maintain BUY. AQRS has undertaken various projects under its belt from civil to private jobs and we believe opportunities are present for it to secure new contracts with the expectations of improving job flows from projects such as schools, government buildings and basic infrastructure, which will improve its longer-term earnings outlook. All factors considered, we reiterate our **BUY** call on **AQRS**.

RETURN STATISTICS	
Price @ 24th May 2023 (RM)	0.265
Expected share price return (%)	+39.62
Expected dividend yield (%)	+2.70
Expected total return (%)	**+42.32**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-11.7	-10.7
3 months	-15.9	-18.2
12 months	-23.2	-16.3

INVESTMENT STATISTICS

CYE Dec	2023E	2024F	2025F
Revenue	371.70	421.93	440.92
Operating Profit	46.3	46.0	48.38
Profit Before Tax	41.5	41.2	37.05
Core net profit	23.7	27.7	28.05
Core EPS (sen)	3.57	4.18	4.24
DPS (sen)	1.0	1.0	0.0
Dividend Yield	2.7%	2.7%	2.7%

KEY STATISTICS	
FBM KLCI	1,409.62
Issue shares (m)	542.77
Estimated free float (%)	50.94
Market Capitalisation (RM'm)	143.83
52-wk price range	RM0.25-RM0.36
3-mth average daily volume (m)	3.58
3-mth average daily value (RM'm)	1.09
Top Shareholders (%)	
Ganjaran Gembira Sdn Bhd	9.88
Johan Kamisah Binti	9.67
Ow Chee Cheoon	6.26

Analyst
Royce Tan Seng Hooi
royce.tan@midf.com.my
03-2173 8461

GABUNGAN AQRS: 1QCY23 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
Income Statement	**Q123**	**Q422**	**Q122**	**QoQ**	**YoY**
Revenue	85.2	105.5	71.7	**-19%**	**18.8%**
Gross Profit	13.5	16.1	13.3	**-16%**	**1.3%**
Net Operating Expenses	(6.6)	(7.9)	(5.2)	**16%**	**-26.4%**
Operating Profit/ (loss)	6.9	8.2	8.1	**-16%**	**-14.9%**
Finance Costs	(2.7)	(3.3)	(1.7)	**18%**	**-56.3%**
Assoc. and JV	0.8	(0.3)	0.3	**>+100%**	**>+100%**
Profit Before Tax	5.0	(4.6)	6.6	**>+100%**	**-24.3%**
Tax Expense	(1.5)	1.0	(1.1)	**<-100%**	**-37.3%**
Minority Interest	(0.0)	(0.0)	0.1	**-4%**	**<-100%**
Reported Net Profit	3.5	5.6	5.4	**-37%**	**-35.1%**
Core Net Profit	3.8	7.7	6.4	**-51%**	**-40.4%**

FINANCIAL SUMMARY

Income Statement (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Revenue	326.1	337.95	371.70	421.93	440.92
Net operating expenses	(21.5)	(27.3)	(22.5)	(26.3)	(26.93)
Operating profit	31.5	32.3	46.3	46.0	48.38
Profit before tax	26.5	23.7	41.5	41.2	37.05
Net profit	16.5	20.8	23.7	27.7	28.05
Core net profit	12.5	23.6	23.7	27.7	28.05
Core EPS (sen)	2.50	3.14	3.57	4.18	4.24
DPS (sen)	0.0	0.0	1.0	1.0	0.0

Balance Sheet (RM'm)	**2021A**	**2022A**	**2023E**	**2024F**	**2025F**
Fixed assets	27.8	25.9	24.2	22.5	21.0
Other investments and assets	67.1	66.5	67.8	69.2	70.6
Non-current assets	**94.9**	**92.4**	**92.0**	**91.7**	**91.6**
Cash	155.9	150.2	144.2	148.5	151.5
Trade debtors	187.0	142.4	252.8	286.3	299.0
Current assets	**1249.0**	**1288.1**	**1398.5**	**1432.0**	**1444.7**
Trade creditors	572.6	533.5	1121.6	1193.8	1277.4
Short-term debt	273.3	264.0	161.6	197.5	197.6
Current liabilities	**854.3**	**871.9**	**962.2**	**967.7**	**892.3**
Long-term debt	0.4	0.6	0.5	0.5	0.5
Non-current liabilities	**4.5**	**2.5**	**5.0**	**5.5**	**6.0**
Share capital	355.6	355.6	355.6	355.6	355.6
Retained earnings	128.8	149.9	172.7	200.4	288.5
Equity	**485.1**	**506.0**	**528.3**	**556.0**	**644.1**

Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	**26.5**	**23.7**	**24.2**	**22.5**	**21.0**
Depreciation & amortisation	7.1	7.2	6.5	6.1	5.7
Changes in working capital	-60.9	-25.3	-43.1	5.0	-14.5
Operating cash flow	**7.6**	**-28.8**	**85.3**	**89.6**	**94.9**
Capital expenditure	-6.0	-4.0	-25.0	-25.0	-25.0
Investing cash flow	**-46.1**	**4.6**	**-9.6**	**5.0**	**5.3**
Debt raised/(repaid)	-26.6	-73.6	-84.2	-75.8	**-68.5**
Dividends paid	-4.8	-0.1	-5.4	-5.4	-5.4
Financing cash flow	**77.5**	**13.5**	**8.1**	**16.5**	**23.8**
Net cash flow	**39.0**	**-10.7**	**83.8**	**111.1**	**124.0**
Beginning cash flow	**-200.8**	**-161.9**	**-172.5**	**-88.7**	**22.4**
Ending cash flow	**-161.9**	**-172.5**	**-88.7**	**22.4**	**146.4**

Profitability Margins	2021A	2022A	2023E	2024F	2025F
Operating profit margin	9.67%	9.56%	12.46%	10.90%	10.97%
PBT margin	8.13%	7.01%	11.16%	9.76%	8.40%
PAT margin	5.07%	6.16%	6.36%	6.57%	6.36%
Core PAT margin	3.84%	6.97%	6.36%	6.57%	6.36%

Source: Bloomberg, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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