

24 November 2023

Advancecon (ADVC MK)

Valuation Remains Stretched; Stay SELL

- **Maintain SELL, with new SOP-based MYR0.23 TP from MYR0.26, 18% downside.** Advancecon recorded 9M23 core profit of MYR0.1m (9M22 net loss: MYR1m) vs our full-year earnings estimates of MYR2m – trailing our estimates mainly due to lower contribution from associates and higher tax expense. The stock was recently classified as non-*shariah* compliant on 23 Nov. A re-rating catalyst includes securing more contracts from Sarawak given its exposure in the Pan Borneo Highway (PBH) and road projects under the Upper Rajang Development Agency.
- **Despite the 9M23 profit,** ADVC saw a core loss of MYR0.6m in 3Q23 (3Q22 core profit: MYR0.6m) due to the 19% YoY decline in construction revenue for the quarter – due to some jobs progressing beyond the work intensive phase, in our view. Meanwhile, the quarry segment reported a profit attributable to equity holders worth MYR0.9m in 3Q23 (3Q23 net loss: MYR3.1m) amid better contribution from the segment's projects.
- **ADVC's outstanding orderbook** stood at MYR396.3m as at end-3Q23 (end-3Q22: MYR511.4m) with a cover ratio of just 0.9x. FY23 new job wins so far amount to c.MYR138m vs our FY23 job replenishment target of MYR250m. We estimate the outstanding orderbook from Sarawak jobs to be 3-5% of the total orderbook vs c.29% as of end Dec 2021. The last job secured in Sarawak by the group was in August worth MYR13.6m (effective 30% share of MYR45.5m total value) awarded by Petros Power related to the earthworks for the Miri Combined Cycle Gas Turbine. Hence, the rollout of jobs in Sarawak, particularly for the remaining phases of PBH, would be crucial to replenish its orderbook from East Malaysia as other projects which ADVC is involved in such as West Coast Expressway (WCE) (completion rate: >80%) and East Coast Rail Link (ECRL) (completion rate of c.53%) is expected to be completed in 2025 and 2026.
- **With no prior experience** in Mass Rapid Transit (MRT) 1 and 2 and Light Rail Transit (LRT) 3, it is hard to gauge if ADVC is aiming for MRT3 and Penang LRT as a subcontractor. Therefore, medium term earnings visibility is only backed by ECRL and WCE jobs that contribute >50% of its outstanding orderbook, based on our estimates. We advocate investors to cash in on the rich valuation (49x FY24F P/E vs KL Construction Index's 5-year mean P/E of 12.6x) with no high-impact infrastructure projects palatable for ADVC to take on that soon. Another catalyst could be securing more jobs related to property development, particularly in Johor.
- **We slash FY23F-25F earnings by 11-14%** as we lower our FY23 job replenishment assumptions to MYR200m (from MYR250m). As such, we arrive at a new SOP-derived TP of MYR0.23 after ascribing a 2% ESG discount based on our in-house ESG scoring methodology. While there is growth in FY24F-25F, we believe that it will take time to reach the pre-pandemic earnings level of MYR11-18m.
- **Key upside risks** include faster than-expected delays in project rollouts and larger-than-expected contract values awarded.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	271	422	339	332	344
Recurring net profit (MYRm)	2	(23)	2	3	3
Recurring net profit growth (%)	(2.4)	(1,239.5)	-	79.2	(8.2)
Recurring P/E (x)	55.24	na	82.48	49.11	53.49
P/B (x)	0.5	0.7	0.8	0.8	0.8
P/CF (x)	4.44	na	na	na	na
Dividend Yield (%)	na	na	na	0.4	0.4
EV/EBITDA (x)	2.17	4.84	4.22	6.08	7.43
Return on average equity (%)	1.0	(11.4)	0.9	1.6	1.4
Net debt to equity (%)	1.2	63.6	34.5	65.7	99.0

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Construction & Engineering | Construction

Sell (Maintained)

Target Price (Return):	MYR0.23 (-18%)
Price (Market Cap):	MYR0.28 (USD34.4m)
ESG score:	2.9 (out of 4)
Avg Daily Turnover (MYR/USD)	0.06m/0.01m

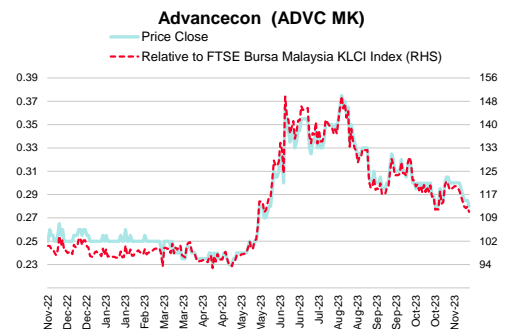
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.0	(3.5)	(15.2)	12.0	12.0
Relative	14.8	(4.6)	(16.1)	9.0	11.3
52-wk Price low/high (MYR)				0.23	0.38



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: GOOD

Advancecon has made compliance to environmental standards a top priority. Its plans include improving the management of scheduled waste generated as a result of ongoing activities. Recent efforts to advance its ESG agenda include its investment in waste management facilities to store different waste types. Disposal is made on a scheduled basis, collected by a contractor, and transported to a certified facility for disposal.

S: GOOD

Advancecon remains aware that employees are critical to the success of the group, especially when they are in good physical and mental health. It is also supportive of having a good mix of employees, both in terms of age group and gender – as this will allow for better synergy in terms of having a balanced view when making decisions.

G: GOOD

Less than 50% of Advancecon's board members are independent, and there is full disclosure on director remuneration, which includes salaries and bonuses on named basis. The group has an external investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.01	(0.05)	0.00	0.01	0.01
Construction & Engineering	DPS	-	-	-	0.00	0.00
Advancecon	BVPS	0.53	0.40	0.35	0.36	0.37
ADVC MK	Return on average equity (%)	1.0	(11.4)	0.9	1.6	1.4
Sell						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	55.24	na	82.48	49.11	53.49
SOP	P/B (x)	0.5	0.7	0.8	0.8	0.8
	FCF Yield (%)	19.1	(8.6)	(37.4)	(17.1)	(18.7)
Key drivers	Dividend Yield (%)	-	-	-	0.4	0.4
Orderbook replenishment, new tenders	EV/EBITDA (x)	2.17	4.84	4.22	6.08	7.43
	EV/EBIT (x)	8.27	na	10.66	18.24	24.08
Key risks						
Key upside risks include faster than-expected delays in project rollouts and larger-than-expected contract values awarded.	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total turnover	271	422	339	332	344
	Gross profit	19	6	66	31	30
	EBITDA	36	47	46	45	47
	Depreciation and amortisation	(26)	(54)	(28)	(30)	(32)
	Operating profit	9	(6)	18	15	14
	Net interest	(6)	(14)	(16)	(13)	(13)
	Pre-tax profit	4	(19)	2	5	4
	Taxation	(2)	1	(1)	(2)	(1)
	Reported net profit	2	(23)	2	3	3
	Recurring net profit	2	(23)	2	3	3
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	1.3	(47.3)	(75.8)	(28.6)	(35.2)
	Cash flow from operations	25.5	(8.6)	(50.3)	(22.5)	(26.0)
	Capex	(3.8)	(2.1)	(4.0)	(4.0)	(3.0)
	Cash flow from investing activities	(6.9)	1.7	(42.3)	7.7	8.7
	Dividends paid	0.0	0.0	0.0	(0.6)	(0.6)
	Cash flow from financing activities	7.7	22.2	57.9	0.3	11.2
	Cash at beginning of period	2.2	22.7	34.8	28.0	17.8
	Net change in cash	26.2	15.4	(34.8)	(14.6)	(6.2)
	Ending balance cash	28.5	38.0	0.0	13.5	11.6
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	86	99	208	197	194
	Tangible fixed assets	108	190	79	69	58
	Total investments	39	38	38	41	43
	Total assets	442	656	656	675	756
	Short-term debt	40	149	172	197	227
	Total long-term debt	48	84	109	142	185
	Total liabilities	226	446	443	459	536
	Total equity	216	211	212	216	220
	Total liabilities & equity	442	656	656	675	756
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	8.2	56.0	(19.7)	(2.1)	3.7
	Recurrent EPS growth (%)	(3.1)	(1132.4)	0.0	68.0	(8.2)
	Gross margin (%)	7.0	1.5	19.3	9.3	8.8
	Operating EBITDA margin (%)	13.1	11.2	13.5	13.5	13.5
	Net profit margin (%)	0.8	(5.5)	0.5	0.9	0.8
	Dividend payout ratio (%)	0.0	0.0	0.0	20.0	20.0
	Capex/sales (%)	1.4	0.5	1.2	1.2	0.9
	Interest cover (x)	1.58	(0.48)	1.10	1.18	1.13

Source: Company data, RHB

Results At a Glance

Figure 1: ADVC's results review

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue	122.4	118.4	122.6	3.6	0.2	326.6	353.1	8.1	Better contribution from the quarry segment
EBIT	1.4	4.6	3.7	(19.5)	>100	2.0	10.3	<100	
EBIT Margin (%)	1.2	3.9	3.0			0.6	2.9		
Interest expense	(3.3)	(3.1)	(3.5)	11.3	4.7	(9.6)	(9.9)	3.0	
JV/Associates	0.9	0.1	0.1	75.6	(85.8)	1.2	0.3	(76.5)	
Pretax profit	(0.9)	1.5	0.4	(76.8)	>100	(6.5)	0.7	>100	
Pretax Margin (%)	(0.7)	1.3	0.3			(2.0)	0.2		
Tax	(1.6)	(1.4)	(0.5)	(64.4)	(68.9)	(3.9)	(3.5)	(10.6)	
Effective tax rate (%)	175.3	88.8	136			59.7	>100		
Net Profit	0.7	0.5	(0.6)	>100	>-100	(0.9)	0.1	>100	Flattish construction revenue and higher tax expense
Core Profit	0.6	0.5	(0.6)	>100	>-100	(1.0)	0.1	>100	Below expectations
Core Net Margin (%)	0.5	0.5	(0.5)			(0.3)	0.0		

Source: Company data, RHB

Figure 2: SOP valuation

Business segment	Stake (%)	Valuation method	Total value (MYRm)
Construction	100	9x FY24F earnings	164.7
SER	51%	At cost	30.4
LSS4	100	DCF@7%	9.7
Net Debt			(73.2)
Total SOP value			131.5
Shares outstanding			552.7
Intrinsic Value			0.24
2% ESG discount			0.01
Target Price			0.23

Source: Company data, RHB

Emissions And ESG

Trend analysis

N/A

Emissions (tCO2e)

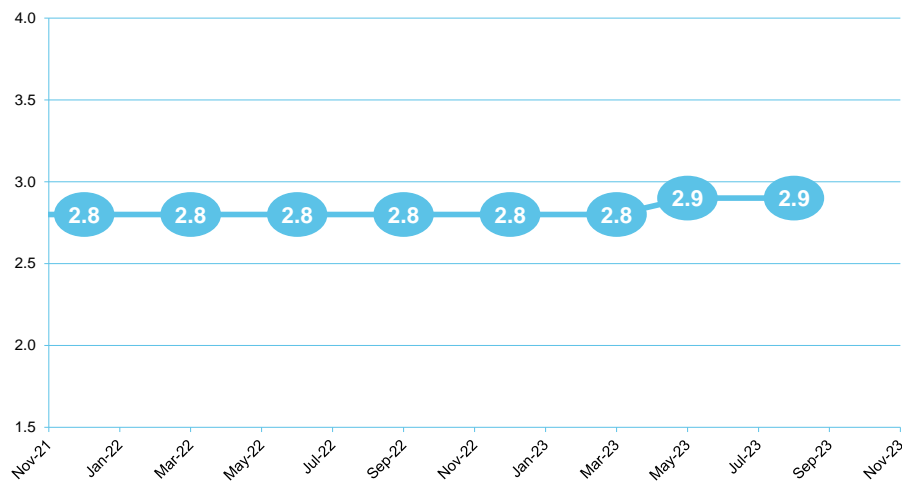
	Dec-20	Dec-21	Dec-22
Scope 1	-	na	-
Scope 2	-	-	-
Scope 3	-	-	-
Total emissions	na	na	na

Source: Company data, RHB

Latest ESG-Related Developments

- Advancecon aims to reduce scheduled waste from its source through best management practices on chemical and material handling such as conducting machinery and equipment inspections to avoid spillage and leakage
- Advancecon has invested in several used 20-foot containers dividing each one into five compartments to store different scheduled waste types. Scheduled waste is collected by a licensed contractor and transported to a certified facility for disposal

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-08-23	Sell	0.26	0.33
2023-07-03	Sell	0.26	0.36
2023-05-25	Neutral	0.26	0.28
2023-03-01	Neutral	0.24	0.25
2022-11-25	Neutral	0.28	0.26
2022-08-25	Buy	0.28	0.28
2022-05-26	Buy	0.34	0.27
2022-03-09	Buy	0.38	0.30
2022-02-25	Buy	0.41	0.32
2021-11-16	Buy	0.47	0.35
2021-09-22	Buy	0.46	0.33
2021-06-14	Buy	0.46	0.38
2021-04-19	Buy	0.54	0.41
2020-12-23	Buy	0.44	0.38

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
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