

25 May 2023

Construction & Engineering | Construction

Gabungan AQRS (AQRS MK)

Buy (Maintained)

A Pipeline Of Catalysts In Store; Keep BUY

Target Price (Return): MYR0.40 (51%)
 Price (Market Cap): MYR0.27 (USD31.3m)
 ESG score: 2.85 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.95m/0.21m

- **BUY, with new MYR0.40 TP, 51% upside, c.3% yield.** Gabungan AQRS' 1Q23 core profit of MYR6.7m (-15% YoY) missed estimates – accounting for 17% of our and Street CY23 projections. The negative deviation was due to higher-than-expected cost of sales. The possible formation of new property development JVs and potential introduction of Johor's own Malaysia My Second Home scheme – which could underpin unit sales of its property project in Johor, The Peak (estimated GDV: MYR603m) – might serve as key earnings drivers post-Light Rail Transit 3 (LRT3).
- **Results review.** AQRS' construction segment saw a 75% YoY jump in core PBT for 1Q23 – translating into a higher core PBT margin of 7.5% (1Q22: 5.7%). This was mainly contributed by LRT3, E'Island Lake Haven, and the Pusat Pentadbiran Sultan Alam Shah projects. Likewise, the property arm's PBT grew 9% YoY amid higher sales volume for the E'Island Lake Haven project, which is 90% sold.
- **AQRS has a MYR884m outstanding orderbook** (4.3x cover ratio vs peer average of 3x). Project-related borrowings, ie for LRT3, are at the peak of the S-curve and expected to gradually decrease from 2Q23 onwards – reducing financing costs in the coming quarters. As for the property arm, earnings are backed by its unbilled sales of MYR338.4m while future earnings may come from AQRS' JV with PR1MA Corp Malaysia to develop a 100-acre township in Pahang (target launch: 1HCY24).
- **Earnings estimates.** With AQRS having changed its financial year-end to June (from December), we now expect the 18-month fiscal year period to report earnings of MYR58m after lowering our annualised earnings forecast by 13% and our FY25 numbers by 14%. This is after taking into account a more conservative earnings recognition timeline for its construction projects and tweaking our cost assumptions slightly upwards. We also introduce our FY26 estimate of MYR56m. Post earnings adjustment and rollover of our valuation base year to CY24 from CY23, we arrive at a new SOP-derived TP of MYR0.40 (from MYR0.46) after ascribing a 2% ESG discount – consistent with our in-house ESG scoring.
- **A catalyst for AQRS** includes the rollout of the remaining phase of Pan Borneo Highway Sabah that may benefit its 49%-owned precast business (SEDCO Precast). Contracts to supply precast components to the said project are valued at an estimated range of MYR400-500m. The formation of new property development JVs by AQRS may also serve as a catalyst for the stock. Given the plethora of catalysts, the stock is trading at an attractive 2.3x FY24F P/E (-2SD below its 5-year mean). Key downside risks: Failure to secure contracts and a downturn in the construction sector.
- **ESG framework update.** As there is now greater focus on the E pillar on critical climate change issues, we tweaked our ESG weightage. Henceforth, we assign a weightage of 50% to the E pillar, followed by 25% each to the S and G pillars. Further details are in our 2 May thematic research note titled [Envisioning a Better Future](#).

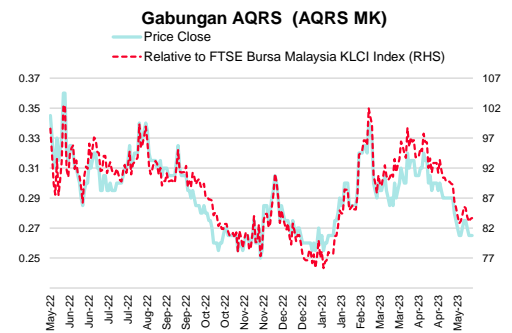
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.9	(11.7)	(20.9)	(7.0)	(23.2)
Relative	7.7	(10.8)	(17.7)	(0.8)	(15.2)
52-wk Price low/high (MYR)	0.25 – 0.36				



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: GOOD

AQRS has achieved its target to reduce carbon emissions by 18% in their operation, as reported in their 2019 annual report. Waste data is kept at the optimum stage where it aims not to exceed 120MT per year. Other efforts to support green initiatives include improving green area in its property project and following the best practices on construction solid waste management.

S: EXCELLENT

The group recorded zero fatality and permanent disabilities for all project sites in 2019. Social engagement is done through multiple programmes to help those unfortunate in the local community. More than 30% of the group's workforce is represented by women among the middle-level management and executive-level employees.

G: GOOD

57% of AQRS's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on named basis. The group has an in-house investor relations team and holds investor meetings regularly. Accessibility to information is excellent, to help deal with investors' queries.

Note:

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

Forecasts and Valuation	Dec-22	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	338	645	492	523
Recurring net profit (MYRm)	31	58	49	56
Recurring net profit growth (%)	59.9	87.7	(15.2)	15.3
Recurring P/E (x)	4.28	2.28	2.69	2.33
P/B (x)	0.3	0.2	0.2	0.2
P/CF (x)	na	0.77	1.31	1.54
Dividend Yield (%)	na	3.8	3.8	3.8
EV/EBITDA (x)	5.43	1.83	0.42	(0.10)
Return on average equity (%)	4.2	9.3	7.3	7.9
Net debt to equity (%)	23.1	28.5	net cash	net cash

Source: Company data, RHB

See important disclosures at the end of this report

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

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Financial Exhibits

Asia	Financial summary (MYR)	Dec-22	Jun-24F	Jun-25F	Jun-26F
Malaysia	Recurring EPS	0.06	0.12	0.10	0.11
Construction & Engineering	DPS	-	0.01	0.01	0.01
Gabungan AQRS	BVPS	1.02	1.48	1.21	1.68
AQRS MK	Return on average equity (%)	4.2	9.3	7.3	7.9
Buy					
	Valuation metrics	Dec-22	Jun-24F	Jun-25F	Jun-26F
	Recurring P/E (x)	4.28	2.28	2.69	2.33
	P/B (x)	0.3	0.2	0.2	0.2
	FCF Yield (%)	(25.4)	119.2	62.5	50.3
	Dividend Yield (%)	-	3.8	3.8	3.8
	EV/EBITDA (x)	5.43	1.83	0.42	(0.10)
	EV/EBIT (x)	6.63	2.12	0.51	(0.12)
	Income statement (MYRm)	Dec-22	Jun-24F	Jun-25F	Jun-26F
	Total turnover	338	645	492	523
	Gross profit	60	161	123	131
	EBITDA	39	149	119	119
	Depreciation and amortisation	(7)	(21)	(23)	(17)
	Operating profit	32	129	96	102
	Net interest	(9)	(50)	(26)	(20)
	Pre-tax profit	24	79	70	82
	Taxation	(3)	(20)	(17)	(21)
	Reported net profit	21	58	49	56
	Recurring net profit	31	58	49	56
	Cash flow (MYRm)	Dec-22	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	(61)	4	(2)	(15)
	Cash flow from operations	(29)	171	100	85
	Capex	(4)	(14)	(18)	(19)
	Cash flow from investing activities	5	(95)	31	(21)
	Dividends paid	0	(5)	(5)	(5)
	Cash flow from financing activities	13	(104)	(20)	20
	Cash at beginning of period	156	150	145	196
	Net change in cash	(12)	(28)	111	84
	Ending balance cash	144	122	256	281
	Balance sheet (MYRm)	Dec-22	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	150	145	196	262
	Tangible fixed assets	26	10	4	5
	Total investments	36	72	72	72
	Total assets	1,380	2,013	1,547	1,804
	Short-term debt	266	354	178	178
	Total long-term debt	2	2	2	2
	Total liabilities	874	1,275	939	961
	Total equity	506	738	608	843
	Total liabilities & equity	1,380	2,013	1,547	1,804
	Key metrics	Dec-22	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	3.6	90.7	(23.7)	6.4
	Recurrent EPS growth (%)	59.9	87.7	(15.2)	15.3
	Gross margin (%)	17.6	25.0	25.0	25.0
	Operating EBITDA margin (%)	11.7	23.2	24.1	22.7
	Net profit margin (%)	6.2	8.9	9.9	10.8
	Dividend payout ratio (%)	0.0	8.6	10.1	8.8
	Capex/sales (%)	1.3	2.2	3.7	3.6
	Interest cover (x)	3.59	2.56	3.68	5.19

Source: Company data, RHB

Figure 1: AQRS' results review

FYE Dec (MYRm)	1Q22	4Q22	1Q23	QoQ (%)	YoY (%)	Comments
Revenue	71.7	105.5	85.2	(19.2)	18.8	Better progress billings
EBIT	8.1	7.0	6.9	(1.4)	(14.9)	
<i>EBIT margin (%)</i>	11.3	6.6	8.1			
Interest expense	(1.7)	(3.3)	(2.7)	(17.5)	56.3	
Associates	0.1	0.1	0.2	106.5	37.1	
Joint ventures	0.2	0.8	0.7	(17.7)	342.6	
Pretax profit	6.6	4.6	5.0	9.0	(24.3)	
<i>Pretax margin (%)</i>	9.2	4.4	5.9			
Tax	(1.1)	1.0	(1.5)	(248.9)	37.3	
<i>Effective tax rate (%)</i>	(17.0)	27.0	(35.0)			
Minority interest	(0.1)	0.0	0.0	4.3	(129.3)	
Core net profit	5.4	5.6	3.5	(37.5)	(35.1)	
Core profit	7.9	5.6	6.7	20.1	(15.3)	Below estimates
<i>Core net margin (%)</i>	11.1	5.3	7.9			

Source: Company data, RHB

Figure 2: AQRS' SOP valuation

Construction	PATMI (MYRm)	Target P/E (x)	Total (MYRm)	Remarks
CY24F earnings	19.0	8	152.0	Note 1
Petronas Chemical Base Camp, Sipitang	WACC	DCF (MYR'm)		
Value of PCB	8.50%	26.3	26.3	
Property development projects	WACC	GDV	Stake	
Shareholders' funds (Property)	8.50%	1,891	Various	101.1
RNAV of property				210.0
-75% discount				311.1
				(233.4)
				77.8
Precast manufacturing (49% owned)	PATMI (MYRm)	Target P/E (x)		
CY24F average earnings	0.3	8.0	1.2	Note 3
SOP			221.3	
Outstanding number of shares (m)			542.8	
Intrinsic value per share			0.41	
2% ESG discount			(0.01)	
Target price			0.40	

Note 1: We are pegging a P/E of 8x to average construction earnings to reflect the smaller market capitalisation.

Note 2: We are applying a 75% discount to its property division which is in line with the property sector's RNAV. This also takes into account the risk of LAD

Note 3: 49% stake ownership with the Sabah Economic Development Corp. Topline assumption is MYR8m per year with a 8-9% net margin

Source: RHB

Recommendation Chart

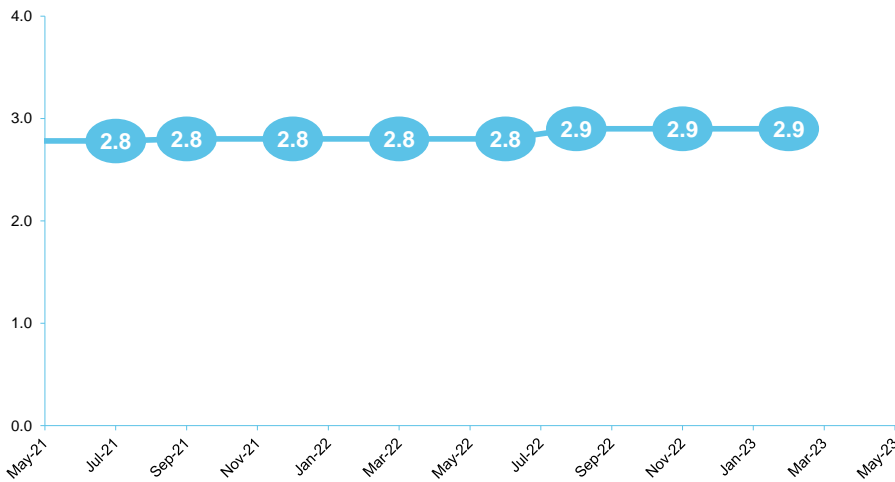


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-03-15	Buy	0.46	0.29
2023-02-23	Buy	0.46	0.34
2022-12-01	Buy	0.46	0.29
2022-08-23	Buy	0.50	0.32
2022-08-11	Buy	0.55	0.33
2022-05-26	Buy	0.54	0.32
2022-03-21	Buy	0.60	0.38
2022-02-25	Buy	0.75	0.39
2021-12-01	Buy	0.75	0.45
2021-09-01	Buy	0.86	0.52
2021-06-22	Buy	0.86	0.59
2021-02-26	Buy	1.04	0.61
2020-11-29	Buy	1.04	0.70
2020-11-27	Buy	1.12	0.70
2020-09-02	Buy	1.12	0.74

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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