24 December 2020

Construction & Engineering | Construction

Advancecon (ADVC MK)

Not Rated

Overlooked Potential In Earthworks

Fair Value (Return):	MYR0.44 (15.8%)
Price:	MYR0.38
Market Cap:	USD36.5m
Avg Daily Turnover (MYR/USD)	0.32m/0.08m

- **MYR0.44 FV based on 11.7x 2021F P/E.** We believe Advancecon is an early beneficiary of the construction sector up-cycle, being a strong advance works player. As reaffirmed by the Government, we foresee more opportunities surfacing from the roll out of infrastructure packages next year. Given its niche expertise, prominent earthworks services market share, and healthy MYR714m orderbook, ADVC could potentially trade at a higher multiple of 11.7x P/E which is at a 10% discount from the 5-year mean.
- **A leading player in a fragmented market.** The group remains the only listed company with a toehold in earthworks provision with a c.20% market share. Earthwork services is its mainstay, which consistently creates the lion's share to revenue (50-60% range). New order prospects have expansive potential to add to the 16 projects already ongoing. The post-Movement Control Order (MCO) recovery is lining up nicely, seeing ADVC's latest 3Q results rebounding strongly vs the preceding quarter. Machine utilisation could hit optimal levels of 80-90% with more works ramping up taking place. The site handovers for West Coast Expressway (WCE) projects (c.50% of the outstanding orderbook) has reached 80-100%, allowing for better progress billings moving forward. This signifies the end of the persistent operational hindrances the group faced previously.
- **Earning visibility staying intact.** As of December, ADVC has maintained a robust outstanding orderbook of MYR714m, which should keep the group busy for the next 18-24 months. Additionally, management is still aggressively tendering for various new projects, including the East Coast Rail Link (ECRL), which offers robust replenishment opportunities. In particular, ADVC has MYR1.2bn worth of submitted tenders, comprising property development and public infrastructure projects. That said, we understand management remains selective in its bids – to ensure profit margins are protected and sustainable.
- **Minimum 20% dividend policy.** We believe ADVC's dividends policy signals confidence in its ability to generate strong cash flows and profits going forward. Despite the group experiencing a blip in its FY20 earnings, a DPS of 1 sen/share was declared in 3Q20. We believe its *shariah*-compliant status will also act as catalyst, with more funds being able to include the stock into their portfolios.
- **Management.** ADVC is helmed by CEO Dato' Phum Ang Kia, Deputy Executive Officer Lim Swee Chai, and Executive Director Ir Yeo An Thai. They each have >20 years of professional experience in the construction sector and hold a combined 42% stake in the group.
- **Risks** include a failure to secure new contracts, prolonged downturn in the retail and property markets, and longer-than-expected delays in the rollout of mega infrastructure projects. Sudden restrictions on activities – possibly due to lockdown measures, if implemented – may present another risk.

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (MYRm)	273	302	250	362	351
Recurring net profit (MYRm)	11	11	2	15	15
Recurring net profit growth (%)	(40.8)	(0.9)	(82.3)	687.4	(0.2)
Recurring P/E (x)	13.01	13.96	78.49	9.91	9.93
P/B (x)	0.8	0.8	0.8	0.7	0.6
P/CF (x)	na	8.16	10.59	6.34	5.06
Dividend Yield (%)	2.7	2.7	2.7	2.0	2.0
EV/EBITDA (x)	3.81	3.81	5.38	3.45	3.14
Return on average equity (%)	6.0	5.8	1.0	7.4	6.8
Net debt to equity (%)	46.9	39.5	44.4	40.7	33.3

Source: Company data, RHB

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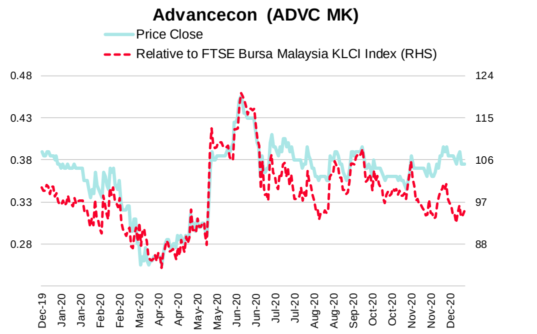
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.6)	0.0	(3.9)	(12.8)	(3.9)
Relative	(5.3)	(2.4)	(12.3)	(20.8)	(5.3)
52-wk Price low/high (MYR)					0.26 – 0.46



Source: Bloomberg

Note:
Small cap stocks are defined as companies with a market capitalisation of less than USD1bn.

Financial Exhibits

Asia
Malaysia
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Valuation basis

P/E.

Key drivers

i. Orderbook replenishment;
ii. New tenders.

Key risks

Risks include possible cost overruns, higher material costs, and lower-than-expected value of new orders.

Company Profile

ADVC is primarily involved in the provision of earthworks and civil engineering services, which is a sub-sector of the domestic construction industry. Earthworks relate to activities conducted to prepare building platforms and embankments, whilst civil engineering involves engineering activities for the construction of infrastructure.

Financial summary (MYR)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring EPS	0.03	0.03	0.00	0.04	0.04
DPS	0.01	0.01	0.01	0.01	0.01
BVPS	0.45	0.48	0.49	0.53	0.58
Return on average equity (%)	6.0	5.8	1.0	7.4	6.8

Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Recurring P/E (x)	13.01	13.96	78.49	9.91	9.93
P/B (x)	0.8	0.8	0.8	0.7	0.6
FCF Yield (%)	(9.9)	10.0	2.8	2.4	9.7
Dividend Yield (%)	2.7	2.7	2.7	2.0	2.0
EV/EBITDA (x)	3.81	3.81	5.38	3.45	3.14
EV/EBIT (x)	7.86	8.03	21.16	6.77	6.32

Income statement (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover	273	302	250	362	351
Gross profit	40	46	37	58	54
EBITDA	49	49	37	57	60
Depreciation and amortisation	(25)	(26)	(27)	(28)	(30)
Operating profit	24	23	9	29	30
Net interest	(8)	(7)	(7)	(7)	(8)
Pre-tax profit	15	16	3	22	22
Taxation	(5)	(5)	(1)	(7)	(7)
Reported net profit	11	11	2	15	15
Recurring net profit	11	11	2	15	15

Cash flow (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Change in working capital	(27.0)	(11.1)	(20.9)	(12.9)	(8.9)
Cash flow from operations	(2.7)	18.5	14.2	23.6	29.6
Capex	(11.4)	(3.4)	(10.0)	(20.0)	(15.0)
Cash flow from investing activities	(14.6)	(4.9)	(14.4)	(13.9)	(13.9)
Dividends paid	0.0	(6.4)	(0.4)	(3.0)	(3.0)
Cash flow from financing activities	8.8	(36.1)	5.7	3.7	0.7
Cash at beginning of period	46.9	40.3	48.8	44.6	64.8
Net change in cash	(8.6)	(22.4)	5.5	13.4	16.3
Ending balance cash	38.3	17.9	54.3	58.0	81.1

Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total cash and equivalents	45	51	47	67	90
Tangible fixed assets	151	140	112	94	84
Total investments	39	39	39	39	39
Total assets	411	410	399	462	491
Short-term debt	51	66	66	80	89
Total long-term debt	79	61	67	74	77
Total liabilities	229	218	205	249	261
Total equity	182	192	194	212	230
Total liabilities & equity	411	410	399	462	491

Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Revenue growth (%)	2.6	10.6	(17.1)	44.6	(3.0)
Recurrent EPS growth (%)	(44.4)	(6.8)	(82.2)	692.0	(0.2)
Gross margin (%)	14.6	15.1	15.0	16.0	15.5
Operating EBITDA margin (%)	17.8	16.4	14.7	15.8	17.0
Net profit margin (%)	3.9	3.6	0.8	4.2	4.3
Dividend payout ratio (%)	37.9	37.3	20.0	20.0	20.0
Capex/sales (%)	4.2	1.1	4.0	5.5	4.3
Interest cover (x)	3.04	3.31	1.42	4.03	3.82

Source: Company data, RHB

Investment Thesis

Overlooked potential?

Past experiences do not equal to future prospects. We believe ADVC's earnings potential could have been overlooked as a result of persistent hurdles faced in the past. This stemmed from its WCE projects, which hit a snag due to a slowdown in site hand overs.

While this could normally warrant a stock de-rating, we believe the group's prospects turned sanguine towards the end of 2019, where 80-100% of the sites vs 20-70% previously have been handed over. Noting that the balance work value of the WCE packages still amount to c.50% of the orderbook, we believe this will allow earnings to significantly accrete, especially after the MCO period, which began in early 2020.

On a better note, contract flows from the ECRL has also started to show momentum from May, which resulted in ADVC clinching three advance work packages totalling MYR110m.

Moving forward, we believe its execution can pick up pace in earnest despite COVID-19, considering that the current completion rate of the ECRL project is already ahead of schedule at 19.09% vs 18.3% under the original schedule. Going ahead, we expect the group to have a high chance of clinching more contracts from this project, given ADVC's capacity to take on large-scale jobs in the past. According to management, 40% of its MYR1.2bn outstanding tenderbook comprises packages from the ECRL.

Construction jobs frontliner

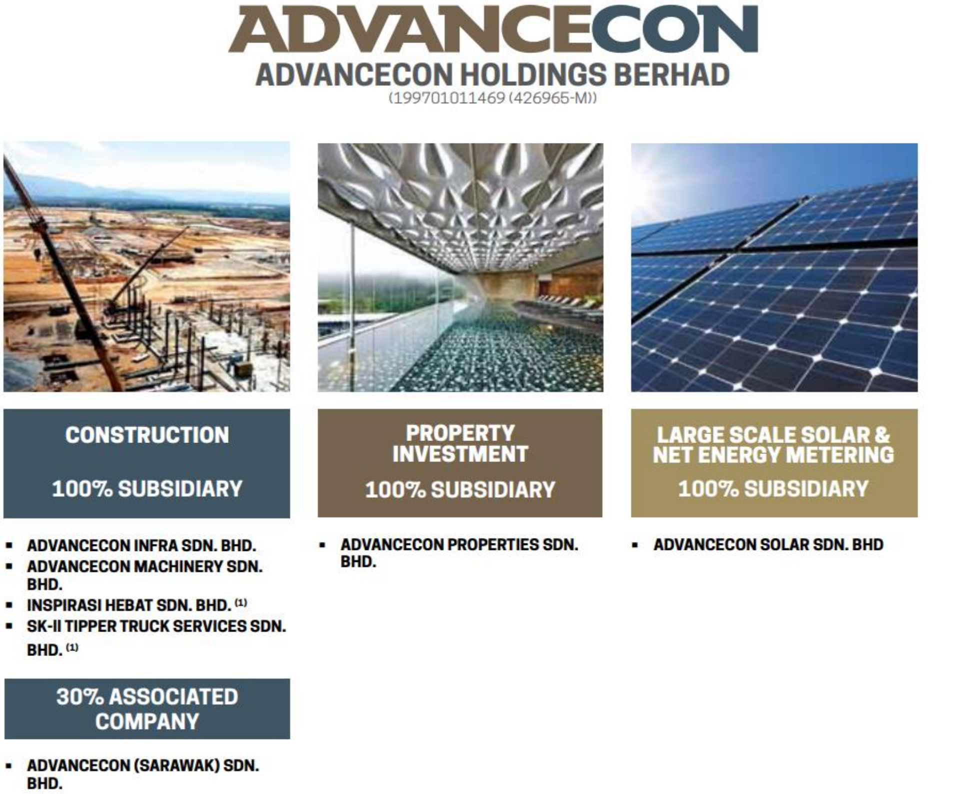
A leading earthworks player with 20% market share and more than 30 years of experience. ADVC's services encapsulate a comprehensive range of earthworks solutions, which include site clearance, rock blasting, and erosion and sediment control plans. As complements, the group also provides earth road works, drainage works, bridge construction, water supply works, and sewerage works under its civil engineering division.

We note that it also involved in the provision of building materials, mainly to its own subcontractors. ADVC's track record is well recognised, and continues supporting the business to land reputable clients among property developers and infrastructure project owners. This gives the group a strong edge in competing for future projects, as it enjoys more tender invitations from long-time partners/customers.

ADVC remains the only listed company with a toehold in earthwork provisions. Given its niche expertise, the group has consistently derived a significant percentage of total revenue from earthwork services – in the 50-70% range. Its sizeable fleet of machinery worth MYR138m and an in-house maintenance team ensures it continues to be competitive, with the fleet utilisation rate kept at an optimal 80-90%.

Annual capex of c. MYR15-20m is put aside to expand its fleet, allowing ADVC to increase its work capacity. Going ahead, we view this positively, as it will help to reduce the need for subcontractors, enabling the group to sustain profit margins and work quality. Coupled with an experienced management team, ADVC always appears as a strong contender for both property development- and infrastructure-related projects. Among its reputable and long-standing clientele are major property developers such as SP Setia, Eco World, and the Tropicana Group.

Figure 1: Corporate structure

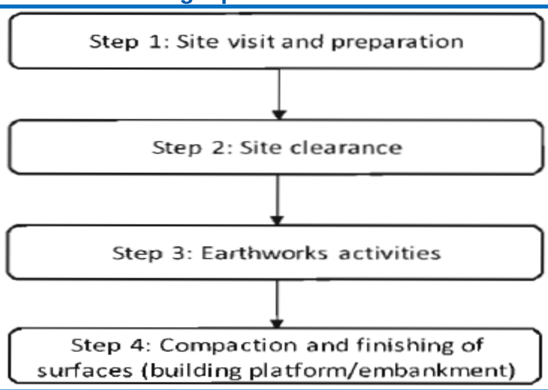


Source: Company, RHB

To date, ADVC successfully undertaken numerous earthwork and civil engineering projects, including the Kajang-Seremban Expressway, Cyberjaya Flagship Zone, Desa ParkCity, Setia Ecohill, and Bandar Setia Alam. As a Grade 7 license holder under the Construction Development Board of Malaysia (CIDB), the group can tender for projects of unlimited value in the buildings and civil engineering categories.

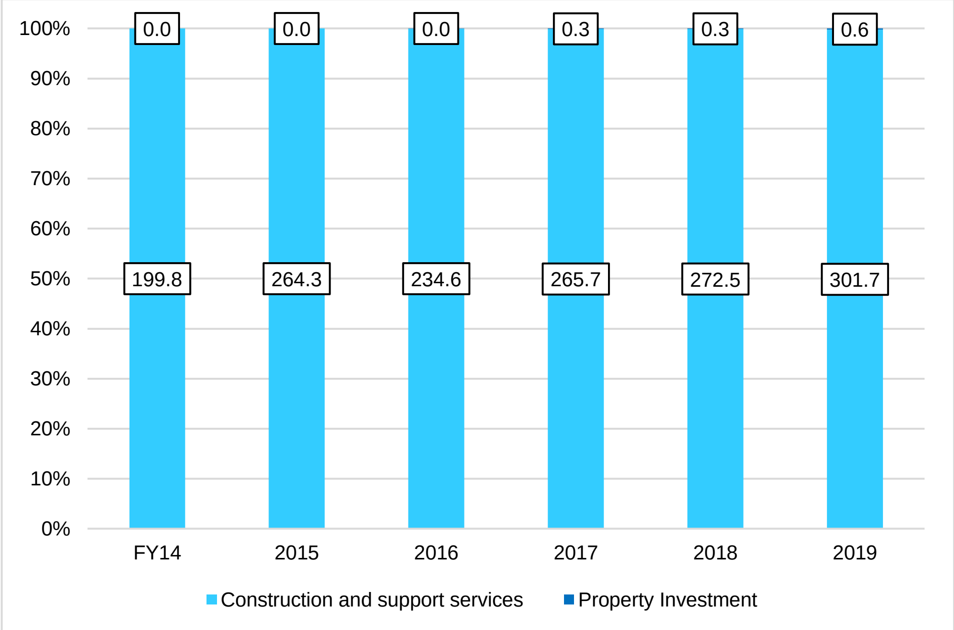
Moving ahead, ADVC's prowess in earthworks provision will give support in securing both public and private bigger scale projects, in our view. So far, the group has won various awards for infrastructure jobs, which includes the WCE, Pan Borneo Highway Sarawak and the South Klang Valley Expressway.

Figure 2: Process of constructing a platform/embankment



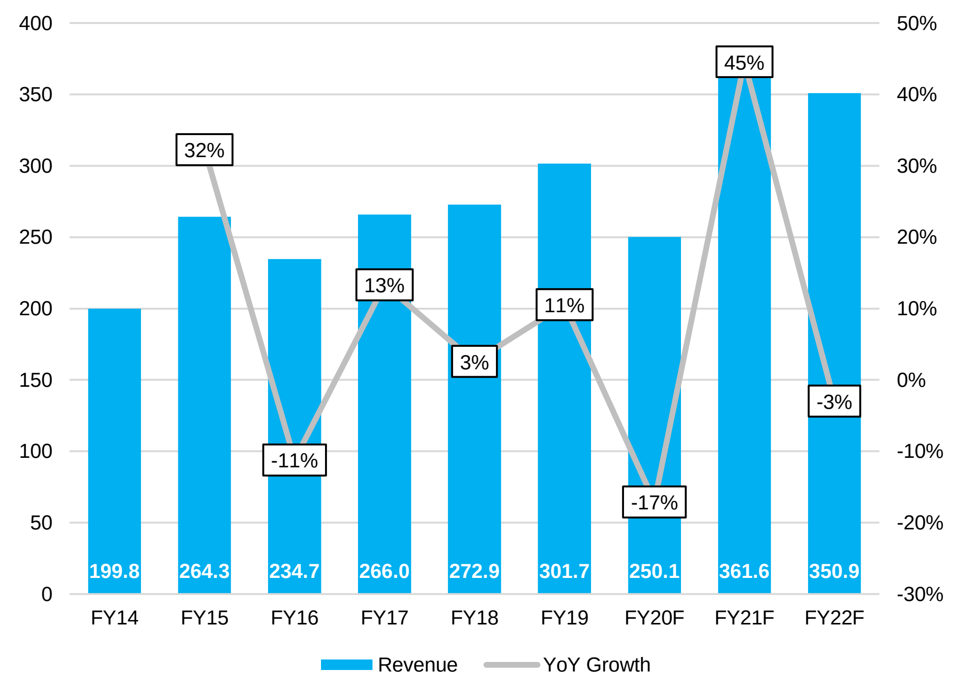
Source: Company, RHB

Figure 3: ADVC's segmental revenue contributions (MYRm)



Source: Company data, RHB

Figure 4: ADVC's revenue trends since FY14 (MYRm)



Source: Company data, RHB

Outstanding orders expand revenue into FY23

As of December, there are 16 ongoing projects at various stages of completion. ADVC's orderbook stands at approximately MYR714m. Based on the existing projects, we believe billings collection could be around 42%.

Going forward, management has guided for MYR300m of new orders in FY21, which we believe will further enhance the value of its MYR714m in existing orders, which is already higher than the MYR572m orderbook prior to ADVC's listing on the Main Market in Jul 2017.

Figure 5: Existing orderbook

Projects	Estimated contract value (MYRm)	Remaining contract value (MYRm)	Progress billings (%)	Expected completion
WCE (Part 1) (Assam Jawa Interchange to Tanjung Karang Interchange)	370	227	39	Feb 2022
WCE (Banting to South Klang Valley Expressway Interchange)	240	119	50	Feb 2023
Setia Alamsari (South)	84	67	20	May 2022
ECRL, Section 6 (Zone 2-3)	54	53	2	Dec 2022
Upper Rajang Development Agency (URDA), Package 2 (Phase 1 Section 2)	49	49	0	Mar 2022
Pan Borneo Highway (Sungai Awik Bridge to Bintangor Junction)	105	39	63	Oct 2020*
URDA, Package 2 (Phase 1)	39	38	3	Oct 2021
ECRL, Section 4	30	30	0	May 2022
ECRL, Section 6 (Zone 2-2)	27	27	0	Sep 2022
Others	223	66	70	Jul 2022

*Note: *Further extension of time to be applied due to obstruction of existing utilities & services*
Source: Company data, RHB

Post the MCO in March, we expect profit margins to gradually improve, noting that key operational activities have recommenced. We note that diesel prices continue to hover between MYR1.70 and MYR1.80 per litre and, while the rate could be in an uptrend, it still hovers within our assumption range.

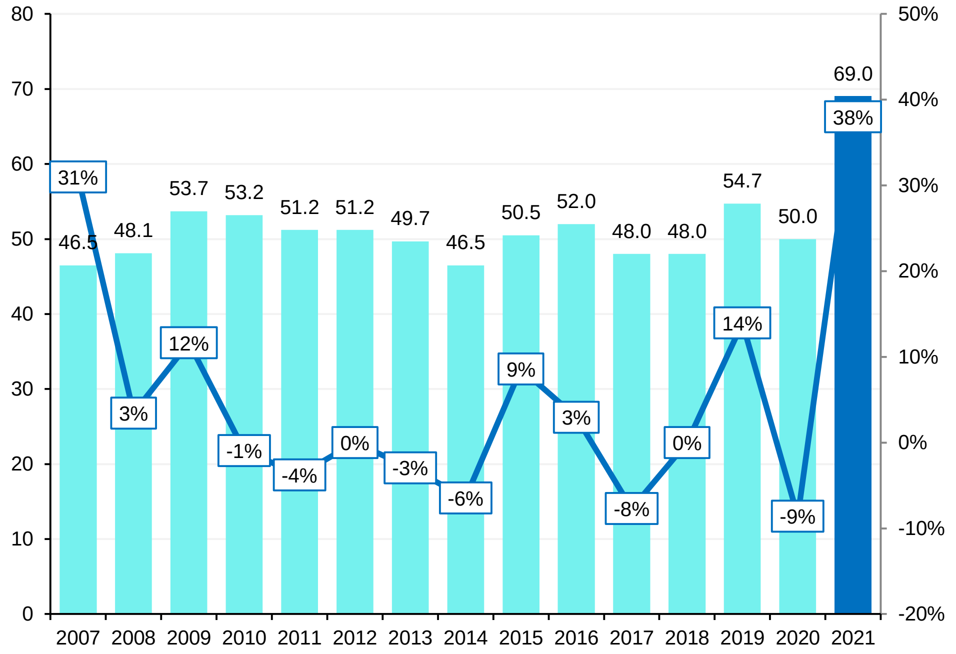
Note: ADVC's raw materials comprises industrial diesel, precast products, quarry products, and ready-mixed concrete products. Industrial diesel is a controlled item – its prices are controlled by the Government on a weekly basis and may – to a certain extent – be affected by the fluctuations in global market prices. Over the past few years, the cost of industrial diesel accounted for c.30-55% of total raw material costs. In the past, we have seen the price hover between MYR1.62 and MYR2.60 per litre, with usage of 10.3-12.5m litres.

The Government confirms commitment to roll out more construction jobs

Potential rebound next year, as activities pick up momentum. Development expenditure (DE) comes in to the tune of MYR69bn for 2021 – a whopping 38% YoY increase and the highest-ever figure recorded between 2007 and 2020 – vs 2020's MYR50bn. Consequently, we expect construction to be one of the sectors that will largely benefit from the DE expansion.

Opportunities from economic sub-sectors like transport are also seen as encouraging, with total committed capital of MYR15bn in 2021, or 47% YoY higher when compared to 2020's MYR10bn.

Figure 6: Planned DE (MYRbn)



Source: Ministry of Finance (MoF), RHB

Figure 7: MYR15bn allocated to implement transport infrastructure projects below

No.	Projects	Progress rate (%)
1	Pan Borneo Highway (Sabah)	20.0
2	Gemas-Johor Bahru Electrified Double-Tracking Project	Expected to be completed by 2021
3	Klang Valley Double-Tracking Project Phase 1	Expected to be completed by early 2021

Source: MoF, RHB

Figure 8: Several large new projects worth c. MYR3.8bn that will be implemented

No.	Projects
1	Construction of Phase 2 of the Klang Third Bridge in Selangor
2	Continuing the Central Spine Road project with the new alignment from Kelantan to Pahang
3	Upgrading the Sungai Marang Bridge, Terengganu
4	Upgrading of the federal road connecting Gerik (Perak) to Kulim (Kedah)
5	To continue building and upgrading the Pulau Indah (Klang) Ring Road Phase 3, Selangor
6	Construction of the Pan Borneo Highway Sabah (from Serusop to Pituru)
7	Construction of the Cameron Highlands bypass road (Pahang), with emphasis on preserving the environment

Source: MoF, RHB

Banking on construction up-cycle. In the period leading up to the 12th Malaysia Plan announcements, we believe speculation on further sector catalysts is turning ripe. This stems from the thinking that the Government will likely pump-prime the economy through implementation of mega projects.

In our view, now appears to be an opportune time, given the need to sustainably put the economy back on track after it had been ravaged by the COVID-19 pandemic.

As the pie gets bigger, more will benefit. This theme looks applicable in the construction sector, where small- to mid-cap companies are usually awarded a sub-contract portion of what the main contractor has been able to land. As a niche earthworks specialist, we note that ADVC is already familiar with the execution of large-scale infrastructure projects. The successful implementation of existing and potentially upcoming projects will see companies potentially reaping benefits as early as 2021, in our view.

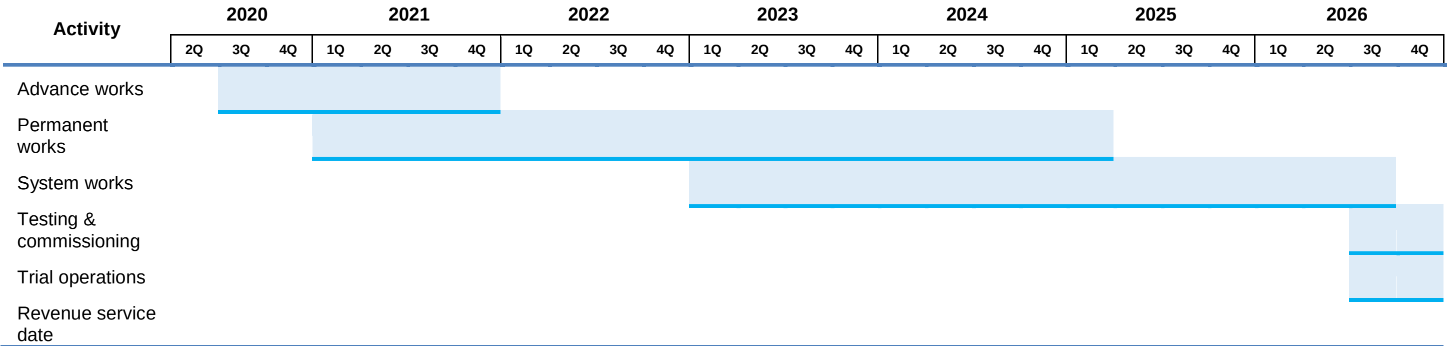
Beneficiary of ECRL jobs. Competition is stacking up, as new tenders mount. At the moment, awarded contracts are mostly for subgrade and earth works, with each package carrying a sum of MYR24-57m in value. ADVC's extensive experience in previous large-scale projects could come in handy and play to its advantage.

Figure 9: ECRL packages awarded (May-June)

Advance works	Value (MYRm)	Details	Duration	Completion
Gadang (Section 5)	24.1	Subgrade, earthworks, drainage	26 months	Jun 2022
Gadang (Section 6)	57.1	Subgrade, earthworks, drainage	31 months	Dec 2022
Gabungan AQRS (base camp)	37.0	Subgrade, drainage, culvert	22 months	Mar 2022
Ho Hup Construction (Ho Hup) (Section 6)	53.8	Subgrade, drainage, culvert	30 months	Nov 2022
Ho Hup (Section 6)	48.7	Subgrade, drainage, culvert	30 months	Nov 2022
ADVC	53.7	Subgrade, earthworks	29 months	Jan 2023
ADVC	27.1	Subgrade, earthworks	25 months	Sep 2022
ADVC	29.7	Subgrade, earthworks	15 months	May 2022
Total value	**331.2**	**Average duration**	**27 months**	

Source: Company data, RHB

Figure 10: Project implementation schedule (estimates)



Source: Malaysia Rail Links, RHB

Figure 11: Estimation of foundation works

Projects	Type	Alignment length (km)	Project value (MYRbn)	Substructure portion (MYRm)
ECRL	Rail infrastructure	640	44.0	1,320-2,200
Johor Bahru-Singapore Rapid Transit System	Rail infrastructure	4	10.0	300-500
Klang Valley Mass Rapid Transit Line 3	Rail infrastructure	40	21.0	630-1,050
Kuala Lumpur-Singapore High Speed Rail	Rail infrastructure	350	40.0	1,200-2,000

Note: Civil works include construction of tracks, stations, and maintenance bases
Source: Various media, RHB

New strategic growth in the renewable energy space

Growing prospects come from ADVC's latest venture into the solar renewable energy field via its Advancecon Solar (ASSB) unit. ASSB secured its first project by entering into an MoU with latex glove manufacturer Oon Corp Resources (OCR). This project will see the installation of solar photovoltaic systems under the net energy metering (NEM) scheme on the rooftops of two OCR premises at the Senawang Industrial Estate.

Moving ahead, management expects this segment to provide recurring income that will complement the group's core businesses and civil engineering unit. We note that a maiden revenue contribution from this segment is expected in 2Q21.

Figure 12: 6 MoUs received – NEMAS[1] and NEM[2] quota approval

Company Name	Location	PPA/ SARE	Tenure (years)	System Size (kWp)	NEMAS Approval	NEM Quota
NEM						
1) Oon Corp Resources (M) Sdn Bhd	Seremban, Negeri Sembilan	PPA	21	651.64	Yes	Yes
2) YHI Manufacturing (Malaysia) Sdn Bhd	Melaka	SARE	20	2,666.40	Yes	Yes
3) Peritone Health Sdn Bhd	Kulim, Kedah	PPA	21	461.12	*N/R	*N/R
4) Latitude Tree Furniture Sdn Bhd	Klang, Selangor	SARE	15	1,512.88	Yes	Yes
5) Prominent Image Sdn Bhd	Rawang, Selangor	PPA	21	342.32	Yes	Yes
6) Mydin Mohamed Holdings Berhad	Seremban, Negeri Sembilan	SARE	21	2,360.16	Yes	Yes
7)) Rhong Khen Timbers Sdn Bhd				1,815.00	KIV by client	KIV by client
			Total	**9,809.52**		

Note: [1]Net energy metering assessment study, [2]net energy metering
Source: Company data

Financial Analysis And Valuation

Recovery cycle intact, with more new contracts clinched. ADVC's 3Q20 core earnings stood at MYR3.1m – more than 100% QoQ and 23% YoY. For 9M20, results were encouraging, as the group narrowed its losses in 2Q – mainly stemming from the disruption brought about by the MCO on construction and business activities. This, in turn, led to lower progress claims.

Cumulatively, 9M20 core earnings have reversed ADVC's prior losses, owing to the resumption of work activities in the earthworks division. In the near term, we believe the group's operations will continue to pick up pace as activities resume – close to pre-MCO levels.

Earnings visibility looks healthy. The duration of earthworks or civil engineering projects range between three and 49 months. Outstanding orders mainly comprise WCE, Pan Borneo Highway, and three ECRL contracts. The former accounts the bulk of unbilled orders and will continue to contribute to earnings until early FY23.

As one of the contractors involved in the construction of the Pan Borneo Highway, we see the imminent roll out of more packages in Sabah as encouraging, giving rise to a healthy pipeline of new construction opportunities in East Malaysia.

While we stay optimistic for faster contract flows there, we are cognisant of the risk of a prolonged delay, as we take into account the COVID-19 spread in Sabah, which remains at elevated levels. That said, we maintain our replenishment assumptions for FY21-22 at MYR300m pa.

Figure 13: ADVC's results review

FYE Dec (MYRm)	3Q19	2Q20	3Q20	QoQ (%)	YoY (%)	9M19	9M20	YoY (%)	Comments
Revenue	**71.1**	**38.1**	**72.8**	**91.1**	**2.4**	**223.7**	**177.3**	**(20.8)**	Construction and support services contributed almost 100% of the group's revenue.
EBIT	**11.4**	**(1.3)**	**9.2**	**>100**	**(19.5)**	**33.0**	**17.4**	**(47.3)**	
EBIT margin (%)	*16.1*	*(3.4)*	*12.6*			*14.7*	*9.8*		
Interest expense	**(1.7)**	**(1.5)**	**(1.6)**	3.9	(10.2)	**(5.3)**	**(4.8)**	(9.9)	
Interest income									
JV/associates	**(0.0)**	**(0.0)**	**(0.0)**	nm	nm	**(0.0)**	**(0.1)**	nm	
Others	**0.0**	**0.0**	**0.0**	nm	nm	**0.0**	**0.0**	nm	
Pre-tax profit	**3.8**	**(5.3)**	**3.6**	**>100**	**(4.8)**	**11.7**	**1.5**	**(87.4)**	The decrease in PBT was partly mitigated by lower weighted average diesel cost per litre, and reduction in both administrative expenses and finance costs.
Pre-tax margin (%)	*5.3*	*(14.0)*	*4.9*			*5.2*	*0.8*		
Tax	**(1.0)**	**(1.5)**	**(0.5)**	(69.9)	(55.8)	**(3.5)**	**(3.0)**	(14.4)	
Effective tax rate (%)	*(27.4)*	*28.8*	*(12.6)*			*(29.9)*	*(188.7)*		
Minority interest									
Net profit	**2.7**	**(6.9)**	**3.1**	**>100**	**14.5**	**8.2**	**(1.5)**	**(118.8)**	3Q20 returned to profitability vs the immediate preceding quarter, as site operations were back to normal after the end of the MCO.
Core profit	**2.6**	**(7.1)**	**3.2**	**>100**	**22.6**	**8.2**	**(1.8)**	**(121.9)**	
Core net margin (%)	*3.7*	*(18.6)*	*4.4*			*3.7*	*(1.0)*		

Source: Company data, RHB

Manageable balance sheet to support growth. With regards to ADVC's balance sheet, its net gearing ratio stood at 69%. While the ratio could be seen as relatively high when compared to peers such as Hock Seng Lee (HSL MK, BUY: MYR1.23), Gadang (GADG MK, BUY: MYR0.52), and Kimlun (KICB MK, BUY: MYR0.93) we believe this to be justifiable, given the nature of its business, which consistently requires capex allocations to expand capacity.

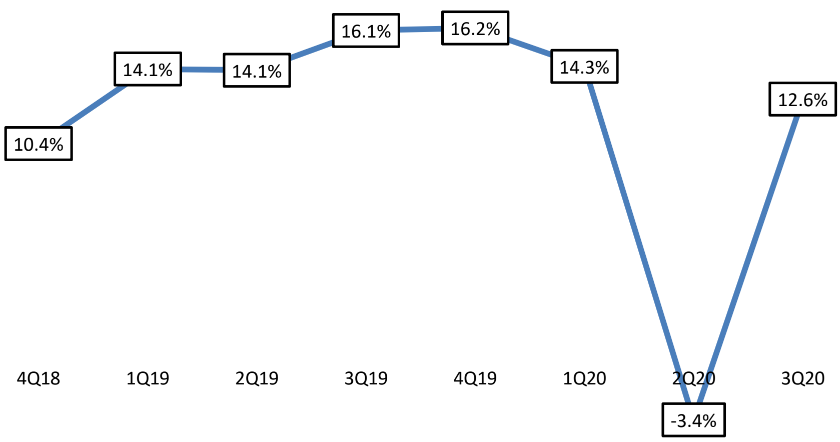
From a strategic perspective, this is seen a long-term positive on growth prospects, with capacity being expanded to undertake larger projects.

Figure 14: Peer comparison of KLCON Index stocks

Company	Mkt cap	P/E (x)		Earnings growth (%)		P/BV (x)		ROE (%)		Div yield (%)		EV/EBITDA (x)	
	(MYRm)	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F
Gamuda	9526.27	15.88	14.68	32.23	6.52	1.05	1.01	6.76	6.78	2.54	2.81	13.83	12.64
IJM Corp	6301.03	20.06	16.96	136.71	16.38	0.61	0.58	3.24	3.72	1.96	2.26	9.12	8.40
Sunway Construction	2488.46	17.07	16.65	95.49	2.39	3.49	3.23	21.12	20.06	3.67	3.69	8.98	8.59
Kerjaya Prospek	1262.15	8.79	7.56	59.80	20.00	1.02	0.91	12.60	13.01	3.31	4.08	3.85	2.72
Average		**15.05**	**13.72**	**79.84**	**10.67**	**1.53**	**1.42**	**10.90**	**10.88**	**2.97**	**3.28**	**8.74**	**7.88**
Econpile	715.56	17.15	16.01	92.03	11.37	1.65	1.52	9.36	9.10	1.61	1.65	7.65	7.13
JAKS Resources	1237.39	4.41	3.71	220.98	16.45	n.m.	n.m.	n.m.	9.70	0.00	0.00	n.m.	n.m.
Hock Seng Lee	566.00	10.23	9.54	72.62	6.96	0.65	0.61	6.34	6.43	1.99	1.92	3.09	2.41
Muhibbah Engineering	459.27	10.18	6.79	n.m.	49.27	0.39	0.37	4.45	6.00	2.42	3.35	6.49	5.99
Pintaras Jaya	472.71	9.34	8.51	27.36	7.22	1.28	1.20	14.30	14.15	5.44	6.23	n.m.	n.m.
Gabungan AQRS	365.14	9.67	6.73	214.79	51.93	0.67	0.61	7.57	10.18	4.05	5.41	9.08	6.29
George Kent (Malaysia)	441.85	9.61	11.37	40.57	-20.19	0.80	0.77	8.58	6.74	3.69	2.83	n.m.	n.m.
MGB	306.01	8.71	6.10	184.62	40.54	0.60	0.54	7.60	9.70			n.m.	n.m.
Gadang	320.35	9.78	6.65	16.36	46.68	0.49	0.49	6.74	7.40	48.52	31.15	n.m.	n.m.
Kimlun	280.92	6.32	5.51	171.74	11.41	0.34	0.32	5.68	5.98	3.52	4.12	2.14	1.96
Persona Metro	156.37	10.23	11.84	n.m.	-16.13	n.m.	n.m.	9.00	7.30	4.44	4.44	n.m.	n.m.
Crest Builder	118.34	5.62	4.56	1225.00	26.42	0.24	0.23	4.30	5.20	4.79	5.21	2.68	2.43
Inta Bina	176.64	7.50	6.23	139.81	20.46	n.m.	n.m.	14.80	15.80	2.42	3.03	3.86	3.02
ADVC	146.41	9.91	9.91	687.4	-0.2	0.7	0.6	7.4	6.8	2.0	2.0	3.27	3.12
Protasco	120.44	n.m.	50.00	88.98	0.00	0.36	0.36	-0.35	0.77	5.60	5.60	n.m.	n.m.
Average		**9.28**	**10.49**	**191.11**	**20.28**	**0.66**	**0.62**	**7.41**	**8.06**	**6.73**	**5.81**	**6.19**	**5.45**

*Note: *As at 22 Dec 2020. Forecasts are based on consensus estimates*
Source: Bloomberg, RHB

Figure 15: EBIT margins in the past eight quarters



Source: Company data, RHB

Current share price offers attractive entry point. Our MYR0.44 FV is arrived at after pegging FY21F EPS to 11.7x PE. The multiple is already -1SD below its 5-year mean baseline. We think this is warranted, given: i) Our flattish growth estimates between FY21 and FY22 earnings, ii) conservative replenishment assumption at MYR300m pa for FY21-22, iii) lower net margins when compared to historical, and iv) higher than peers' average net gearing.

While we stay conservative at this point, the current share price shows the stock suits the criteria for a value play. Although the risks to operations stemming from COVID-19 continues to linger, we believe that the hurdles to remain manageable, taking into account the group's:

i. Niche earthwork expertise;
ii. Potential of clinching more ECRL-related projects;
iii. Robust outstanding orderbook as of December;
iv. Healthy venture into the renewable energy space.

ADVC's entry into the new segment is a long-term positive, in our view, and will provide growing opportunities in the long run. That said, we think the current share price represents an attractive entry point.

Risks:

i. Slower-than-expected progress billings;
ii. A surprise contraction in margins;
iii. Job flow slowdowns.

Other risks include the potential of another MCO being imposed on construction companies, where activities in the whole sector have to stop immediately. Noting that it will negatively impact earnings, we are inclined to believe that ADVC's operations will still be allowed, as long as the Government's standard operating procedures or SOPs are being adhered.

We do not deny that the continuous increase in the number of Malaysia's foreign labour force contracting COVID-19 is a concern. However, the risk looks manageable for now, given the nature of the group's earthworks operations, which take place in an outdoor environment where physical distancing can be exercised.

Key risks for the company

Delay in project progress, which could lead to cost overruns and/or result in liquidated and ascertained damages being imposed by clients, which will further affect its financial performance.

Fluctuations in the prices of raw materials such as industrial diesel, precast products, quarry products, and ready-mixed concrete. ADVC is subject to risks related to unfavourable increases in prices which may adversely impact earnings.

Failure to replenish enough new orders. This will lead to a decline in construction income, which will negatively impact net margins.

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