Stock Digest

Results Note – AWC Bhd

Tuesday, 22 May, 2018

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Improved Margins, But Delays Weigh

Results Highlights

- AWC's 3QFY18 net profit jumped 36.3% Y.o.Y to RM6.9 mln vs. RM5.0 mln in the same quarter last year, boosted by higher bottomline margins and stronger revenue contribution at RM75.3 mln (+11.6% Y.o.Y), from RM67.4 mln in 3QFY17.
- YTD net profit also gained 8.2% Y.o.Y to RM17.0 mln, from RM15.7 mln in the previous corresponding period, despite a marginal drop in revenue to RM209.8 mln (-0.2% Y.o.Y) compared to RM210.2 mln last year. The higher cumulative net profit mainly resulted from stronger margins, coupled with lower tax expenses.
- The reported net profit and revenue, however, were below our forecast, accounting to only 69.4% and 64.6% of our previous net profit and revenue estimates of RM24.5 mln and RM324.6 mln respectively. The deviation was mainly due to slower-than-anticipated progress billings, hampered by project delays spilled over from the previous quarters.
- Meanwhile, weak pretax profits reported by both the Environment and Engineering divisions continued to weigh on AWC's overall performance, albeit partially offset by lower tax expenses and lower non-controlling interest. YTD IFM pretax profit (including inter-segment transactions) jumped 88.0% Y.o.Y to RM14.6 mln, from RM7.8 mln on higher recognition from CARP. On the other hand, YTD pretax earnings contributed by the Environment and Engineering segments fell to RM8.6 mln (-46.1% Y.o.Y) and RM3.6 mln (-52.5% Y.o.Y) respectively due to project delays, cost overruns and the absence of big-ticket contracts which were completed last year.

Financial Highlights

FYE June (MYR mln)	2015A	2016A	2017A	2018F	2019F
Revenue	128.0	248.5	296.5	259.4	282.7
EBITDA	14.2	31.6	41.6	33.5	36.3
Net Profit	8.1	17.1	22.0	21.0	22.8
Revenue Growth (%)	*7.1*	*94.1*	*19.3*	*-12.5*	*9.0*
EBITDA Growth (%)	*-5.3*	*122.7*	*31.5*	*-19.4*	*8.5*
Net Profit Growth (%)	*16.3*	*111.9*	*28.6*	*-4.8*	*8.6*
EPS (sen)	3.0	6.4	8.2	7.8	8.5
P/E(x)	24.7	11.6	9.0	9.5	8.8
DPS (sen)	0.0	2.5	0.0	2.0	2.0
Dividend Yield (%)	0.0	3.4	0.0	2.7	2.7
BVPS (RM)	0.4	0.5	0.6	N/A	N/A
P/BV (x)	1.7	1.3	1.2	N/A	N/A
ROE (%)	8.8	14.4	0.2	N/A	N/A

Source: Company Data, MSSB Research

BUY

Share Price: RM0.74
Target Price: RM1.10

Key Statistics

Stock Information: Engaged in the provision of integrated facilities management services, engineering services and automated pneumatic waste collection systems

Sector: Trading/Services

Industry: Professional & Technical Specialty Services

Listing: Main Market

Stock Code: 7579

Share Issued (mln): 269.2

Market Capital (RM mln): 199.2

Par Value (RM): N/A

Major Shareholders:

K-Capital Bhd	30.7%
Employees Provident Fund Board	5.7%
Tan Keng Hee	4.1%

Prospects

Moving forward, we foresee weaker earnings in the immediate future as the group continues to struggle against cost overrun and project delays. Even so, we expect a more positive picture in FY19 on the back of stronger revenue contribution, in-tandem with new contracts secured by the Environment and Engineering segments and ongoing cost restructuring initiatives. AWC's sizable orderbook of more than RM1.0 bln is also expected to keep the group occupied until 2025.

AWC's Board is expected to vote on the proposed acquisition of a 60.0% stake in railway services provider, Trackwork in the Extraordinary General Meeting (EGM) scheduled on 5th June 2018. Pending the Board's approval, we temporarily exclude the potential earnings contribution from Trackwork, although we concur that the earnings consolidation will increase AWC's earnings. Our back-of-the envelope estimate suggests a potential 13%-20% increase in the group's bottomline, based on the cumulative RM20.0 mln profit guaranteed by Trackwork's vendor.

Valuation and Recommendation

As the reported earnings were below our expectations, we adjust our FY18 estimated net profit and revenue downwards to RM21.0 mln (-14.3%) and RM259.4 mln (-20.1%) respectively to reflect slower revenue recognition, while tweaking our depreciation and net interest assumptions slightly. We, however, keep our FY19 revenue estimate, although net profit was adjusted higher to RM22.8 mln (+4.6%) on lower depreciation cost assumptions.

We maintain our **BUY** call on AWC with a higher target price of RM1.10 (from RM1.05) by ascribing an unchanged target PER of 13.0x to AWC's higher FY19 EPS of 8.5 sen, due to slightly better margins. However, our target price remains at a discount to AWC's nearest competitor, **UEM Edgenta Bhd** due to the former's smaller market capitalisation.

Risk to our recommendation and target price include slower-than-expected orderbook replenishment rate and project delays due to the cyclical risks inherent to the construction industry, which could lead to unforeseen cost increases and reputational damage. Escalating utility cost and increase in the prices of consumables could also compress the margins of the IFM contracts, while any fluctuation in the cost of raw materials could also impact AWC's margins in the already saturated HVAC market.

Quarterly Performance					
FYE June (MYR mln)	3QFY18	3QFY17	%Change Y.o.Y	2QFY18	%Change Y.o.Y
Revenue	75.3	67.4	11.6%	68.4	10.1%
EBITDA	11.7	11.1	5.6%	7.4	58.9%
Depreciation & Amortisation	0.6	1.8	-63.7%	0.7	-5.6%
Net Interest Income/(Expense)	0.1	-0.1	-209.2%	0.3	-60.9%
Profit before tax	11.2	9.2	21.5%	7.0	59.4%
Net Profit	6.9	5.0	36.3%	5.1	35.5%
Basic EPS (Sen)	2.5	1.9	36.3%	1.9	35.5%

Source: Company Data, MSSB Research

Income Statement					
FYE June (MYR mln)	2015A	2016A	2017A	2018F	2019F
Revenue	128.0	248.5	296.5	259.4	282.7
EBITDA	14.2	31.6	41.6	33.5	36.3
Depreciation & Amortisation	1.5	1.8	2.5	2.6	2.9
Net Interest Income/(Expense)	0.1	0.3	-0.4	0.6	0.7
Pre-tax Profit	12.8	30.1	38.7	31.4	34.1
Effective Tax Rate	*8.6%*	*21.4%*	*20.1%*	*21.0%*	*21.0%*
Net Profit	8.1	17.1	22.0	21.0	22.8
EBITDA Margin	*11.1%*	*12.7%*	*14.0%*	*12.9%*	*12.9%*
Pre-tax Margin	*10.0%*	*12.1%*	*13.0%*	*12.1%*	*12.1%*
Net Margin	*6.3%*	*6.9%*	*7.4%*	*8.1%*	*8.1%*

Source: Company Data, MSSB Research